# Analysis of the

# 2009-11

# Essential Budget Level

Legislative
Fiscal
Office

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

Following is the *Analysis of the 2009-11 Essential Budget Level* prepared by the Legislative Fiscal Office staff. This detailed publication provides agency program descriptions, analysis of revenue sources and relationships, discussions of budget environment and essential budget level, and issues and options related to the Governor's recommended budget. A summary document is also available.

After the close of session, the Legislative Fiscal Office will publish a detailed analysis and summary of the adopted budget that reflects decisions made by the Legislative Assembly.

Documents can be obtained online at www.leg.state.or.us/comm/lfo/publications.htm

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# TABLE OF CONTENTS

## PROGRAM AREAS

# EDUCATION

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

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 433,764,035 | 511,491,977 | 511,583,561 | 516,563,006 |
| Other Funds | 82,478,580 | 84,899,829 | 92,979,816 | 6,468,473 |
| Federal Funds | 127,964,496 | 121,120,987 | 121,489,837 | 121,243,180 |
| Federal Funds (NL) | 3,968,221 | 5,968,831 | 5,968,831 | 5,968,131 |
| **Total Funds** | **$648,175,332** | **$723,481,624** | **$732,022,045** | **$650,243,490** |
| Positions | 50 | 57 | 57 | 56 |
| FTE | 49.70 | 56.03 | 56.03 | 55.70 |

### Agency Overview

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 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) and Adult Education and Family Literacy (WIA Title II) programs, and it 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.

### Revenue Sources and Relationships

The budget projects receipts of $120.5 million of Federal Funds revenue in the 2009-11 biennium, a 5.2% decline from the level in the 2007-09 biennium legislatively adopted budget. This total includes $101 million for regular WIA Title IB programs, $11.5 million for Adult Education and Family Literacy (WIA Title II) programs, $2 million from a Federal Wired grant, and $6 million for the National Emergency Grant program (spent as Nonlimited Federal Funds). The decline in Federal Funds revenues is due to reduced Congressional appropriations for these programs plus the expiration of federal Incentive and Navigator grants. The 5.2% Federal Funds revenue decline projected for 2009-11 follows a 3.7% reduction in 2007-09 from the prior biennium level.

National Emergency Grant funds are received in a different manner than are other Federal Funds in the agency budget. CCWD must apply to the federal government for any NEG funds, and expenditures of these funds are Nonlimited in the state budget. NEG funds were projected, in the agency request budget, to total $5 million in the 2009-11 biennium. This is less than the $6 million projected for 2007-09 in the 2007-09 legislatively adopted budget. Mass layoffs, however, have been increasing since the agency request budget was submitted and the current economic recession has worsened. This may result in more NEG awards than is currently being forecast, but because the Legislature does not limit expenditure of NEG funds, any additional grant monies may be spent without further Legislative action.

The budget projects $6.2 million of Other Funds revenues in the 2009-11 biennium. This is a reduction from $92.7 million in the prior biennium. The reason for this large reduction is that most ($88.1 million) of the Other Funds revenues in the 2007-09 biennium consists of Article XI-G bond proceeds and community college matching funds that finance the capital construction projects approved in that budget. Capital construction expenditures are approved on a one-time basis, and are never included in the essential budget level for the following biennium. Excluding these capital construction funds, the $6.2 million of Other Funds revenues for agency operations in 2009-11 represent a 33.6% increase over the $4.6 million same revenues budgeted for in 2007-09 biennium.

The largest single source of Other Funds are the revenues of the Oregon Youth Conservation Corps. At $2.6 million, OYCC Other Funds revenues are up less than 0.5% over the amount in the 2007-09 budget. Most of the remaining 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 Oregon Department of Education (ODE). Carl D. Perkins revenues, which are projected to total $2 million Other Funds, are used by the Department and community colleges to support development of Professional/Technical programs. The Perkins funds that are distributed to community colleges no longer pass through the CCWD budget as in the past. Instead, ODE now sends the funds directly to the colleges. The $2 million of revenue to CCWD represents a 45% growth over the amount approved last session.

The remaining Other Funds include $1.35 million of interest earnings on Article XI-G bonds that are available to pay a portion of the debt service on those bonds, and $0.75 million from fees for services in the General Educational Development (GED) and Tracking Outcomes for Programs and Students (TOPS) System programs and other miscellaneous revenues. Timber Tax revenues that are distributed to community colleges are also included in the agency budget.

## CCWD – Office Operations

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 2,731,005 | 4,644,531 | 4,736,115 | 4,277,827 |
| Other Funds | 1,713,738 | 1,788,055 | 1,839,870 | 2,099,825 |
| Federal Funds | 9,939,409 | 7,425,596 | 7,794,446 | 12,962,086 |
| **Total Funds** | **$14,384,152** | **$13,858,182** | **$14,370,431** | **$19,339,738** |
| Positions | 47 | 54 | 54 | 53 |
| FTE | 46.70 | 53.03 | 53.03 | 52.70 |

### Program Description

Office Operations includes all of the administrative costs of the Department's programs, with the exception of the Oregon Youth Conservation Corps (its administrative costs are included in the separate OYCC program area). The Department's administrative functions are to provide leadership and accountability for statewide community college and workforce program policy development, and to provide assistance with local implementation. The agency works directly with Oregon's seventeen community colleges. The Office Operations 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, course approvals, and oversight of state-supported community college capital construction projects.

The 2007-09 biennium legislatively approved budget significantly expanded General Fund support for Office Operations. General Fund support was increased by 74% (or $2 million) over the prior biennium level, which was a $2.5 million increase over the essential budget level. Approximately $1.6 million of the $2.5 million was to support one-time information technology projects, but the remainder supported a 15% increase in agency staff positions to improve a number of agency functions.

### 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 Oregon 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) and Adult Education and Family Literacy (WIA Title II) programs.

### Essential Budget Level

General Fund in the essential budget level is reduced from the prior biennium because of the phase-out of over $1.6 million appropriated for one-time information technology projects in the 2007-09 biennium.

### Issues and Options

The Governor's recommended budget does not include any reductions in the Office Operations program area, but does include a number of General Fund-supported enhancements. The largest of these is $3.35 million General Fund to establish a Career Readiness Certification program. This program would create and administer skills assessments that would offer "Ready to Work" certificates to job applicants. The budget adds two full-time positions (2.00 FTE) to assist this effort.

A second program enhancement is $525,000 General Fund for the Employer Workforce Training Fund (EWTF). The EWTF is currently funded entirely from WIA Title IB Federal Funds. This proposal would appropriate General Fund to the EWTF for the first time. Approximately $7.5 million of Title IB funds are available for the EWTF in the 2007-09 biennium, so the recommended General Fund would be equivalent to an increase of approximately 7% over that amount. EWTF funds are less restricted, and can be used for more purposes, than the other WIA Title IB funds received by the state. The Federal government limits the portion of Title IB funds that can be directed to the EWTF and used for these broader purposes. Oregon has used EWTF funds to train incumbent workers and to address other workforce system needs.

A third program enhancement is $100,000 General Fund to support the Post-Secondary Education Quality Commission, which was established through a Governor's executive order. The executive order established a number of charges for this commission, including the development of a model to estimate the cost of providing a quality post-secondary education. The Governor's budget includes another $100,000 General Fund for this Commission in the Department of Higher Education budget.

## CCWD – State Support to Community Colleges

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 428,774,455 | 503,331,240 | 503,331,240 | 502,323,904 |
| Other Funds | 251,983 | 18,000 | 18,000 | 18,000 |
| **Total Funds** | **$429,026,438** | **$503,349,240** | **$503,349,240** | **$502,341,904** |

### Program Description

All funds in the State Support to Community Colleges program are transferred to the state's seventeen community colleges, except for a small portion that has gone to the North Clackamas School District to support the Sabin-Schellenberg Skills Center. The funds that are transferred to community colleges are primarily transferred through the Community College Support Fund (CCSF). CCSF distributions accounted for 99.3% of all State Support to Community Colleges program area expenditures in the 2007-09 biennium budget.

Almost all of these CCSF moneys are distributed to community colleges on an adjusted enrollment basis. A small portion is distributed to support contracted out-of-district reimbursements and distance learning programs. Generally, colleges receive funding for their full-time equivalent (FTE) enrollments in Lower Division Collegiate, Career Technical, Developmental Education, and certain Adult Continuing Education courses. Lower Division Collegiate courses parallel the offerings of the first two years of four-year institutions and carry regular college credit. Career Technical courses generally lead to a certificate or associate degree in a professional program. Developmental Education includes Adult Basic Education, English as a Second Language, GED and Adult High School programs, and post-secondary remedial courses. Adult Continuing Education courses aid in student self-development but do not lead to a degree.

### 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. This revenue is distributed as Other Funds. All of the Other Funds in this program area are derived from this source.

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 $247 million of property tax collections are projected for community colleges for operations in the 2007-09 biennium, providing approximately 24% of college operating revenue. Tuition and fee revenues, which are also not included in the state agency budget, are the third of the three principal fund sources for community college operations, and are forecast to generate $335 million in the 2007-09 biennium.

### Budget Environment

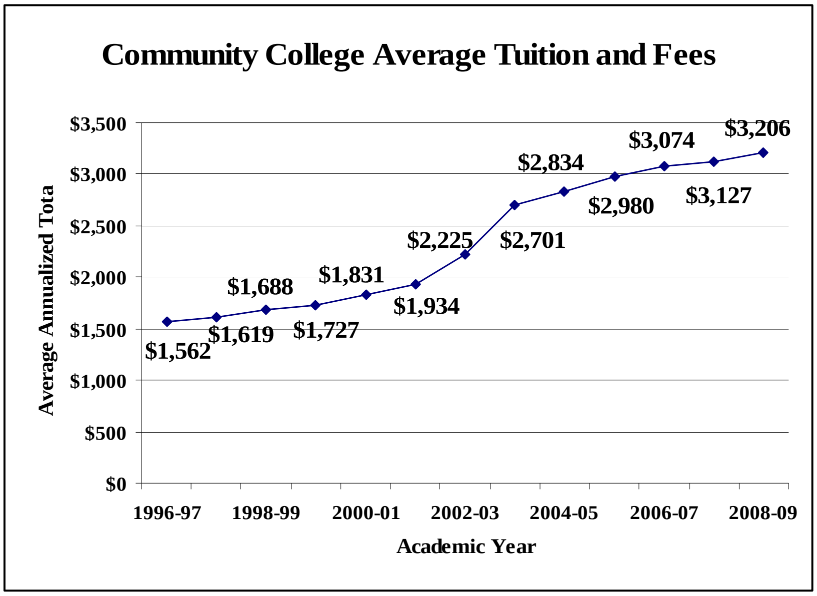
In the 2001 regular session, the Legislature increased General Fund support for community colleges by 9% over the prior biennium level. During the interim following that session, however, General Fund support was reduced to help address the state's General Fund revenue shortfall. The Legislature reduced support and "shifted" the final 2001-03 biennium CCSF distribution payment of $56 million to the 2003-05 biennium. The combined effect of these special session reductions was to reduce 2001-03 biennium General Fund support by an effective 7.8% from the level originally approved in the 2001 regular session, and to leave funding levels essentially at 1999-2001 biennium levels.

Funding was reduced further in the 2003-05 biennium. After adjusting for the one-time $56 million funding reduction for the payment shift, the 2003-05 legislatively adopted budget provided $14.8 million (or 3.4%) less than what the colleges effectively received for 2001-03 after all of the special session reductions. This reduction increased to $21.6 million (or 5%) when, in Measure 30, voters rejected temporary income tax increases that had been approved to balance the legislatively adopted budget. General Fund was reduced $6.8 million by the outcome of that vote. The Legislature also directed that state dollars not be used to support self-improvement courses that are not health-, safety-, or workforce-related. Funding reductions ended with the 2005-07 budget. In that biennium, the state increased General Fund support by $17 million (or 4.1%) over the prior biennium level. In the 2007-09 biennium, the state increased support by an additional $74.6 million (or 17.4%) over the 2005-07 biennium level.

A more useful measure of the funds available for community college programs, however, would add both property tax collections and tuition and fee revenues to state General Fund support. Colleges combine these three primary revenue sources (plus some additional minor revenues) to finance program delivery. Property taxes and community college tuition and fee revenue are not included in the state budget. Revenue from these combined sources increased at a healthy rate during the 1990s. Each biennium, revenues increased from a low of 7.6% (in 1993-95) to a high of 14.5% (in 1997-99) over the prior biennium level. Since then, the rate of increase has fallen considerably, although the General Fund support added in the 2007 session helped to bring the 2007-09 biennium growth rate up to a projected 13%.

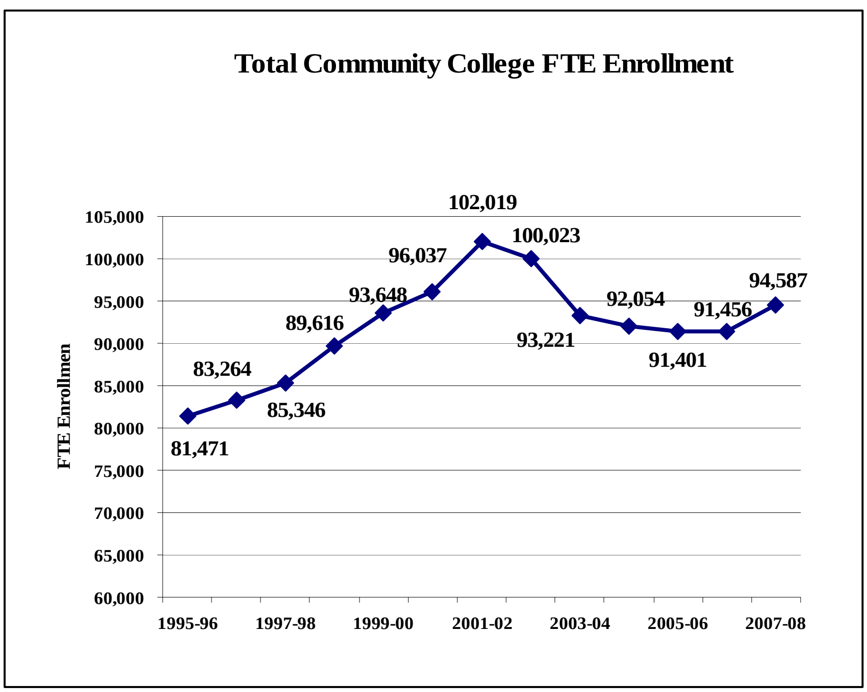
The relative shares of the three fund sources have shifted as well, with General Fund covering a falling share of college costs. Between the 1999-2001 biennium and the 2005-07 biennium, the General Fund share of the three major revenues fell from 52% to 44%, while the share of tuition revenue in the total increased from 27% to 32%, and the property tax share increased from 21% to 24%. The General Fund support added in the 2007-09 legislatively approved budget restored the General Fund share to an estimated 46% of the total from the three revenue sources.

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 the Oregon class of 2005 high school graduates went on to attend an Oregon community college in 2006. This was higher than the 22% who enrolled in the Oregon University System. Also, approximately 3,500 students transferred from community colleges to the Oregon University System in the 2007-08 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 28% of community college students (on a headcount basis) are in the traditional college age category of 18 to 24. Approximately 27% 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 other 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.

Enrollments declined as community colleges increased tuition and fee rates after the passage of Measure 5. For three years, tuition and fee rates increased at annual rates of 15% or higher. After that, however, tuition and fee rate increases had moderated and had been below the rate of inflation. This period of moderate rate increases ended with the cutback in state support that started in the 2001-03 biennium. Colleges responded to state support reductions by increasing tuition rates and reducing course section offerings. The average cost of tuition and fees increased 15% in the 2002-03 academic year, and by an additional 21% in the 2003-04 academic year. Tuition and fee rate increases have moderated since then, however, with increases averaging no more than 2.5% per year over the past two year. Nonetheless, the average cost of tuition and fees at community colleges has still increased by 44% in the last six years.




Enrollments grew during the second half of the 1990s. The rate of growth even accelerated, and total enrollment on a full-time equivalent (FTE) basis increased 6.2% in 2001-02 to an all time high of 102,019 FTE. In the following two years, however, as tuition rates increased and course section offerings were reduced (over 21,000 net course sections, or 23% of the total, were eliminated), enrollment began to decline. By the 2005-06 academic year, enrollment had fallen to 91,401 FTE, a 10.4% decline from the peak, and was below the level it had been six years earlier. In 2007-08, FTE enrollment started to recover, and grew by 3.4%. The rate of enrollment growth appears to be accelerating. Although 2008-09 academic year enrollment figures are not yet available, FTE enrollment in the Fall 2008 Term grew 10.5% over the level in the same period of the prior year.

### Essential Budget Level

The essential budget level figure includes funding for three programs funded in the 2007-09 biennium: the Community College Support Fund, the Healthcare Workforce Initiative, and the support of the North Clackamas School District's Sabin-Schellenberg Skills Center and the Skill Center at Portland Community College.

The essential budget level for the CCSF includes $500.2 million General Fund, almost unchanged from the $500 million General Fund in the 2007-09 legislatively approved budget. Community college districts are independent local governments and not state agencies. Therefore, community college employees are not state employees, and the CCWD position count only includes only those employed by the state agency itself. The Legislature does not determine or approve individual community college budgets. Instead, the state transfers funds to the colleges (primarily through the CCSF) to support their operations and capital projects.

The EBL calculation for the CCSF is designed to accommodate a growth in the budget to reflect inflation. For the 2009-11 biennium, that growth is 2.8% over the 2007-09 biennium level. This growth factor is applied, however, to the sum of public support provided by the state General Fund and community college operating property tax revenues. In the 2007-09 biennium, pubic support from these two sources is projected to total $747 million. The 2.8% increase allowed in the EBL calculation generates an increase of $20.9 million, to a total of $767.9 million in 2009-11. Property tax collections alone, however, are forecast to increase by $20.7 million (or 8.4%) over the 2007-09 biennium level. The General Fund increase is therefore only $0.2 million, the remaining amount needed to generate a $20.9 million total increase.

### Issues and Options

The Governor's recommended budget includes $485 million General Fund for the Community College Support Fund. This amount is a $15.2 million reduction from the essential budget level, and exactly 3% less than the $500 million funded in the 2007-09 biennium. The Governor also initiated a review of the method used to calculate the essential budget level for the CCSF, but no recommendations have yet been forwarded as a product of that review.

The Governor's budget also adds $1.35 million General Fund to be distributed to community colleges to support and enhance Career and Technical Education courses. These funds will partially offset the $15.2 million reduction to the CCSF, but will be distributed to the colleges outside of the CCSF distribution formula.

## CCWD – Federal/Other Support

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 1,388,613 | 396,074 | 396,074 | 246,074 |
| Federal Funds | 118,025,087 | 113,695,391 | 113,695,391 | 108,281,094 |
| Federal Funds (NL) | 3,968,221 | 5,968,831 | 5,968,831 | 5,968,831 |
| **Total Funds** | **$123,381,921** | **$120,060,296** | **$120,060,296** | **$114,495,999** |

### 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) and Adult Education and Family Literacy (WIA Title II) 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. 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 (more than 50) 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, and the grant funds are spent as Nonlimited Federal Funds.

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 33,000 clients are served by these funds each year.

#### Budget Environment

Federal support for these programs is expected to decline from the levels supported in the 2007-09 biennium budget. 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 had declined though as a result of the economic recovery the last recession earlier this decade, but the current economic recession will again increase demand for these programs.

The Department has successfully obtained additional funds through the NEG program, which addresses large layoffs. Beginning in the 2001-03 biennium, the Legislature permitted the Department to spend NEG program funds without limitation. This treatment reflects the emergency nature of these funds, which the Legislature did not wish to limit in that no state match is required to obtain the monies.

#### Essential Budget Level

The essential budget level includes a 2.8% inflation increase for special payments to recipients of the Carl Perkins and WIA program funds. However, declining Federal Funds revenues will be insufficient to finance program payments at the 2007-09 biennium levels for these ongoing programs. Federal Funds revenues are projected to be $7.14 million short of the amount needed to provide essential budget level expenditures. The essential budget level calculation further phases out over $3.6 million Federal Funds to reflect the expiration or phase-out of three time-limited Federal grants – the Incentive, Navigator, and Wired grants.

#### Issues and Options

The Governor's recommended budget authorizes the expenditure of projected Federal Fund and Other Funds revenues, which are forecast to be $7.14 million below the levels needed to fund the essential budget level for the ongoing programs in this area.

### CCWD – Debt Service

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 2,258,575 | 3,516,206 | 3,516,206 | 9,961,275 |
| Other Funds | 0 | 0 | 0 | 1,350,000 |
| **Total Funds** | **$2,258,575** | **$3,516,206** | **$3,516,206** | **$11,311,275** |

#### 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 had not authorized new Article XI-G bonds for community colleges during the entire period between the 1979 session and the 2005 session. Debt service requirements were declining until the 2005-07 biennium, as the existing bonds were paid off. Debt service payments on bonds issued through the 1979 session will be completed in the 2007-09 biennium.

Debt service for pre-2005 bonds will equal approximately $705,000 in 2007-09. The 2007-09 biennium was the first biennium when General Fund was appropriated to pay debt service on community college capital construction project Article XI-G bonds authorized after the 1979 session. The debt service on bonds issued for all projects approved in the 2005-07 biennium will be approximately $5.1 million. The combined total debt service of $5.8 million is 2.6 times the prior biennium level of $2.26 million. Actual 2007-09 biennium debt service requirements will be lower than $5.8 million, however, because not all of the authorized bonds were issued prior to the biennium's start.

### Essential Budget Level

The essential budget level finances projected debt service costs for all Article XI-G bonds authorized through the 2008 special session. The $11.3 million of debt service costs represents a 221% increase over the prior biennium level, and a five-fold increase over the 2005-07 biennium (the last biennium prior to when the state started supporting community college capital construction projects after a multi-biennium hiatus). The EBL offsets $1.35 million of General Fund with Article XI-G bond interest earnings (Other Funds). Because these interest earnings are available to pay debt service, the General Fund need is reduced to just under $10 million.

The essential budget level calculation assumes that the full $44 million of Article XI-G bonds authorized during the 2007-09 biennium, plus the $7.7 million authorized for Klamath Community College in the 2005-07 biennium but not yet issued, will be sold in Spring 2009 at a 6% interest rate. Bond markets, however, have been highly unstable since the Fall of 2008. It is not certain that the state will be able to sell the bonds at a 6% interest rate, or whether the sale will include funding for all of the authorized capital projects. These questions should be settled before the end of 2009 session though, thereby allowing the Legislature to make any adjustments if needed.

### Issues and Options

The Governor's recommended budget funds all projected debt service costs for community college capital construction projects approved through the 2008 special session. The debt service costs for the three capital construction projects supported in the Governor's recommended budget for the 2009-11 biennium are projected to total $2.3 million General Fund per biennium. The Governor's budget recommends delaying the bond issue for these projects until Spring 2011, however. This will delay the initial debt service payment until the 2011-13 biennium, and the budget therefore provides for no additional debt service payments for these projects in the 2009-11 biennium.

## CCWD – Community College Capital Construction

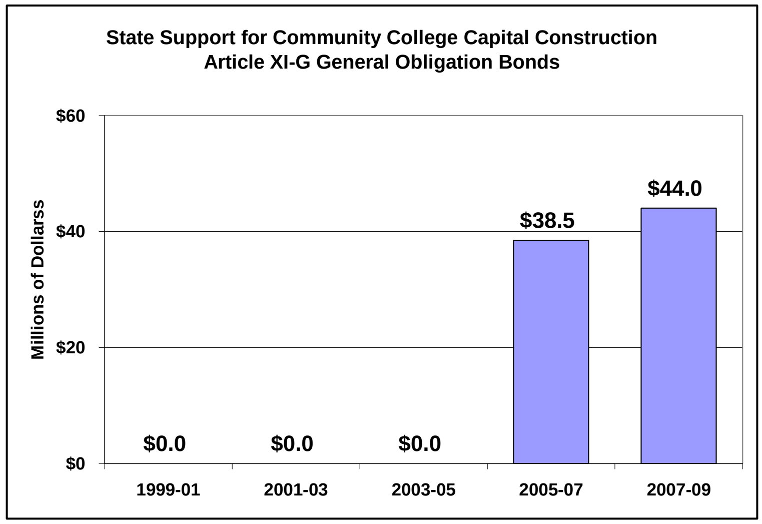
| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 77,000,000 | 80,081,000 | 88,081,000 | 0 |
| **Total Funds** | **$77,000,000** | **$80,081,000** | **$88,081,000** | **$0** |

### Program Description

This program finances state support for the construction, acquisition, and major renovations of community college properties. The state had not provided financial support to community colleges for capital construction since the 1979 session. Throughout this period, community colleges have financed capital expenditures entirely from their own revenues – including, in some cases, with property taxes approved by local voters for capital projects.

The 2005-07 biennium legislatively adopted budget included, for the first time since the 1979-81 biennium, state support for community college capital projects. The 2005-07 biennium budget authorized $38.5 million of Article XI-G bonds for community college capital construction projects at seven community colleges: Clatsop, Columbia Gorge, Klamath, Oregon Coast, Rogue, Southwestern Oregon, and Tillamook Bay. The projects were to be financed by Article XI-G bonds matched by an equal contribution of local college dollars. Article XI-G bonds are a constitutionally-authorized general obligation debt of the state. The state is required to match the bonds with at least an equal amount of General Fund. In lieu of regular General Fund, the colleges were required to transfer the matching funds to the state. These matching funds are designated as the General Fund match, and the matching funds are then returned to the colleges, with the Article XI-G bond proceeds, as Other Funds expenditures in the state budget.

The 2005-07 budget did not include General Fund to pay debt service on the Article XI-G bonds. The bond issue was delayed until March 2007 to postpone any debt service costs until the 2007-09 biennium. The sale included $25.9 million of the $38.5 million authorized. Bonds were not be issued for the Klamath or Tillamook Bay projects, because those campuses had not yet raised the required matching funds. Bonds were subsequently issued for the Tillamook Bay project in October 2008. The authorization for the capital construction projects approved in the 2005 session extends through the 2009-11 biennium. Klamath can still proceed with its project until then, if the Legislature reauthorizes authority for its $7.7 million of Article XI-G bonds in the bond limitation bill in the 2009-11 budget.




The 2005-07 budget included a budget policy that total debt service costs on all outstanding Article XI-G bonds, issued on or after July 1, 2005 for community college capital construction projects, not exceed $6.5 million per biennium. Debt service on the 2005-07 biennium approved projects was projected to equal $5.45 million per biennium at the time the policy was adopted, leaving remaining capacity of $1.05 million in debt service per biennium for allocation to additional projects. Given current projection for interest rates, this leaves remaining capacity for an additional $6.2 million of bonds under this budget policy.

During the 2008 special session, the Joint Committee on Ways and Means revised the legislative policy on state support of community college capital construction projects. The revised policy includes three elements:

- Ongoing Article XI-G bond support of <u>$40 million per biennium</u> for community college capital construction projects.
- 2009 session Article XI-G bond support of <u>$36 million</u> for community college capital construction projects. (An additional $4 million for a project at Clatsop Community College was pre-approved during the 2008 special session.)
- Priority for projects at community colleges that have not recently received Article XI-G bond proceeds from the state.

Article XI-G bond support for capital construction projects at each community college since the 2005 session is shown in the table on the next page.

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

| Community College | Session | | | Total |
|---|---|---|---|---|
| | 2005 Session | 2007 Session | 2008 Session | |
| Blue Mountain | | | | $ - |
| Central | | $ 5,778,000 | | $ 5,778,000 |
| Chemeketa | | $ 5,625,000 | | $ 5,625,000 |
| Clackamas | | $ 5,156,250 | | $ 5,156,250 |
| Clatsop | $ 7,500,000 | | $ 4,000,000 | $ 11,500,000 |
| Columbia Gorge | $ 7,500,000 | | | $ 7,500,000 |
| Klamath | $ 7,700,000 | | | $ 7,700,000 |
| Lane | | $ 6,750,000 | | $ 6,750,000 |
| Linn-Benton | | $ 3,731,250 | | $ 3,731,250 |
| Mt. Hood | | $ 2,500,000 | | $ 2,500,000 |
| Oregon Coast | $ 4,500,000 | $ 3,000,000 | | $ 7,500,000 |
| Portland | | $ 7,500,000 | | $ 7,500,000 |
| Rogue | $ 4,100,000 | | | $ 4,100,000 |
| Southwestern | $ 2,300,000 | | | $ 2,300,000 |
| Tillamook Bay | $ 4,900,000 | | | $ 4,900,000 |
| Treasure Valley | | | | $ - |
| Umpqua | | | | $ - |
| **TOTAL** | **$ 38,500,000** | **$ 40,040,500** | **$ 4,000,000** | **$ 82,540,500** |

### Essential Budget Level

All capital construction projects are approved on a one-biennium basis for budget purposes. Therefore, although the approved funding is available for a full six-years if needed to complete the project, the funding is phased-out in the calculation of the next biennium's essential budget level. The essential budget level is zero. The Legislature would approve any new projects in a policy option package.

### Issues and Options

The Governor's recommended budget includes $15.9 million of Article XI-G bonds to support capital construction projects at the three campuses that have not received any support since 2005: Blue Mountain, Treasure Valley, and Umpqua. Specifically, the Governor's recommended budget includes $4.4 million of Article XI-G bond proceeds for Blue Mountain Community College, to support a $14.2 million education facility in Hermiston; $3 million for Treasure Valley Community College, to support a $6 million University Center in Ontario; and $8.5 million for Umpqua Community College, to support a $17.8 million Regional Health Occupations Training Center. This total represents a support level below the $36 million allowed under the Joint Committee on Ways and Means approved policy.

The Governor's budget supports issuing bonds for these three projects in Spring 2011, to avoid any debt service costs in the 2009-11 biennium. Beginning in the 2011-13 biennium, however, debt service costs are projected to total $2.3 million General Fund per biennium over the 30-year term of the bonds.

## CCWD – Oregon Youth Conservation Corps

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 2,124,246 | 2,616,700 | 2,644,872 | 2,754,574 |
| **Total Funds** | **$2,124,246** | **$2,616,700** | **$2,644,872** | **$2,754,574** |
| Positions | 3 | 3 | 3 | 3 |
| FTE | 3.00 | 3.00 | 3.00 | 3.00 |

### Program Description

The Oregon Youth Conservation Corps (OYCC) was established in 1987. 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 Summer Conservation Corps – involves more than 600 youths (ages 13-24) each year, and operates during the summer supporting 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 to approximately 500 at-risk youths during the school year through hands-on environmental projects.

### Revenue Sources and Relationships

The OYCC last received General Fund in the 2001-03 biennium. Since then, it has operated entirely on Other Funds. 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 (Marine Board and the Parks and Recreation Department), and Workforce Investment Act funds, as Other Funds for contract work, and receives approximately $175,000 per biennium in donations. Revenue from all sources is projected to total $2.6 million during the 2009-11 biennium, thereby requiring the spending down of approximately $170,000 (or 14%) of the Other Funds beginning balance to support EBL expenses.

### Essential Budget Level

The increase in the essential budget level over 2007-09 biennium expenditure levels includes the standard adjustments for personnel cost increases, and for inflation in services and supplies costs and state government service charges.

### Issues and Options

As part of the agency realignment in the Accountability and Support package in the Governor's recommended budget (see Issues and Options in the Operations program area above for additional description), personal services costs in OYCC are reduced $10,064 Other Funds below the EBL.

## Department of Education (ODE) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 5,110,148,812 | 5,909,829,126 | 5,918,240,203 | 6,359,351,864 |
| Lottery Funds | 503,769,402 | 690,557,320 | 710,557,320 | 594,897,442 |
| Other Funds | 50,572,997 | 55,782,648 | 59,262,406 | 55,201,034 |
| Federal Funds | 749,565,735 | 738,457,523 | 762,653,767 | 764,602,423 |
| Other Funds (NL) | 97,748,258 | 114,407,142 | 127,241,082 | 114,547,342 |
| Federal Funds (NL) | 252,443,337 | 270,700,000 | 271,506,700 | 278,692,417 |
| **Total Funds** | **$6,764,248,541** | **$7,779,733,759** | **$7,849,461,478** | **$8,167,292,522** |
| Positions | 487 | 488 | 491 | 478 |
| FTE | 442.61 | 446.44 | 448.28 | 443.47 |

### Agency Overview

The Oregon Constitution directs the Legislature to "provide by law for the establishment of a uniform and general system of common schools." The State Board of Education and the State Superintendent of Public Instruction are responsible for adopting rules for the general governance of public 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.

The Oregon Department of Education (ODE) provides support to the State Board and the State Superintendent in carrying out their responsibilities. 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. 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.

The 2009-11 essential budget level for General Fund and Lottery Funds of $6.95 billion is a $325.5 million, or 4.9%, increase over the 2007-09 legislatively approved budget. Approximately $297 million of the General Fund and Lottery Funds increase is due to increases in State School Fund and School Improvement Fund distributions to school districts and education service districts (ESDs).

## ODE – Operations

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 34,460,859 | 48,601,102 | 49,283,751 | 46,683,605 |
| Other Funds | 10,395,632 | 11,901,514 | 12,120,912 | 14,517,861 |
| Federal Funds | 45,392,227 | 56,418,652 | 60,443,545 | 62,212,546 |
| Other Funds (NL) | 3,654,658 | 5,007,142 | 5,007,142 | 5,147,342 |
| **Total Funds** | **$93,903,376** | **$121,935,410** | **$126,855,350** | **$128,561,354** |
| Positions | 273 | 268 | 271 | 277 |
| FTE | 260.27 | 261.02 | 262.86 | 273.70 |

### Program Description

Department Operations includes the responsibilities and activities of the State Board and the State Superintendent, administration of a variety of programs, and assistance to and review of local districts. The 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. This office also includes the agency's internal audit function, communications, and federal liaison functions. Offices within the

Department include:

The ***Office of Educational Improvement and Innovation,*** which is charged with ensuring all components of the educational system are interconnected to provide appropriate instruction for each student. The office includes programs under the federal No Child Left Behind Act (NCLB), PreK-16 systems integration, alternative education, charter schools, home schooling, private schools, professional/technical education, school improvement, and standards and framework for curriculum and instruction.

The ***Office of Student Learning and Partnerships*** is responsible for programs that provide services to diverse learners and efforts to help children with unique learning differences meet standards. Programs managed by this office include early childhood education, special education, federal program compliance and accountability, and capacity building and partnerships with community stakeholders.

The ***Office of Assessment and Information Systems*** is responsible for the development and maintenance of the agency's technical and information infrastructure. This includes data collection from and reporting on individual schools, school districts, and education service districts. It also includes the design, development, and implementation of the statewide student assessment system, which measures student performance against state content standards for kindergarten through grade 12.

The ***Office of Finance and Administration*** provides fiscal and administrative services, such as accounting, budgeting, employee services, and procurement. This office also is responsible for the pupil transportation program, including the training and certification of bus drivers, the calculation and distribution of State School Fund payments to school districts and ESDs, and the federally supported school and community-based nutrition programs.

The ***Office of Analysis and Reporting*** coordinates the development of education policies at the state, local, and federal levels. The Office is also responsible for coordinating the operations of the agency with those policies and has primary responsibility for developing a comprehensive system that assures the agency and local school districts are accountable for their results.

### Revenue Sources and Relationships

Other Funds revenues include indirect cost recovery from federal programs; fees for fingerprinting and background checks; funds from the Department of Human Services for health-related and other programs; funds from the Department of Community Colleges and Workforce Development for professional/technical education services and administration; fees for licensing private vocational schools; tuition protection fees from private vocational schools to reimburse students in case of closure of these schools; textbook review fees; and miscellaneous fees, contracts, and grants.

Major federal revenue sources include the Individuals with Disabilities Education Act, the National School Lunch Program, NCLB assessment funds, and various compensatory education programs.

### Budget Environment

In 2007, the State Board of Education adopted new diploma requirements designed to better prepare each student for success in college, work, and citizenship. To earn a diploma, students will need to successfully complete the credit requirements (increased from 22 credits to 24), demonstrate proficiency in essential skills, and meet the personalized learning requirements. The Board developed a phase-in schedule (2007 – 2014) to allow students, families, schools, and teachers to adequately prepare to meet these new requirements.

### Essential Budget Level

The essential budget level of $128.6 million total funds reflects an increase of $1.7 million (1.3%) over the 2007-09 legislatively approved budget. However, General Fund expenditures decreased by $2.6 million (5.3%) to reflect the one-time expenditures approved in 2007-09 for the Oregon Educators Benefit Board ($5 million) and studies on career technical education and transportation ($0.5 million). The essential budget level also includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

The agency request budget proposed to add 27 positions and $15.6 million total funds above the essential budget level to support curriculum development, professional development, and regional support for the new Oregon Diploma requirements and to improve student achievement; address higher vendor assessment costs; improve internal accounting controls and data quality; identify and address needs of Native American students; and enhance services to high performing students, students with autism, pre-kindergarten, and nutrition programs. The Governor's recommended budget includes six positions and $1.4 million General Fund to support continued implementation of the Oregon Diploma; $1 million General Fund for additional vendor assessment costs; and three positions and $0.5 million Federal Funds for child nutrition programs such as Farm-to-School and the Fresh Fruit and Vegetable Program.

## ODE – Special Schools

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 17,712,390 | 18,340,748 | 18,908,930 | 19,711,647 |
| Other Funds | 2,779,443 | 3,505,760 | 3,612,329 | 3,870,518 |
| Federal Funds | 415,093 | 526,870 | 544,766 | 541,707 |
| **Total Funds** | **$20,906,926** | **$22,373,378** | **$23,066,025** | **$24,123,872** |
| Positions | 186 | 191 | 191 | 185 |
| FTE | 154.46 | 156.54 | 156.54 | 153.89 |

### Program Description

The School for the Blind (OSB), with 11 structures on a 7-acre campus, annually serves approximately 31 students 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 with almost 80% of age 16 or older in 2008. They generally have multiple disabilities that require intensive services and 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 that serves students who are hearing-impaired and cannot be served in the community. OSD provides academic and career education, living skills development, athletics, and leadership training. In 2007 and 2008, 118 students received services (72 day students and 46 residential students). OSD has 19 structures on a 52-acre campus.

### Revenue Sources and Relationships

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.

Other Funds revenues are from receipts from special education billings, donations, Medicaid reimbursements, transfers from the Commission for the Blind, fees from local school districts for services provided to their students, nutrition reimbursements, and other miscellaneous sources. Federal Funds are from the Individuals with Disabilities Education Act.

### Budget Environment

In 2005, the Department was directed to report on the cost-effectiveness of transferring the program at the Oregon School for the Blind to the Oregon School for the Deaf campus including a review of contracting out of the two programs to a local education agency. The study committee recommended OSB move to the OSD campus providing that cost-efficient and appropriate programs were maintained. Building on the work completed in the 2005-07 biennium, the Department was directed to do further analysis on the viability of moving OSB to the OSD campus.

Further, in 2007, the Legislature established boards of directors for OSB and OSD. Each board is required to develop and adopt a five-year master plan to specify the mission and objectives of the school, to review the plan every two years, and to submit the plan to the Superintendent and Legislative Assembly by February 1 of each odd-numbered year.

#### Essential Budget Level

The essential budget level of $24.1 million total funds reflects an increase of $1.1 million (4.6%) over the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

#### Issues and Options

In 2008, the Superintendent of Public Instruction announced the intention to pursue legislation for the co-location of the OSB and OSD on the OSD campus. This decision was based on "the schools, as they exist today with very high costs per student, are not sustainable" and the "seismic and structural conditions of the facilities." The boards of directors for OSB and OSD appealed the decision to the State Board of Education. At its December 2008 meeting, the State Board deferred action on the appeal until after the master plans have been submitted in February 2009.

The agency request budget included a request for $880,000 General Fund to address deferred maintenance issues at both campuses. With the exception of a technical adjustment for personal services, the Governor's recommended budget is funded at the essential budget level. The Superintendent of Public Instruction will propose legislation that does not specifically require co-location, but would establish a Special Schools Trust Fund and allow for an appropriation for seismic upgrades at the schools.

### ODE – Youth Corrections Education Program

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 21,185,152 | 22,683,286 | 22,831,639 | 18,735,739 |
| Federal Funds | 2,882,447 | 2,187,569 | 2,190,636 | 2,248,410 |
| **Total Funds** | **$24,067,599** | **$24,870,855** | **$25,022,275** | **$20,984,149** |
| Positions | 28 | 29 | 29 | 16 |
| FTE | 27.88 | 28.88 | 28.88 | 15.88 |

#### Program Description

ODE is responsible for ensuring that educational services are provided to children in the state's close custody facilities and county detention centers. The Department contracts with local education agencies to provide services to students.

#### Revenue Sources and Relationships

Funding for the program comes from the State School Fund and is reflected as Other Funds. The program now is treated as a separate school district with per student revenues distributed through the formula. Federal funding is from the Title I Neglected and Delinquent Program, the Individuals with Disabilities Education Act, Title II support of professional development, and a youth offender workplace training grant.

#### Budget Environment

The Department contracts with seven school districts to administer education programs in 11 Oregon Youth Authority (OYA) close custody facilities. Approximately 925 youth are served statewide. Students in these facilities receive double-weighting in the distribution formula.

During the 2005 legislative session, the Department was directed to review the educational funding for youth being served by the Youth Corrections Education Program (YCEP) who have already received a high school diploma or who were 21 years of age or older. A task force subsequently determined that these youth should not be funded via the State School Fund formula. In 2007, the Department was permitted to spend up to $5.2 million from the State School Fund to provide educational services to this group.

The Juvenile Detention Education Program provides education services to youth held in county juvenile department detention centers. Approximately 325 students are served on an average day with the average length of stay of four to five days. The Department contracts with 14 districts to provide programs in 15 county detention centers. Students in county detention centers are assigned a weight of 1.5 in the State School Fund distribution formula.

### Essential Budget Level

The essential budget level of $21 million total funds reflects a decrease of $4 million (16.1%) from the 2007-09 legislatively approved budget. General Fund expenditures were reduced by $5.2 million to reflect the transfer of funding to OYA for YCEP participants who have already received a high school diploma or who were 21 years of age or older. The essential budget level also includes a technical adjustment to realign 13 positions to Operations and standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The Governor's recommended budget includes funding at the essential budget level.

## ODE – Grant-in-Aid

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 199,907,147 | 232,122,755 | 258,897,755 | 287,182,805 |
| Other Funds | 13,361,064 | 15,201,745 | 15,201,745 | 15,228,411 |
| Federal Funds | 700,875,968 | 679,324,432 | 699,474,820 | 699,599,760 |
| Federal Funds (NL) | 252,443,337 | 270,700,000 | 271,506,700 | 278,692,417 |
| **Total Funds** | **$1,116,587,516** | **$1,197,348,932** | **$1,245,081,020** | **$1,280,703,393** |

### 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.

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.

The Department also is responsible for the delivery of education services to children in day and residential mental health programs as well as hospital programs, which provide educational services to students with severe, low-incidence types of disabling conditions such as burns, head injuries, and other acute or chronic medical conditions. ODE contracts with local school districts or ESDs to provide the required services.

### Revenue Sources and Relationships

Other Funds revenues represent receipts from special education billings, state tobacco tax funds from the Public Health Division of the Department of Human Services for tobacco education programs, federal funds from the Oregon Employment Department for the Teen Parent program, and miscellaneous grants.

The Department receives substantial federal funding for this program unit, mainly from the U.S. Department of Education for compensatory programs under the No Child Left Behind Act, special education, and teacher quality programs, and U.S. Department of Agriculture nutrition programs. Most of the funding is passed through to local school districts or contractors.

### Budget Environment

The Early Intervention/Early Childhood Special Education (EI/ECSE) program serves children with disabilities and their families to improve developmental status and increase school readiness for each child. The EI portion of the program serves children from birth through age 2 and is statutorily required. The ECSE component serves children from age 3 until the age at which schooling begins (usually age 5) and is federally mandated (PL 99-457). The Department contracts with education service districts to provide the services.

Within the statewide budget development process, EI/ECSE falls under mandated caseload and receives funding adjustments based on caseload count plus inflation. In 2008, the Emergency Board allocated additional funding to support the program based on caseload growth for the second year of the biennium. However, some members expressed concern for how this program was funded and whether services were at risk of being reduced in certain areas of the state. In subsequent conversations with legislative members and staff, outstanding issues remain focused on caseload activity, appropriate service levels, true program costs (both state and local), and funding distribution method.

The Oregon Pre-Kindergarten program, established in 1987 and modeled after the federal Head Start program, serves low-income 3- and 4-year-olds to foster their development and enhance their success in school. State and federal funds, as well as services, are coordinated to serve eligible children. The 2007 Legislature authorized an additional $39 million General Fund to expand services up to 75% of the eligible children. However, since that time, Head Start eased the entry standards from 100% of the federal poverty line to 130% resulting in an increased number of eligible children and a requisite reduction in the percentages served. In 2008-09, approximately 12,660 children will be served (approximately 70% of the eligible children).

In 2008, the chairs from the House Education and Health Care Committees requested a work group to look at ways to help children and adults with autism. The work group identified several areas of service delivery to be insufficient or non-existent including coordination of early identification and referral services, inconsistent quality of services across the state, service levels to young children lower than the recommended level of the National Research Council, and lack of capacity to respond to increased demand.

### Essential Budget Level

The essential budget level of $1.3 billion total funds reflects an increase of $35.6 million (2.9%) over the 2007-09 legislatively approved budget. General Fund expenditures were increased by $12.1 million to reflect the full cost of the OPK expansion approved in 2007-09, $11.6 million for EI/ECSE mandated caseload, and $0.9 million to backfill for lower federal fund revenues in EI/ECSE. The essential budget level also includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

**Grant-In-Aid Program ($ in millions)**

| | 2007-09 LAB | | 2009-11 EBL | | % Change | |
|---|---|---|---|---|---|---|
| Program | GF | All Funds | GF | All Funds | GF | All Funds |
| EI/ECSE | $104.19 | $132.72 | $116.83 | $146.24 | 12.1 | 10.2 |
| Oregon Prekindergarten | 96.08 | 96.08 | 110.08 | 110.08 | 14.6 | 14.6 |
| Regional Programs | 31.79 | 60.89 | 32.68 | 62.59 | 2.8 | 2.8 |
| Long-term Treatment & Hospital | 19.79 | 34.97 | 20.34 | 36.31 | 2.8 | 3.8 |
| Title I Low-Income/Migrant Education | - | 278.18 | - | 276.14 | - | -0.7 |
| Nutrition | 0.21 | 271.71 | 0.21 | 278.90 | 2.8 | 2.6 |
| Local & Other Special Education | - | 180.69 | - | 180.34 | - | -0.2 |
| Title II Teacher Quality | - | 56.7 | - | 55.89 | - | -0.7 |
| Vocational Education | - | 31.02 | - | 29.56 | - | -4.7 |
| Teacher/Admin Quality (Mentoring) | 5.00 | 5.00 | 5.14 | 5.14 | 2.8 | 2.8 |
| Connectivity | 0.62 | 0.62 | 0.64 | 0.64 | 2.8 | 2.8 |
| Start Making a Reader Today (SMART) | 0.25 | 0.25 | 0.26 | 0.26 | 2.8 | 2.8 |
| Civics/Chess for Success | 0.21 | 0.21 | 0.22 | 0.22 | 2.8 | 2.8 |
| Student Leadership | 0.76 | 0.76 | 0.78 | 0.78 | 2.8 | 2.8 |
| Other Programs (primarily under NCLB Act) | - | 95.70 | - | 97.61 | - | 2.0 |
| **Total:** | **$258.90** | **$1,245.08** | **$287.18** | **$1,280.70** | **10.9** | **2.9** |

### Issues and Options

The agency request budget proposed to add $76.2 million General Fund, or 26.5% above the General Fund essential budget level, to support local policy and professional development for the Oregon Diploma requirements and to improve student achievement; to enhance services to high performing students, students with low-incidence disabilities and autism; and continued expansion of pre-kindergarten to 80% of eligibility.

The Governor's recommended budget includes $6 million General Fund for expansion of pre-kindergarten services to approximately 700 children. However, the Governor's proposal is unclear in its intention for an implementation timeline. In order to achieve the addition of 700 children, the expansion would need to occur in the second half of the biennium. At this level, approximately 62% of eligible children would be served by the end of the biennium. Further, $1 million General Fund is proposed to establish state funding for an Early Head Start Program which serves prenatal to age 3. With this investment, it is estimated that 59 children could be served during the biennium. The GRB addresses additional services for regional programs for students with disabilities and autism through allocations in the State School Fund rather than the Grant-in-Aid program.

## ODE – School Funding

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 4,858,068,416 | 5,610,757,521 | 5,591,149,767 | 6,005,773,807 |
| Lottery Funds | 447,302,659 | 634,142,231 | 654,142,231 | 539,063,144 |
| Other Funds | 657,980 | 242,000 | 3,247,438 | 340,252 |
| **Total Funds** | **$5,306,029,055** | **$6,245,141,752** | **$6,248,539,436** | **$6,545,177,203** |

### 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.

### Revenue Sources and Relationships

In 1990, voters approved Ballot Measure 5 that altered the state-local finance structure. Measure 5 phased in property tax limits that substantially reduced local property taxes for schools. Consequently the 1991 Legislature increased state funding and passed a new school equalization formula. By the end of the 5- year tax limit phase-in, the state primarily funded the school system and virtually eliminated local control over school funding levels.

Voter approval of Measure 50 during the 1997 legislative session continued the shift to state funding. Measure 50 (a rewrite of Measure 47 passed just prior to the session) added another property tax limit more restrictive than Measure 5. In response, the 1997 Legislature raised the level of state funding even higher and further modified the school equalization formula.

In 1999, by Executive Order 99-15, the Department of Administrative Services was directed to form the School Revenue Forecast Committee to review the forecast of statewide weighted average daily membership and develop an allowable growth factor forecast. The focus of the forecast is upon the resources needed to maintain the base effort of K-12 schools. The resulting forecast is the initial basis for allocating statewide General Fund and Lottery Funds to support this program.

Other Funds reflect receipts from the state timber tax.

### Budget Environment

Currently, there are 197 elementary and secondary school districts and 20 education service districts, serving about 536,000 students in grades K-12. The School Revenue Forecast Committee estimates enrollment growth of

0.3% per year during the 2009-11 biennium with weighted growth slower (0.28%) due primarily to leveling in the number of English Language Learners (ELL).

In 2001, the Quality Education Commission (QEC) was established to: 1) determine the amount of moneys sufficient to ensure that the state's system of kindergarten through grade 12 public education meets quality goals, 2) identify best practices that lead to high student performance and the costs of implementing those best practices in the state's kindergarten through grade 12 public schools, and 3) prior to August 1 of each even-numbered year, issue a report to the Governor and the Legislative Assembly that identifies: a) current practices in the state's system of kindergarten through grade 12 public education, the costs of continuing those practices, and the expected student performance under those practices; and b) the best practices for meeting the quality goals, the costs of implementing the best practices, and the expected student performance under the best practices.

In 2007, the State Board of Education adopted new diploma requirements designed to better prepare each student for success in college, work, and citizenship. To earn a diploma, students will need to successfully complete the credit requirements (increased from 22 credits to 24), demonstrate proficiency in essential skills, and meet the personalized learning requirements. The Board developed a phase-in schedule (2007 – 2014) to allow students, families, schools, and teachers to adequately prepare to meet these new requirements.

The School Improvement Fund (SIF) was established in 2001 to support activities directly related to increases in student achievement and to link these activities to the recommendations of the QEC. Initial funding was established at $220 million, but due to declining revenues, the second year funding was eliminated and no funding was included in the subsequent two biennial budgets. The 2007-09 legislatively approved budget included $260 million General Fund for SIF. While not a competitive grant process, school and education service districts are required to submit grant applications and identify at least one activity from a list of 10 statutorily authorized activities and identify a corresponding Key Performance Measure (KPM) that may be affected. Early in the 2009 legislative session, ODE is expected to report the results of the planned funding and the impact on KPMs.

### Essential Budget Level

The essential budget level of $6.55 billion total funds reflects an increase of $296.6 million (4.7%) over the 2007-09 legislatively approved budget. It is based on recommendations from the School Revenue Forecast Committee and incorporates estimates for growth in average weighted daily membership of 0.28% per year, local revenues of 2.02% in 2009-10 and 4.14% in 2010-11, average teacher salaries of 2.3% per year, and benefits of 8.0% per year. The essential budget level was reduced by $5.2 million to reflect the transfer of funding to the Oregon Youth Authority for YCEP participants who have already received a high school diploma or who were 21 years of age or older, but continues the SIF at the same inflationary adjustments used for the State School Fund.

### Issues and Options

The QEC issued its final report in December 2008 which included recommendations for improvements to the Quality Education Model (QEM) and funding requirements. The Best Practices Panel recommended the QEM be modified to include adequate time for staff study, collaboration, team meetings, and data review; provide a certificated full-time position for "double-dose" classes and other interventions for students who are not meeting state standards; provide resources to compensate teachers for working with students beyond the regular school day, week, and year; include leadership development; include communication and relationship building with parents and community members; and provide resources for formative assessments. The QEC estimates the cost of these changes is $433 million in 2009-11.

Further, the Diploma Panel made several recommendations for 2009-11 including staff development in math/reading/science strategies for K-12; time to develop options and proficiency-based credit opportunities, local assessments of essential skills, and analysis of student achievement data; and provision of adequate staff to middle and high school levels to develop and manage education plans and profiles, targeted interventions for students, and incentive dollars to encourage teachers to get additional training in mathematics. The estimated cost of these changes is $266 million in 2009-11. The QEC report notes that there is some overlap in the recommendations from the Best Practices and Diploma Panels, so the costs are not directly cumulative. The state funding requirement for the fully implemented model is estimated at $8.35 billion.

The agency request budget did not include additional funding for the State School Fund, the School Improvement Fund, nor local option equalization grants. The Governor's Recommended Budget funds the State School Fund and School Improvement Fund at approximately 97.7% of essential budget level. The Department estimates fully funding local option equalization grants would require up to $2.3 million for the biennium versus the $1.3 million included in the GRB. In prior biennia, second year funding has been allocated to the Emergency Board pending a report from the Department.

**School Funding ($ in millions)**

| | | Essential Budget Level | | | Governor's Recommended | | |
|---|---|---|---|---|---|---|---|
| | **2007-09 LAB** | **2009-10** | **2010-11** | **Total** | **2009-10** | **2010-11** | **Total** |
| State School Fund (SSF) | $5,987.7 | $3,086.4 | $3,183.3 | $6,269.7 | $3,068.8 | $3,053.5 | $6,122.3 |
| School Improvement Fund | 260.0 | 135.2 | 139.9 | 275.0 | 134.4 | 134.2 | 268.6 |
| Local Option Equalization | 0.8 | 0.4 | - | 0.4 | 0.9 | 0.4 | 1.3 |
| **Total** | **$6,248.5** | **$3,222.0** | **$3,323.2** | **$6,545.2** | **$3,204.1** | **$3,188.1** | **$6,392.2** |

| **Allocations from SSF:** | | | |
|---|---|---|---|
| Autism & regional services for low-incidence disabilities | $2.50 | $2.50 | $5.00 |
| Enhanced Teacher & Administrator Mentoring | 2.50 | - | 2.50 |
| Oregon Virtual School District | 0.90 | - | 0.90 |
| Physical Education Grants | 0.50 | - | 0.50 |
| Best Business Practice Advisory Committee and Audits | 0.40 | - | 0.40 |
| Talented & Gifted | 0.18 | 0.18 | 0.35 |
| Enhanced Professional Development | 0.15 | - | 0.15 |
| Speech Pathology | 0.08 | 0.08 | 0.15 |
| Quality Education Commission | 0.08 | 0.08 | 0.15 |
| **Total (may not tie due to rounding):** | **$7.28** | **$2.83** | **$10.10** |

## ODE – Debt Service

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Lottery Funds | 56,466,743 | 56,415,089 | 56,415,089 | 55,834,298 |
| Other Funds | 2,193,726 | 2,248,343 | 2,248,343 | 2,508,253 |
| Other Funds (NL) | 0 | 0 | 12,833,940 | 0 |
| **Total Funds** | **$58,660,469** | **$58,663,432** | **$71,497,372** | **$58,342,551** |

### 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 1999-2001 for state education projects as defined in HB 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

Lottery Funds include direct allocations from available revenues and 75% of the interest earnings from the Education Stability Fund.

Other Funds include net unobligated lottery proceeds and interest earnings from the Education Lottery Bond Fund.

### Budget Environment

In recent years, interest earnings on the Education Stability Fund have been lower due to transfers of principal from the Education Stability Fund to the State School Fund as well as to lower interest rates. Two transfers totaling $262 million were made in 2001-03. A transfer of slightly over $126 million was made in May 2005. Lower interest earnings result in a greater need for general lottery resources since the required debt payments are fixed.

#### Essential Budget Level

The essential budget level of $58.3 million total funds reflects a decrease of $13.2 million (18.4%) from the 2007-09 legislatively approved budget. The decrease reflects the elimination of one-time expenditure limitation required to record debt refinancing approved by the Department of Administrative Services.

### ODE – Common School Fund Distributions

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds (NL) | 94,093,600 | 109,400,000 | 109,400,000 | 109,400,000 |
| **Total Funds** | **$94,093,600** | **$109,400,000** | **$109,400,000** | **$109,400,000** |

#### Program Description

This program reflects the transfers of Common School Fund (CSF) distributions from the Department of State Lands to the Department of Education for distribution to K-12 school districts. Previously, the Department of State Lands distributed these monies to county treasurers, who in turn made payments to school districts. In 2005, the Superintendent of Public Instruction became responsible for making these distributions to the districts.

#### Budget Environment

As of January 2006, fund growth is determined on the basis of a 3-year rolling average. If the growth is 5% or less, a minimum distribution of 2% of the fund's fair market value is made. If the fund grows between 5 and 11%, the distribution percentage grows incrementally, up to a maximum distribution percentage of 5% if the fund grows by 11% or more.

During the past five fiscal years, distributions have fluctuated as the change in CSF value has risen and fallen with the stock market, with the lowest distribution of $13.3 million in 2004 and a high of $55.4 million in 2008.

#### Essential Budget Level

All expenditures are Nonlimited as distributions will vary from year to year with ODE distributing 100%. Although these resources are distributed through ODE, by statute they are considered local revenue to school districts and not part of the State School Fund. However, the School Revenue Forecast Committee does estimate the local revenues available to schools when calculating the essential budget level for the State School Fund. In developing the essential budget level for the State School Fund, the School Revenue Forecast Committee assumed the minimal 2% distribution would be made totaling $39 million.

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

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 73,337,163 | 86,561,620 | 86,561,620 | 88,201,785 |
| Other Funds | 31,945,510 | 31,978,666 | 31,978,666 | 31,912,991 |
| **Total Funds** | **$105,282,673** | **$118,540,286** | **$118,540,286** | **$120,114,776** |

*The tables for OHSU only show expenditures of state funds in the OHSU budget. Total OHSU expenditures for operations in the 2007-09 biennium are projected to exceed $3.1 billion.*

### Agency Overview

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 had operated at two main sites: its main campus on Marquam Hill in downtown Portland, and on the site of the Oregon Primate Research Center and the Oregon Graduate Institute (West Campus) in Washington County. The university expanded to a third major site in Portland's North Macadam Urban Renewal Area (the South Waterfront Campus). 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 three main sites, OHSU also has clinical facilities throughout the Portland metropolitan area, and teaching programs in various locations throughout the state, including nursing degree programs on the campuses of Eastern Oregon University, Southern Oregon University, the Oregon Institute of Technology, and most recently, at Western Oregon University.

OHSU has been organized as a public corporation since 1995. Prior to that, the university was one of eight academic institutions in the Department of Higher Education. The change in status was granted to allow OHSU to operate more efficiently and to respond 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 $86.6 million in the 2007-09 biennium. The state also provided $32 million of Tobacco Master Settlement Agreement (TMSA) funds for debt service on $200 million of bonds the state issued in the 2001-03 and 2003-05 biennia to finance the Oregon Opportunity Program – OHSU's expansion of its research programs in genetics and biotechnology. Total state support in the 2007-09 biennium therefore equaled $118.5 million.

### Budget Environment

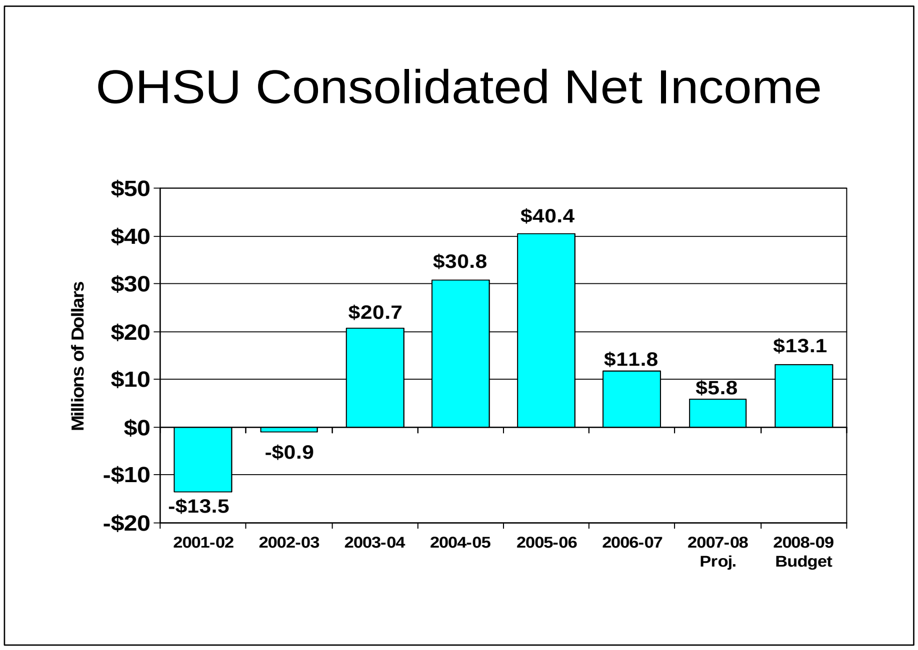
State support for OHSU's education and clinical programs has declined since the institution was reorganized as a public corporation. OHSU received $125.1 million from the state in 1993-95, the last biennium that it was a part of the Department of Higher Education. This level declined 15% when OHSU became a public corporation in the 1995-97 biennium. The $118.5 million of state support during the 2007-09 biennium was still about 5% below the 1993-95 biennium level. The state transfers General Fund to OHSU to support the institution's operating budget, and uses Tobacco Master Settlement Agreement funds to pay debt service on the state bonds that were issued to support the Oregon Opportunity Program (these latter funds are not transferred to OSHU but instead paid directly to bondholders by the state).

For the 2008 state fiscal year (SFY), total OHSU revenue (operating and non-operating) is about $1.5 billion. The largest source of operating revenue in the OHSU budget is the net patient service fee revenue generated by its hospitals and clinics, totaling $845.8 million, about 55% of total revenue. Another 31% of revenue comes from gifts, grants, and contracts. State support is only 2.8% of total revenue, student tuition and fees will contribute 2.4%, and the sales and services of education departments will contribute another 1.9%. The remainder is divided among various miscellaneous revenue sources.

Outside of its operating budget, the university is also significantly expanding and upgrading its capital plant. In addition to its $3.1 billion of biennial operating expenditures, OHSU also makes a variety of capital investments. As of June 2008, for example, OHSU anticipated spending about $39.3 million on university capital investments and $92.8 million of capital investments in its healthcare system during SFY 2009. Those capital investment plans, however, may be modified given the current economic challenges.

In the past, the institution financed approximately $140 million of capital expenditures per biennium out of its operating cash. The remainder is financed from a combination of OHSU-issued revenue bonds, gifts, and grants. The major capital projects recently completed include: a new $113 million, 274,000 sq. ft. Biomedical Research Building on the main campus and opened in Spring 2006, primarily financed by Article XI-L bonds; a new $216 million, 11-story, 335,000 sq. ft. patient care facility, the Peter O. Kohler Pavilion, on the main campus that will eventually include 120 beds and was opened in Summer 2006; and a new $145 million, 400,000 sq. ft. OHSU Center for Health and Healing, opened in Fall 2006, as the first phase in the development of a new South Waterfront Campus for the university.

Several years ago, OHSU issued $250 million in revenue bonds to finance the hospital expansion and the development of property for the South Waterfront Campus. This bond is in addition to a $200 million bond the state issued (The Oregon Opportunity Program). OHSU's hospital was 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 eventually house an additional 1,000 employees.




OHSU's net income, after depreciation expense, has fluctuated considerably over the years. The chart to the left shows OHSU consolidated net income in millions of dollars, excluding the earnings of the OHSU Foundation as well as the financial effects of restricted activities such as grant revenue and expenditures which are dedicated to a particular project. These figures represent 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. State support dollars are also included in the figure. Thus, if state support for the 2005-06 fiscal year was reduced by $40.4 million, and the university did not change its expenditures, it would have shown a 2005-06 fiscal year net income of zero. (In reality, the institution would have reduced some expenditures if state support were lowered, so that the impact on net income would not have been as great.)

The figures shown in the chart do not distinguish between income from operations and other income. Operating income increased from $13.5 million in 2003-04 to $20.5 million in 2005-06. In the second year of the 2005-07 biennium, however, OHSU lost $18.1 million on its operations, and that loss was projected to grow to $23 million in the 2007-08 budget as of early June 2008.

The consolidated figures shown in the chart also do not disaggregate between OHSU's educational and clinical programs. Such a disaggregation shows that the educational programs do not generate sufficient revenue to cover their operating costs, with the expected net operating loss in the 2009 SFY to be $51.4 million. The university expects to cover $9.5 million of this loss with investment and other non-operating income, leaving a university loss of $41.9 million for the 2009 SFY, prior to any OHSU Foundation contribution. This is considerably worse than the losses of $8.3 million in SFY 2006 or $16.1 million in SFY 2007. OHSU, by generating net income from its hospital and clinical operations and investments forecasted at almost $55.1 million in SFY 2009, should be able to finance these educational financial losses. OHSU now plans to reduce its net operating loss in educational operations from $51.4 million in SFY 2009 to about $7.9 million in the 2012 SFY. This is an ambitious goal, and would be achieved, in part, by reducing services and supplies costs by nearly $23 million from SFY 2010 to SFY 2012.

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 did not report targets for these performance measures, but it did report on changes to them. The 2005 Legislative Assembly formally approved a set of performance measures and directed the university to establish targets for them. The Joint Legislative Audit Committee, in 2006, recommended reducing the number of performance measures.

The university's research performance measures track total dollar awards and national rankings. Total research awards reached $306.9 million in the 2007 SFY, an increase of 12.2% over the fiscal year two years earlier, and more than triple the 1995 level when OHSU assumed its public corporation status. In 2007, the School of Medicine ranked 19th in terms of National Institutes of Health support to medical schools. 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).

### Essential Budget Level

The 2009-11 essential budget level for OHSU of $120.1 million is about 1.3% higher than the 2007-09 legislatively approved budget. The essential budget includes sufficient Other Funds (Tobacco Master Settlement Agreement, or TMSA revenue) to pay the debt service on the Oregon Opportunity Program, funding for inflationary costs of 2.8% for OHSU's educational and clinical programs, General Fund to continue enhancements that were begun in 2007-09, and removes funding for two program enhancements that were one-time only. These are described in more detail below. The Governor's recommended budget funds OHSU at the essential budget level.

### Issues and Options

Like state government, OHSU is facing significant challenges for the 2009 and 2010 state fiscal years because of the current economic recession. OHSU's investment income which is used to supplement university and hospital operations, for example, is expected to be much lower than had originally been included in the budget. Hospital and clinical income is expected to be lower as the number of patients with no insurance or with public coverage that offers lower provider reimbursement increases. In addition, OHSU forecasts that its patient volume will not be as high as it believed earlier. Thus, overall clinical revenue will continue to grow, but at a slower rate. OHSU has faced difficulties with the short-term credit market – at times last fall, it was unable to rollover certain components of its debt and was faced with higher default interest rates.

The Governor's recommended budget for the Department of Higher Education includes a proposed $250 million life sciences facility constructed in the south waterfront district in Portland. The facility would house scientists from OHSU's medical school, Portland State University science departments, Oregon State University's College of Pharmacy, and Oregon Institute of Technology's health related programs. OHSU would contribute the land for the project as well as a $40 million pledged gift.

## OHSU – Education and General/Hospitals and Clinics/CDRC

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---:|---:|---:|---:|
| General Fund | 73,337,163 | 86,561,620 | 86,561,620 | 88,201,785 |
| **Total Funds** | **$73,337,163** | **$86,561,620** | **$86,561,620** | **$88,201,785** |

### 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, 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 2008 of 2,455 students, and awarded 892 degrees and certificates in 2007. 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, Western 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 the 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 503 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 handled over 26,500 patient admissions, about 37,000 emergency room visits, and about 2,600 births in SFY 2007. The hospitals and clinics handle a disproportionately large share of health care to uninsured and government-sponsored patients, in comparison to the hospitals' size and market presence. 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 numerous Oregon communities, and serves approximately 7,000 children each year.

The Area Health Education Centers (AHEC) program works to improve the education, training, and distribution of health care professionals in Oregon. There are four regional AHECs statewide, each of which works with local health care facilities and providers and community leaders to identify and meet local needs. AHECs also provide all OHSU MD students with a required 3rd year clinical experience in a rural area, and support Family Medicine residency rural training programs. All four AHECs also have programs to encourage youths to consider a healthcare career.

### Revenue Sources and Relationships

The primary source of non-state funds for the educational programs is tuition. Other revenue 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 is payment for services by patients and third party payers. These revenues have not been included in the state budget since OHSU became a public corporation. For example, OHSU hospitals and clinics receive payments for services, including revenue from the Department of Human Services, Division of Medical Assistance Programs (Medicaid) and Public Health Division federal funds from the Maternal and Child Health Block Grant. But none of those Medicaid reimbursements or federal grants is included in this budget for OHSU.

### Budget Environment

The Education and General Program (referred to internally at OHSU as the "University" budget) does not generate net income for 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. For the 2003-05 biennium, state funds covered only 5% of the School of Medicine's budget, but covered 29% of the

School of Nursing's budget. The figure for the School of Dentistry was 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 is appropriated directly for OHSU.

### Essential Budget Level

The 2009-11 essential budget level of $88.2 million General Fund is about 2% higher than the 2007-09 legislatively approved budget of $86.6 million. The increase is the result of adding $2.3 million to acknowledge inflationary cost increases of 2.8%, including full biennial funding for several new project that were begun during the 2007-09 biennium, and phasing out funding for several one-time expenditures that had been included in the 2007-09 legislatively adopted budget.

The essential budget level includes additional General Fund to continue five new initiatives that were begun (and therefore, partially funded) during the 2007-09 biennium:

- $861,000 to support School of Nursing participation in the Oregon Consortium for Nursing Education
- $1,469,000 to finance a 50-student expansion of the Bachelor's of Science Nursing program
- $1,177,000 to provide ongoing funding for the Western Oregon University nursing program
- $336,000 to support the expansion of the Master's of Nursing program
- $20,000 to enhance the Area Health Education Centers K-12 program

The essential budget also removes funding for two program enhancements that were financed only for the 2007-09 biennium. This was $4,120,000 to support costs associated with the permanent expansion of the Medical Doctor program to no fewer than 120 students, and $400,000 for videoconferencing and on-line educational enhancements for AHEC's.

### Issues and Options

OHSU is affected by a variety of factors including current economic conditions and the dynamics of the health care market. Those factors are discussed above. More specific to OHSU are two related issues. First, OHSU is currently faced with an unlimited tort liability. In December 2007, the Oregon Supreme Court found certain provisions of the Oregon Tort Claims Act that limited OHSU's liability unconstitutional. While OHSU is hopeful a new compromise limit can be reached and written into law, the institution has had to spend more ($20 million annually) for tort liability self-insurance and third-party insurance coverage. Second, OHSU tuition levels are expected to be about the highest of any public medical school in the country, and about the middle of private medical schools. Clearly, this may compromise OHSU's ability to attract students who are constrained in their ability to finance their medical education. Moreover, high tuitions may limit OHSU's efforts to reduce overall health care profession shortages.

## OHSU – Bond-related Costs

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 31,945,510 | 31,978,666 | 31,978,666 | 31,912,991 |
| **Total Funds** | **$31,945,510** | **$31,978,666** | **$31,978,666** | **$31,912,991** |

### Program Description

In 2001, the Legislature approved state funds in support of the Oregon Opportunity program. The Oregon Opportunity program is the name OHSU gave to a group of investments, totaling over $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 matched with more than $300 million in donations.

The combined state and private funds supported the construction of a 274,000 square-foot biomedical research facility on the main campus, and the recruitment of an additional 81 scientists as principal investigators of sponsored research projects, along with research support and support staff for the added scientists. The funds also support the purchase of a research facility on the west campus, and facilities and technology infrastructure for rural health initiatives.

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' discounts, and issuance costs.

### Revenue Sources and Relationships

Bond-related costs are paid from money the state receives from the TMSA. One series of bonds was issued during the 2001-03 biennium, and a second (and final) series was 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 issued general obligation bonds for the Oregon Opportunity program under Article XI-L of the state constitution, which voters approved. Debt service on the bonds is the responsibility of the state, and will be paid for the 20-year term of the bonds. The state has exhausted all capitalized interest (bond proceeds) available to pay debt service. The state plans to pay all debt service costs with TMSA revenues for the remainder of the bond term. Bond-related costs for the Article XI-L bonds were fully phased-in, beginning with the 2005-07 biennium. These payments are projected at a steady $32 million per biennium through the 2021-23 biennium. A final $8.4 million payment is projected for 2023-25.

### Essential Budget Level

The essential budget level of $31.9 million is sufficient to pay the debt service on the Oregon Opportunity bonds. The Governor's budget funds OHSU debt service at the essential budget level.

### Issues and Options

As noted above, the Oregon Opportunity program was, in large part, initiated to build research facilities and to recruit researchers. OHSU ranked 19th in the country for the amount of National Institutes of Health (NIH) research grants it received in 2007. The 2008 SFY financial statements indicate that OHSU's research funding decreased by 2.4% from $306.9 million to $299 million in SFY 2008. This apparently reflects a national downward trend that will continue until the economy improves and more NIH funding becomes available. Of more concern, perhaps, is that OHSU has nearly fully expended the Oregon Opportunity program funds. Although the state pays the debt service on the bonds that generated these funds, the depletion of the Oregon Opportunity funds are presenting a challenge to OHSU, particularly in the retention of the newly recruited research scientists.

Despite those concerns about ongoing research funding and the depletion of Oregon Opportunity funds, in October 2008, OHSU announced its Cancer Institute would receive a $100 million gift from the Knight Family for cancer research and treatment. OHSU believes this gift has been made available, in part, because of the Oregon Opportunity program and the enhanced research facilities and staff it supported.

## Department of Higher Education (DHED) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 737,484,478 | 870,441,365 | 893,201,532 | 924,840,969 |
| Lottery Funds | 9,630,340 | 25,982,232 | 25,982,232 | 32,885,315 |
| Other Funds | 1,642,577,101 | 1,741,472,413 | 2,045,236,554 | 1,322,311,684 |
| Other Funds (NL) | 2,047,068,197 | 2,228,003,414 | 2,208,270,224 | 2,279,382,924 |
| **Total Funds** | **$4,436,760,116** | **$4,865,899,424** | **$5,172,690,542** | **$4,559,420,892** |
| Positions | 16,145 | 17,835 | 17,837 | 17,864 |
| FTE | 12,495.08 | 12,565.59 | 12,566.58 | 12,594.10 |

*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.*

### Agency Overview

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 [EOU], Western [WOU], and Southern Oregon Universities [SOU]), and the Oregon Institute of Technology (OIT). OSU has also established a branch campus in Bend, OSU-Cascades.

## DHED – Education and General Services

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 592,832,166 | 692,707,892 | 710,935,340 | 741,317,387 |
| Other Funds | 1,054,723,522 | 1,160,940,175 | 1,211,206,277 | 1,220,981,727 |
| Other Funds (NL) | 1,016,253,710 | 1,090,528,794 | 1,070,738,372 | 1,096,348,308 |
| **Total Funds** | **$2,663,809,398** | **$2,944,176,861** | **$2,992,879,989** | **$3,058,647,422** |
| Positions | 12,530 | 14,231 | 14,231 | 14,260 |
| FTE | 9,557.32 | 9,634.83 | 9,634.83 | 9,663.34 |

### Program Description

The Education and General Services program includes the instruction, research, public service, and operating costs of the seven institutions that make up 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 Services Program accounts for 77% 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 these funds to the various institutions and programs in annual budgets through the Resource Allocation Model (RAM). The RAM allocates state support dollars primarily on an enrollment basis. Institutions retain their tuition and fee revenues, and combine these revenues with the allocation of General Fund that they receive through the RAM distribution to support their education and general services operating costs.

### Revenue Sources and Relationships

The primary source of Other Funds for the Education and General Services Program is tuition. Other sources include other student fees such as Resource 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 state's General Fund appropriation for the Education and General Services program is distributed to the campuses and to centralized services by the Resource Allocation Model

(RAM). The RAM distributes most of the General Fund that campuses receive for their Education and General Services 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 Department has, however, generally funded the campuses based on their 2002-03 year enrollment levels, (or "frozen" cell values). That is, any changes in enrollment since then have not affected how General Fund is allocated to the campuses.

The remainder 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. The largest of the targeted programs are enhanced Engineering funding for projects identified by the Engineering Technology Industry Council ($37.3 million General Fund in 2007-09); the funding for smaller campuses that is additional to the amount they receive for their enrollments ($28.3 million General Fund in the 2007-09 biennium); and the Chancellor's Office operations ($15.8 million General Fund in 2007-09).

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 Services 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. General Fund support was increased again for the 1999-2001 biennium, but General Fund support of Education and General Services declined after the 1999-2001 biennium when the state faced ongoing General Fund revenue shortfalls. Support in the 2001-03 biennium was reduced several times in special sessions as the revenue shortfall became known. In the 2003-05 biennium, support declined a further 12%. During these two biennia, the legislatively approved budgets allowed for large tuition rate increases to offset declines in General Fund support and to allow OUS to address cost increases. In both 2005-07 (8.9%) and 2007-09 (17%), General Fund support was again increased as raising state revenues allowed higher General Fund appropriations.

The RAM was designed 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 was also to have made 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. However, enrollment funding has been frozen at 2002-03 levels, so that enrollment changes since then have not affected the amount of General Fund that campuses receive.

Enrollment in the Oregon University System has been increasing since the 1995-96 academic year. This reverses an earlier decline during the 1990s that occurred when tuition rates were increased rapidly as a response to Measure 5. Although enrollment remains at record levels, enrollment growth has become minimal until recently. This growth has occurred 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, four years ago returned to its all time peak rate of 24%. This freshman participation rate had been close to that level in the late 1980s, but the rate had fallen to a low of 17.5% in the early 1990s. By 2008, however, the freshman participation rate had declined again to an estimated 21%. The trend of larger high school graduating cohorts is expected to continue until the 2013-14 academic year. OUS projects enrollment growth to continue in each of the two years of the 2009-11 biennium, and well beyond.

Since the early 1990s, mandatory fees rose at a much faster pace than tuition, particularly when tuition rates were frozen by the Legislature through appropriation of additional General Fund support. To address this, the

2007 Legislature directed the Oregon University System to move towards including student fees into tuition to make the actual cost of attending college more identifiable. Towards this end OUS convened a committee in the spring of 2007 comprised of students, faculty, and administrators to examine the issue of resource fees. In January 2008, the State Board of Higher Education approved policy changes to eliminate some resource fees by rolling them into tuition. These adopted policy changes included a prohibition on any new undergraduate resource fees being created and an agreement that all undergraduate universal resource fees, such as a technology and energy surcharge that are charged to all undergraduate students, will be included in tuition no later than the fall term 2011. Undergraduate programmatic fees, which are only assessed to students enrolled in particular programs, will be eliminated by fall 2011. These programmatic resource fees could be eliminated by: a) increasing tuition for all undergraduate students to a level that would generate the amount of revenue formerly created by the programmatic fee; b) creating separate tuition rates, called differential tuition, for programs that formerly had a programmatic fee; or c) some combination of the two. If differential tuition is created, an amount equal to 10% of the tuition must be set aside for financial aid targeted to low-income students majoring in those programs. No changes to graduate resource fees have been made, but the future of such fees will be examined by a committee appointed by the Provosts' Council.

The budget situation varies by campus. By the end of the 2007-09 biennium, institutions are projected to have fund balances equal to the following percentages of operating revenues: WOU – 15.3%, OIT – 14.1%, OSU – 13.6%, PSU – 11.6%, EOU – 7.7%, SOU – 7.6%, and UO – 6%. The Chancellor's Office ending fund balance is projected to be 27.5% of operating revenues.

### Essential Budget Level

The General Fund 2009-11 essential budget level (EBL) is 4.3% more than the 2007-09 legislatively approved budget as of December 2008. These increases are caused by standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The limited Other Funds 2009-11 EBL is less than 1% more than approved in 2007-09 due in large part to the removal of $19 million in COP proceeds provided on a one-time basis for technology and ETIC projects.

### Issues and Options

The Department of Higher Education experienced much higher than anticipated enrollment growth in Fall 2008. This continues a trend of higher than forecasted enrollment for the 2007-09 biennium to date. To accommodate this growth, the Governor recommended adding $73 million in Other Funds expenditure limitation to allow additional tuition revenues from higher enrollment to be spent and allow the use of cash reserves to meet costs if necessary. The Governor's budget does not include any additional General Fund to supplement tuition revenues for the additional students. This new $73 million Other Funds would support the addition of 433 positions (332.00 FTE). While the Governor's budget includes no allowance for tuition rate increases, the executive branch has stated it is not opposed to tuition increases, but rather is leaving determining the rate of any needed tuition increase up to the Legislature.

The Governor does propose some General Fund increases for the specific program enhancements as opposed to general support enhancements. Specific program enhancements must be used for their identified purposes and must be applied to specified programs in the campus or Chancellor's budget. This is different from general support enhancements which become part of the campus or central unrestricted budget. One proposed specific program enhancement is a $3 million General Fund increase in support for the Engineering and Technology Industry Council (ETIC). This increase would bring total 2009-11 General Fund support for the ETIC to $37.3 million. There are two other small General Fund specific program enhancements for Education and General Services. The first is $325,000 General Fund for the Climate Change Research Institute at OSU to create a climate change information clearinghouse and develop a water research roadmap. The other small specific program enhancement is $100,000 General Fund to continue the Governor's Post-Secondary Quality Education Commission in 2009-11 and complete work on a funding model for the whole of the education program area. This model would advise the Legislature on how much funding the whole education enterprise would need to achieve the specified goal of 40-40-20, which is 20% high school graduates, 40% certificate or community college degree, and 40% college graduates. General Fund to continue the work of the Commission is also proposed in the Community College and Workforce Development Department budget and Department of Education budget.

The Department also requested that it be allowed to retain interest earnings on non-General Fund balances in its accounts. Currently, all interest on DHED accounts held by the Treasurer accrues to the General Fund. Under this proposal interest on General Fund appropriations would continue to accrue to the General Fund while interest on all other cash balances like tuition payments would be kept by the Department of Higher Education. Similar proposals have been requested in the past, however, in part due to concerns over the lost General Fund, they were not approved by the Legislature. In order to offset the General Fund revenue impact of the change, the agency proposed, and the Governor agreed in his budget, to reduce General Fund expenditures by $13.9 million to offset lost General Fund revenues and add $13.9 million in Other Funds expenditure limitation for the interest now retained by DHED.

As stated previously, the Governor's proposed budget includes no additional General Fund to supplement projected enrollment growth in 2009-11 due to General Fund constraints. Instead, to generate General Fund savings, the Governor has proposed a 1.7% reduction from EBL to Institutional Management and Support, Academic Support, and Public Services. Expenditures in the Instruction, Research, and Student Services areas were held harmless. The 1.7% reduction to specific expenditure categories in Education and General Services equates to a loss of $14.4 million General Fund and elimination of 275 positions (186.60 FTE). Even with this General Fund reduction, the Governor's 2009-11 recommended budget for Education and General Services General Fund support is $5,467,734 (0.8%) more than the legislatively approved level as of December 2008. However it is $24,914,313 (3.4%) less than the 2009-11 essential budget level.

## DHED – Agricultural Experiment Station

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 54,668,604 | 60,022,981 | 62,415,272 | 64,034,043 |
| Other Funds | 10,132,334 | 14,195,213 | 14,373,247 | 14,779,848 |
| Other Funds (NL) | 63,994,297 | 60,993,391 | 59,600,312 | 60,862,255 |
| **Total Funds** | **$128,795,235** | **$135,211,585** | **$136,388,831** | **$139,676,146** |
| Positions | 672 | 818 | 820 | 818 |
| FTE | 524.35 | 642.65 | 643.49 | 642.65 |

### 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 Agricultural Experiment Station receives federal funds (reported as Other Funds) through the Hatch Act. Nonlimited gifts, grants, and donations provided $64 million for Agricultural Experiment Station research in the 2005-07 biennium.

### Budget Environment

In 2005, the Legislature rejected the Governor's recommendation for further reductions in General Fund support for the Agricultural Experiment Station. Although the Governor had recommended an additional $900,000 General Fund reduction from the 2003-05 biennium level, the Legislature increased General Fund by $1.6 million (or 3.2%) over the 2003-05 biennium level. The Agricultural Experiment Station received a 8.8% General Fund increase in the 2005-07 biennium and the 2007-09 legislatively approved General Fund budget is over 14% more than 2005-07 actual General Fund expenditures.

### Essential Budget Level

The essential budget level of $139.7 million total funds is $3.3 million (2.4%) more than the 2007-09 legislatively approved budget level as of December 2008. This increase is due to standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

The Governor's budget reduces the essential budget level by $4 million limited Other Funds to remove unused expenditure limitation from previous biennia for which there is no revenue source due to declining federal funding and elimination of one-time federal assistance. The 2009-11 budget also includes a $300,000 General Fund increase to continue funding for bee health research provided to the Department of Higher Education by Emergency Board in June 2008. This increase represents the full biennium roll-up of the June Emergency Board decision. Funding for the research into bee health was split between the Agriculture Experiment and Extension Service programs. As with the other programs that receive state support, the Governor proposed a 1.7% reduction in Institutional Management and Support, Academic Support, and Public Services related expenditures. This reduction equates to a loss of about $150,000 General Fund and 2 positions.

## DHED – Extension Service

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 39,412,723 | 43,384,123 | 45,158,836 | 46,806,525 |
| Other Funds | 22,322,031 | 24,621,182 | 25,573,409 | 26,090,312 |
| Other Funds (NL) | 6,800,360 | 6,916,460 | 6,704,603 | 6,841,774 |
| **Total Funds** | **$68,535,114** | **$74,921,765** | **$77,436,848** | **$79,738,611** |
| Positions | 579 | 602 | 602 | 602 |
| FTE | 396.24 | 425.71 | 425.86 | 425.71 |

### 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 also use the services of a large number of 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. Nonlimited funds include gifts and sponsored research financed by the federal government, private industry, and other private groups.

### Budget Environment

The Extension Service budget has had to implement cutbacks to bring ongoing expenses in line with ongoing Other Funds revenues. The Service had been financing ongoing costs through a reduction of fund balances. This level of expenditure was not sustainable. In 2005, the Legislature increased General Fund by $2.1 million (or 5.9%) over the 2003-05 biennium level. The Extension Service also received a 14.6% General Fund increase in the 2007-09 biennium over the prior biennium.

### Essential Budget Level

The essential budget level (EBL) for the Extension Service is $1,647,689 General Fund (3.7%) more than the 2007-09 legislatively approved budget as of December 2008. This increase is caused by standard increases in the cost of providing the same level of service as the previous biennium, including an inflation allowance for goods and services, inclusion of future merit increases for eligible employees, and higher costs for employee benefits like health care.

### Issues and Options

Limited Other Funds are reduced by $5.8 million from the level approved last session for which there is no revenue source because of declining local funding and anticipation of declines in federal assistance. The agency had asked for increased General Fund support to backfill some of this lost revenue, however no additional General Fund was recommended by the Governor due to constraints on General Fund revenues. Instead, the Governor proposes taking a $1.7 million General Fund reduction from the essential budget level for Institutional

Management and Support, Academic Support, and Public Services related expenditures. This reduction in funding would result in the elimination of 21 positions. The 2009-11 budget does include a $200,000 General Fund increase to continue funding for bee health research provided by the Emergency Board in June 2008. This increase represents the full biennium roll-up of the June Emergency Board decision. Funding for the research into bee health was split between the Agriculture Experiment and Extension Service programs.

## DHED – Forest Research Laboratory

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 5,536,652 | 6,613,937 | 6,979,652 | 7,013,106 |
| Other Funds | 7,132,157 | 8,690,865 | 9,739,643 | 9,059,797 |
| Other Funds (NL) | 25,847,830 | 23,528,122 | 21,956,365 | 22,449,835 |
| **Total Funds** | **$38,516,639** | **$38,832,924** | **$38,675,660** | **$38,522,738** |
| Positions | 258 | 281 | 281 | 281 |
| FTE | 208.99 | 228.41 | 228.41 | 228.41 |

### 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 Forest Research 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 approximately $22 million of the Forest Research Laboratory's expenditures.

### Budget Environment

In 1999, the Legislature approved a $1 million General Fund expansion of the Laboratory's research activities, increasing state program support by 25%. After this, General Fund support remained essentially flat at around $5 million for three biennia. In 2005, the Legislature increased General Fund by $320,000 (or 6.5%) over the 2003-05 biennium level. The Forest Research Laboratory also received a 12.1% General Fund increase in the 2005-07 biennium and a 26% General Fund increase in 2007-09.

### Essential Budget Level

The total funds 2009-11 essential budget level of $38.5 million represents a slight decrease (0.40%) from the 2007-09 legislatively approved budget levels. This decrease is due to lower projected Nonlimited Other Funds expenditures offsetting the allowed standard increases for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

The limited Other Funds budget is reduced by $3.8 million due to the sunset of the Forest Products Harvest tax. This reduction is proposed to be restored through legislation to extend the Forest Products Harvest tax. The Governor proposed making a 1.7% General Fund reduction from the essential budget level to Institutional Management and Support, Academic Support, and Public Services due to General Fund constraints. For the Forest Research Laboratory this equates to a $65,245 General Fund reduction and elimination of 3 positions.

## DHED – Sports Action Lottery

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Lottery Funds | 3,957,030 | 12,683,423 | 12,683,423 | 13,038,559 |
| **Total Funds** | **$3,957,030** | **$12,683,423** | **$12,683,423** | **$13,038,559** |

### 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.

The 2005 Legislative Assembly abolished the Sports Action lottery game which had previously been the revenue source for Lottery Funds, and instead dedicated 1% of net lottery receipts to the Department of Higher Education Sports Action Lottery program area. Both actions were effective beginning July 1, 2007.

### Revenue Sources and Relationships

All revenue through the 2005-07 biennium is from proceeds of the Sports Action lottery games. All revenue beginning in the 2007-09 biennium is from the 1% of net lottery receipts dedicated by statute to the Sports Action Lottery program area.

### Budget Environment

The Sports Action lottery game, which has funded program services since the 1989-91 biennium, was discontinued on July 1, 2007. Beginning with the 2007-09 biennium, program services are funded instead by 1% of net lottery receipts from the remaining lottery games, which are now dedicated to these programs by statute. The proceeds will continue to be distributed 88% for intercollegiate athletics and 12% for graduate student scholarships. The dedication of 1% of net lottery receipts should provide significantly more revenue for the Sports Action Lottery program area than the Sports Action lottery game did, however recent long-term lottery forecasts show some decline in revenues beginning in 2011-13.

### Issues and Options

Because the Sports Action Lottery program unit is funded through a formula using 1% of net lottery receipts, the 2009-11 essential budget level simply represents 1% of the total projected lottery receipts for 2009-11 based on the December 2008 lottery forecast.  The expenditure limitation of the Sports Action Lottery program is set equal to the projected revenue.

## DHED – Debt Service

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 30,238,004 | 39,384,932 | 39,384,932 | 65,669,908 |
| Lottery Funds | 5,673,310 | 13,298,809 | 13,298,809 | 19,846,756 |
| Other Funds (NL) | 116,201,560 | 139,120,227 | 139,120,227 | 161,014,279 |
| **Total Funds** | **$152,112,874** | **$191,803,968** | **$191,803,968** | **$246,530,943** |

### Program Description

This program reflects debt service expenditures for capital construction projects financed by bonds or certificates of participation. 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 such as the new sports arena at the University of Oregon. The Department has also used Article XI-F(1) bonds to construct certain instructional facilities as well, such as the new Law Center at the University of Oregon.

In 2005, the Legislature approved the use of Small-Scale Energy Loan Program (SELP) bonds to finance campus capital projects for the first time. SELP bonds are general obligation bonds that may be authorized for deferred maintenance capital construction project expenses that generate energy savings. The debt service on SELP bonds is paid with a combination of General Fund and campus operating funds (the latter are included in Other Funds [NL]). General Fund for SELP bond debt service is only appropriated to the extent that the debt service charges exceed the energy cost savings resulting from the deferred maintenance capital project. This is calculated on a project-by-project basis. For example: if the biennial debt service costs on the SELP bonds issued for a capital construction project total $400,000 per biennium, and the campus's biennial energy savings generated by the project only total $300,000 per biennium, then the state would appropriate $100,000 General Fund for SELP bond debt service for a capital project. The remaining $300,000 of debt service would be paid by the campus with Other Funds that are not limited in the state budget, and the campus would essentially finance the payment with its utility cost savings.

### Budget Environment

Debt service is a fixed cost that must be paid to avoid defaulting on the bonds. The General Fund component includes the debt service payment on Article XI-G bonds, and the debt service payments on SELP bonds to the extent they exceed campus energy savings. 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 are paid by auxiliary revenues (including the Student Building Fee), and in some cases by university general operating budgets. Debt service payments on certificates of participation (COPs), issued primarily to procure information system projects, are also not limited and are paid with Other Funds.

### Essential Budget Level

State-paid (General Fund plus Lottery Funds) debt service costs are budgeted for a total $85.5 million, a $32.8 million (or 62%) increase over the 2007-09 biennium level. The very large rate of growth results from the high level of state-supported debt approved in the 2007-09 biennium capital construction budget. Only in 2009-11 is the state beginning to pay debt service for projects approved in the 2007 session. Historically, debt service costs on capital construction projects have always initiated in the biennium subsequent to the biennium of the project approval. In a break with prior practice, the 2007 Legislature authorized the issuing of Lottery bonds for new projects early enough in the biennium to incur debt service cost before the biennium ends. $6.2 million of Lottery Funds were added to cover debt service due in the 2009-11 biennium on the $51 million of new Lottery bonds for deferred maintenance, capital repair, and code compliance and safety projects that is included in the 2009-11 essential budget level for the capital construction program.

### Issues and Options

While the Governor's budget proposed $240.9 million of state-supported debt (Article XI-G bonds, Lottery bonds, and SELP bonds) for OUS capital construction projects, debt service was included in the 2009-11 budget only for the $51 million in Lottery Bonds for capital repair projects. Debt service costs on all other proposed capital construction projects are proposed to be initiated in the biennium subsequent to the biennium of the project approval, or 2011-13. Estimated state paid debt service for the capital construction expenditures recommended by the Governor is around $51 million per biennium assuming all debt except the Lottery Bond funding for capital repair is sold in Spring 2011.

## DHED – Capital Construction

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 14,796,329 | 28,327,500 | 28,327,500 | 0 |
| Other Funds | 548,267,057 | 533,024,978 | 784,343,978 | 51,400,000 |
| **Total Funds** | **$563,063,386** | **$561,352,478** | **$812,671,478** | **$51,400,000** |

### 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

Funding for capital construction comes from a broad variety of sources. These sources can be classified, however, into two broad categories: state-supported and self-supported. State-supported revenues include General Fund and debt (i.e., bond or COP proceeds) that is paid with state discretionary funds (General Fund or Lottery Funds). Self-supported capital construction is financed by debt that becomes an obligation to the campus or OUS system budget, or by other campus Other Funds, including donations, gifts, grants, and cash. The state-paid debt includes debt on Article XI-G bonds, on Lottery bonds, and a portion of the debt on Article XI-J bonds. Self-paid debt includes debt on Article XI-F(1) bonds, most debt on COPs, and a portion of the debt on Article XI-J bonds. Traditionally, self-paid debt is used for capital construction relating to the portions of the Department's operating budget that do not receive state support, such as auxiliary activities. State-supported debt is used for academic facilities such as classrooms, offices, and libraries. The activities in these facilities are generally the Education and General types of operations that state General Fund and Lottery Funds help to support.

Historically, 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. Addressing deferred maintenance, and academic modernization and repair – which does not include construction or major renovation projects – is also financed with General Fund and Article XI-G bonds. More recently, these facilities have been financed generally 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, the use of Article XI-F(1) bonds has been expanded to instructional buildings (the new Law Center at the University of Oregon and the Fourth Avenue Building at Portland State University are examples).
In recent biennia, the state has added additional financial instruments to pay for capital construction. In 2001, the Legislature approved the use of Lottery Bonds to finance campus capital projects for the first time, and in 2005, the Legislature approved using Article XI-J bonds, also known as Small-Scale Energy Loan Program (SELP) bonds, to finance costs relating to energy saving components of the capital projects.

### Budget Environment

The 2007-09 biennium budget greatly expanded state support for capital construction. The combined amount of state support, $233.5 million, is an 84% increase over the $126.9 million authorized in the 2005-07 biennium, and is approximately 4.3 times the level authorized the biennium before that. The 2007-09 capital construction budget also included a policy directive to OUS relating to Article XI-G bond-funded projects. This directive, which was first included in the 2005-07 capital construction budget, directed the Department to end the practice of soliciting donations for capital projects, with the intent of using Article XI-G bonds in the project's funding, prior to obtaining legislative authorization to do so. This addresses situations where campuses have raised donations first and then asked for the state to match them with Article XI-G bonds only afterwards. State-supported debt is repaid with state discretionary funds – General Fund and Lottery Funds.

### Essential Budget Level

As is practice when calculating an essential budget level for capital construction, all expenditures related to capital projects are removed at EBL because capital projects are by nature one-time expenditures. Once construction is complete there are no ongoing construction costs and all maintenance expenditures are budgeted in the program unit utilizing the new building. The exception to this rule for the Department of Higher Education is the continuance of lottery bond financed capital repairs. The 2007 Legislature authorized the sale of $50 million in Lottery Bonds to address capital repair and deferred maintenance needs. This action discontinued the past practice of financing ongoing capital repair with a combination of General Fund and Article XI-G bonds. When the Lottery Bond funding mechanism was approved it was agreed that the $50 million would be included as part of the base capital construction budget. This amount was increased by $1.4 million to reflect inflation adjustments.

### Issues and Options

The Governor's recommended budget supports 36 specified capital construction projects, and includes general support for deferred maintenance and capital repair. The Governor's proposed capital construction budget includes $240.9 million of state-supported debt (Article XI-G bonds, Lottery bonds, and SELP bonds) for OUS capital construction projects. State-supported debt is repaid with state discretionary funds – General Fund and Lottery Funds. The Governor also proposes using $25 million in COPs that the state would repay as part of the financing plan for a $250 million inter-institutional South Waterfront Life Sciences Facility. Debt service costs for these bonds is projected to total around $51 million of General Fund and Lottery Funds per biennium, beginning in the 2011-13 biennium when these costs fully phase in. These costs would continue for the term of the bonds, which would generally cover 10 or 15 biennia (20-year terms or 30-year terms).

## DHED – Other Services (Nonlimited)

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds (NL) | 817,970,440 | 906,916,420 | 910,150,345 | 931,866,473 |
| **Total Funds** | **$817,970,440** | **$906,916,420** | **$910,150,345** | **$931,866,473** |
| Positions | 2,106 | 1,903 | 1,903 | 1,903 |
| FTE | 1,808.18 | 1,633.99 | 1,633.99 | 1,633.99 |

*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 Other Funds for other services 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) student aid and loan repayments. The scope of self-support instruction activities was reduced during the 1999-2001 biennium, when the Legislature provided 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 Services, 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. Nearly 50% of all expenditures are in Nonlimited programs. This figure refers to all Nonlimited funds in the budget and not merely to the funds identified in this program area.

### Issues and Options

The essential budget level anticipates an Other Services (Nonlimited) expenditures increase of 2.4% from 2007-09 legislatively approved level as of December 2008. 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 – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 62,791,959 | 98,732,175 | 102,867,354 | 142,354,225 |
| Lottery Funds | 253 | 9,879,176 | 9,879,176 | 8,960,475 |
| Other Funds | 3,721,550 | 5,658,268 | 5,768,242 | 7,314,368 |
| Federal Funds | 2,063,925 | 2,104,655 | 2,104,655 | 1,791,006 |
| Other Funds (NL) | 8,960,739 | 9,855,788 | 9,855,788 | 11,341,276 |
| **Total Funds** | **$77,538,426** | **$126,230,062** | **$130,475,215** | **$171,761,350** |
| Positions | 24 | 34 | 34 | 31 |
| FTE | 22.75 | 31.91 | 31.91 | 30.16 |

### Agency Overview

The mission of the Oregon Student Assistance Commission (OSAC) is to assist Oregon students and their families in attaining a post-secondary education and to enhance the value, integrity, and diversity of Oregon's college programs. The Commission administers the following programs:

- Oregon Opportunity Grants (OOG) program makes awards available to students from families earning up to $70,000 per year based on a Shared Responsibility Model (SRM). Prior to implementing the SRM in 2008, OOG had been limited to students from families with incomes at 55% or less of the current median family income. The OOG accounts for approximately 95% of the 2009-11 essential budget level.
- Scholarship Services administers approximately 400 public and private scholarship and grant programs, including partnerships with the Oregon Community Foundation and the Ford Family Foundation, Oregon National Guard, Robert F. Byrd program, JOBS Plus, Rural Health Services and Nursing Services Loan Repayment programs, and the Chafee Educational and Training Scholarship for former foster youth.
- Access to Student Assistance Programs in Reach of Everyone (ASPIRE) program is not a financial aid program, but instead it works to increase access to post-secondary education. ASPIRE trains more than 1,400 volunteers to serve as mentors to high school students with information regarding college and career choices, preparation, and financial aid for post-secondary education. The program served students in 112 high schools during 2007-08.
- Office of Degree Authorization evaluates and approves proposals for the establishment of new degree programs in Oregon and conducts reviews of authorized programs.

### Revenue Sources and Relationships

The Commission receives Lottery Funds based upon one-quarter of the earnings of the Education Stability Fund. Revenue from this source is affected when the state uses the corpus of the Education Stability Fund (ESF).

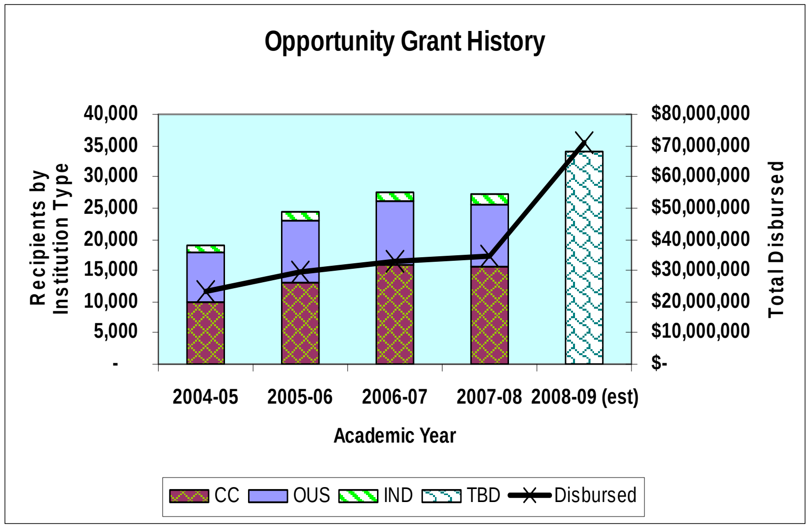
Other Funds revenues are received from private award donations, charges for administering privately funded scholarship programs, and fees for reviewing degrees from private post-secondary institutions. Other Funds payments for administrative expenses (personnel costs, services and supplies) are limited in the budget. Most Other Funds payments for student aid (e.g., Private Award payments, JOBS Plus payments) are Nonlimited.

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.

### Budget Environment

In 2005, the Legislature substantially increased Opportunity Grant funding to allow all eligible students to receive awards independent of their application date. State funding of Opportunity Grants was increased to $75.7 million, an increase of $31.7 million (or 72%) over the 2003-05 biennium level. The Legislature directed the agency to use this additional funding to award Opportunity Grants to all qualified full-time students at community colleges or Oregon University System institutions beginning with the 2005-06 academic year, and to expand this to all qualified full-time students at private institutions the following year. The funding also expanded the Opportunity Grant program to part-time students beginning with the 2006-07 academic year.

In 2007, the Legislature further modified the program by authorizing the Shared Responsibility Model (SRM) and substantially increasing funding to $103.6 million, or a 36.8% increase over the 2005-07 biennium, which included more than doubling funding for grants in the second academic year of the biennium.  While leaving detailed administrative authority with OSAC, the Legislature did outline intent and preferences for implementation which included protecting current recipients from harm by the implementation of SRM; students with the greatest financial need should be the highest priority; grants should be expanded to reach more students in families in the low-middle income range; and there should not be a cut-off date for applications.




With the implementation of the SRM, the Oregon Student Assistance Commission (OSAC) sets grant awards equal to the difference between its determination of the cost of education (which includes living expenses as well as tuition and fees) and the student's ability to pay.  The student's ability to pay is based on an amount that varies with the student's financial resources and qualifications for federal student aid (the family share and the federal share).  As a result, award amounts will vary by income level and family size.

According to the U.S. Department of Education, FAFSA filings through June 30, 2008 have increased nationally by 16.3% for the 2008-09 aid year over the 2007-08 aid year.  In September 2008, OSAC reported to the Emergency Board that it was experiencing a similar trend with the latest projection of FAFSA filings for 2008-09 to exceed 2007-08 by 11.2%.  The Emergency Board authorized an additional $4 million General Fund to support the program.  Despite having received additional funding, OSAC temporarily froze grant awards on November 30 due to increased disbursements and a $1.1 million General Fund across-the-board allotment reduction to balance the statewide budget.

Based on current estimates, 38,500 recipients have received disbursements for the fall term in the 2008-09 academic year versus 27,354 recipients for the entire 2007-08 academic year, or a 40.7% increase.  Average award amounts increased to $2,115 from $1,484 (42.5% increase) for community college recipients and to $2,332 from $1,745 (33.6% increase) for Oregon University System recipients.  OSAC is developing grant reduction options in order to stay within the legislatively approved budget.

The ASPIRE program also received additional funding in 2007.  For the first time, General Fund dollars were provided to offset a reduction in grant funds and to finance expansion of the program to 115 from 83 high schools.  The funding added to the payments to local school districts which finance half the cost of ASPIRE school coordinators who recruit and supervise volunteers.  School districts have to match these moneys with their own funds to finance the coordinators.  The AmeriCorps and Ford Family Foundation grants that have supported the program since inception will expire at the end of the 2007-09 biennium.

### Essential Budget Level

The essential budget level of $171.8 million total funds reflects an increase of $41.3 million (31.6%) over the 2007-09 legislatively approved budget including an increase of approximately $39.1 million General Fund to support the SRM expansion authorized in the prior biennium; a phase-in of $0.12 million General Fund to complete the transfer of the student child care program from the Department of Human Services; and an increase to the Gear-Up scholarship program by $1.57 million Other Funds.  It also includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

During the budget review process in 2007, legislative members noted that there was no specific funding level required to implement the SRM, rather the approved funding level would determine the award sizes and the number of students served. OSAC has implemented three levels of cost controls in an attempt to stay within the approved level of funding including: a) award caps (currently $3,200 for full-time and $2,600 for part-time) and an award minimum of $400, b) income caps (up to $70,000 per year), and c) pro-rata adjustment (currently 19%) added to the effective family contribution. At the essential budget level of $146 million in state support, OSAC estimates between 30,500 and 34,500 students could be served each year of the biennium with an average award of up to $2,700 for full-time and $700 for part-time students. The Governor's recommended budget (GRB) adds $15 million General Fund and anticipates no changes to the cost controls in the first year of the biennium. However, fewer students or lower awards would be necessary during the second year of the biennium if additional dollars beyond the GRB were not added. Given the continued increases in the number of FAFSA filings and limited statewide resources, affordability for students versus program affordability for the state will require significant discussion.

With the elimination of the AmeriCorps and the Ford Family Foundation grants at the end of the 2007-09 biennium which support ASPIRE, the agency request and Governor's recommended budgets include a reduction of $0.9 million Other Funds and three positions. Further the GRB transferred $0.15 million General Fund from payments to school districts to agency operations. OSAC is currently holding two positions vacant in the program and evaluating how it might reconfigure the delivery of services. However, ASPIRE program reductions from the current level of 115 high schools to 60 high schools would be likely if General Fund dollars are not added to the GRB.

**State Support (General Fund + Lottery Funds)**

| | 2007-09 LAB | 2009-11 EBL | % Change | 2009-11 GRB | % Change (EBL) |
|---|---|---|---|---|---|
| Opportunity Grant | $ 107,569,803 | $ 146,040,994 | 35.8% | $ 161,040,994 | 10.3% |
| Rural Health Services Program | 458,412 | 471,248 | 2.8% | 471,248 | 0.0% |
| Nursing Services Program | 369,768 | 380,122 | 2.8% | 380,122 | 0.0% |
| ASPIRE (portion to schools only) | 303,000 | 311,484 | 2.8% | 162,381 | -47.9% |
| Student Child Care | 884,991 | 1,002,600 | 13.3% | 1,002,600 | 0.0% |
| Agency Operations | 3,160,556 | 3,108,252 | -1.7% | 3,257,355 | 4.8% |
| **Total:** | **$ 112,746,530** | **$ 151,314,700** | **34.2%** | **$ 166,314,700** | **9.9%** |

## Teacher Standards and Practices Commission – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 4,174,259 | 4,582,907 | 5,090,324 | 4,661,306 |
| **Total Funds** | **$4,174,259** | **$4,582,907** | **$5,090,324** | **$4,661,306** |
| Positions | 22 | 24 | 24 | 21 |
| FTE | 21.50 | 23.50 | 23.50 | 20.50 |

### Agency Overview

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, school counselors, and school psychologists;
- 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 64,000 educators in Oregon who hold 68,700 current licenses. Slightly fewer than one-half of these licensees were employed in Oregon's public schools in 2006-07. All student teaching candidates, 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.

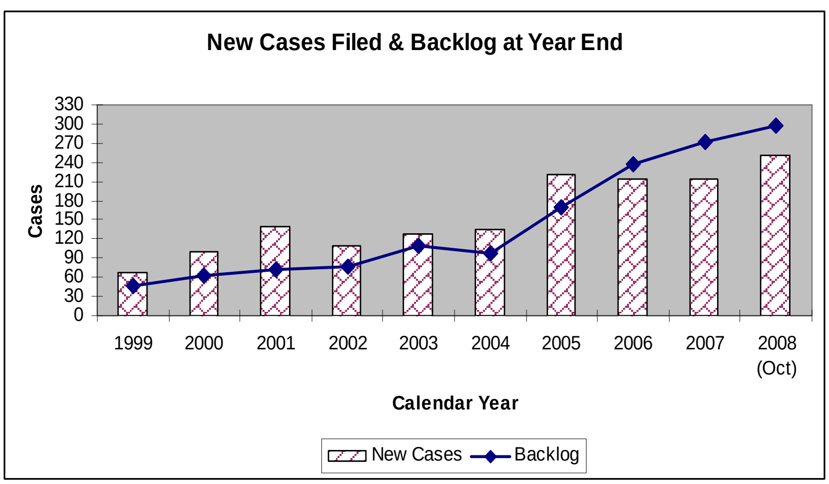
### Revenue Sources and Relationships

The agency is entirely supported by Other Funds from licensing and other fees paid by the regulated professionals with the life of a license ranging from three to five years. The last licensure increase occurred in January 2006 when the fee increased from $75 to $100, the maximum allowed by statute. There are no fee increases proposed for the 2009-11 biennium.

Other fees include $62 for fingerprinting, $75 for registration of charter school educators, $120 for applicants graduating from other than an approved Oregon educational program, $99 for an expedited license, $150 for reinstatement of a revoked license (in addition to the $100 application fee), and an alternative assessment fee of $100. The alternative assessment is a process to determine professional eligibility of applicants who are unable to pass traditional licensure tests. The fee for a duplicate license is $20 and late fees are $25 per month to a maximum of $200.

### Budget Environment

While the licensure volume remains relatively constant, the agency continues to experience an increase in the number of new disciplinary complaints/cases. Superintendents or chief charter school administrators who discover ethical, criminal, or professional misconduct by licensed educators are required to report the misconduct to the agency. The Commission is required to investigate all complains received from educators or the public regarding possible misconduct.




Through October 2008, 252 new cases were filed and the agency anticipates the volume could reach 270 by year end. This volume would reflect a 26% (56 cases) increase over calendar year 2007.

Although additional, limited duration investigative positions were added during the 2007-09 biennium, the backlog of cases continued to increase during most of the biennium. The backlog as of October 2008 totaled 298 cases, down from the year's peak of 318 cases.

### Essential Budget Level

The essential budget level totals $4,661,306 Other Funds for a decrease of $429,018 (8.4%) from the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The significant decrease reflects the elimination of six limited duration positions approved for the 2007-09 biennium; five of these positions supported investigations for disciplinary cases and one position for information systems support.

### Issues and Options

The agency's beginning cash balance for the 2009-11 biennium is estimated at $1.2 million, or approximately 26%, of the essential budget level expenditures. However, the increased investigative efforts during the 2007-09 biennium drove operating expenditures to exceed current revenues. If enhanced investigative efforts are continued into the 2009-11 biennium, the agency's cash balance may drop to or below the minimum recommended balance (the equivalent of three months operating expenditures).

In its 2009-11 agency request budget, the TSPC proposed the addition of two positions (1.50 FTE investigators and 1.00 FTE office specialist) to address the backlog in discipline cases for a total cost of $336,656 Other Funds. These positions would replace some of the limited duration positions approved in 2007-09. Further, the TSPC proposed the addition of two positions (1.00 FTE Information Systems Specialist 8 and 1.00 FTE Research Analyst 4) to provide system and customer service support for a total cost of $416,349 Other Funds. The Governor's recommended budget includes all of these proposals.

# HUMAN SERVICES

## Commission for the Blind – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 1,233,746 | 1,561,103 | 1,602,398 | 1,710,148 |
| Other Funds | 2,786,193 | 2,436,128 | 2,497,700 | 2,517,386 |
| Federal Funds | 11,364,345 | 11,300,402 | 12,157,237 | 11,448,361 |
| **Total Funds** | **$15,384,284** | **$15,297,633** | **$16,257,335** | **$15,675,895** |
| Positions | 47 | 50 | 50 | 51 |
| FTE | 44.60 | 47.24 | 47.24 | 47.60 |

### Agency Overview

The Commission for the Blind'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. The Commission is a consumer-controlled, seven-member board appointed by the Governor. The agency's programs are focused on two main objectives: employment and independence.

***Rehabilitation Services*** is the agency'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 ***Orientation and Career Center*** is a residential teaching center that provides counseling and training for persons with recent or prospective loss of sight. Training includes independent living skills; the use of Braille and other adaptive technologies; and vocational skills.

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. Oregon enacted similar legislation in 1957.

***Industries for the Blind*** is a work activity and vocational program operated in conjunction with Multnomah County. The program serves clients who are developmentally disabled, many of whom are also blind.

### Revenue Sources and Relationships

The agency is primarily funded with federal funds. General Fund and the agency's Other Funds provide the required match. Vocational Rehabilitation basic support (Section 110) funds represent the largest source of federal funding.

Other Fund revenue sources include payments from Multnomah County; cooperative agreements with school districts, the Department of Education, and non-profit rehabilitation providers; business enterprise vendor assessments; and the sale of goods and services.

The agency also maintains a Bequest and Donation Fund. Prior to 2003, the agency only used the interest earned on the fund to support programs. In November 2003, in an effort to avoid program reductions, the agency began using donation funds to backfill a reduction in General Fund support.

### Budget Environment

The federal Rehabilitation Act of 1973, as amended, prescribes what services are provided and the eligibility for those services. The number of people served is a function of available revenue. Demand for services is expected to increase as the senior population continues to grow, and, with it, age-related blindness.

### Essential Budget Level

The essential budget level for the Commission for the Blind is $418,560 total funds less than the 2007-09 legislatively approved budget as of December 2008. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. Further, it includes reductions in expenditures to match the Commission's federal revenue, which is not expected to grow as rapidly as costs have. One Vocational Rehabilitation Counselor (1.00 full time equivalent) position, one Rehabilitation Instructor for the Blind (1.00 full-time equivalent) position in Portland, and one Rehabilitation Instructor for the Blind (1.00 full-time equivalent) position in Medford are eliminated in the Commission's essential budget level. Services and Supplies and Other Special Payments are also reduced in the Commission's essential budget level. The 2007-09 legislatively approved expenditure level includes $959,702 total funds ($41,295 General Fund, $61,572 Other Funds and $856,835 Other Funds) in special session and Emergency Board actions during Fiscal Year 2008.

### Issues and Options

In its 2009-11 agency request budget, the Commission for the Blind asked for more resources and staffing to increase agency server space, reclassify several management positions, purchase new technology, add one permanent Operations/Policy Analyst 2 (1.00 full-time equivalent) position, and add three permanent Rehabilitation Instructor for the Blind (3.00 full-time equivalent) positions. Further, the Commission asked for General Fund to backfill funds due to their rent and revenue shortfall and to restore reductions to their essential budget level. The cost for these improvements would be $1,377,056 General Fund and four positions (4.00 FTE). The agency believes these additions would increase its ability to save more client audio and visual files, address the needs of an aging population and retirees, collect information on key state and federal performance measures, provide the technology specifically geared to the blind and visually impaired, and provide training on adaptive equipment, orientation, mobility, and independent living skills.

The Governor's recommended budget funds the agency below the calculated essential budget level due to the decline in the agency's federal revenue. Further, the Governor's recommended budget does not include any of the agency request enhancements.

Reduction options for the Commission for the Blind focus primarily on staffing and services because the Commission's budget revolves around these two areas, the remainder of the budget categories are fixed, and most of the Commission's programs are federally mandated and can not be eliminated. Because the agency is funded in a state/federal partnership, reducing state funding resources results in a reduction in the Commission's federal funds.

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

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 46,119,756 | 60,131,801 | 60,263,113 | 62,078,040 |
| Other Funds | 18,320,733 | 23,451,754 | 23,487,919 | 21,706,708 |
| Federal Funds | 2,421,701 | 4,500,267 | 4,522,936 | 4,864,514 |
| **Total Funds** | **$66,862,190** | **$88,083,822** | **$88,273,968** | **$88,649,262** |
| Positions | 32 | 34 | 34 | 32 |
| FTE | 28.77 | 30.92 | 30.92 | 29.67 |

### Agency Overview

The State Commission on Children and Families' mission is to improve the lives of children and families through coordinated state and local action. The agency builds statewide public/private partnerships, leverages and distributes resources, monitors program outcomes, and provides technical assistance and support to both state agencies and local commissions. The broader Oregon Commission on Children and Families includes the State Commission and 36 local county commissions on children and families. The Commission system develops and carries out local coordinated comprehensive plans to provide a system of services and supports for children and families, promote system integration, and provide leadership in early childhood efforts.

The 17-member State Commission and state agency staff supply policy direction, program information, training, and technical assistance in planning and program evaluation. The Commission also distributes state and federal funds to counties. It monitors and provides oversight of these funds. Counties use these funds locally for designated programs and local investments in services to children and families.

### Revenue Sources and Relationships

General Fund makes up about 70% of this budget. Part of the General Fund spent in this agency is used to meet state match requirements for federal funding, most notably federal Maintenance of Effort requirements for the Temporary Assistance to Needy Families program administered by the Department of Human Services (DHS). Other General Fund is used as state match for federal Medicaid and Safe and Stable Families (Family Preservation and Support) funds.

Other Funds revenue supports about 24% of the Commission's budget. Most of the Other Funds is federal money that comes to the Commission from other state agencies. DHS will transfer $13.9 million in Title XX Social Services Block Grant and 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 relief nurseries. Title IV-B (2) funds are used for grants to counties and tribes, and for Healthy Start program support. The Employment Department will transfer $3.8 million in Child Care and Development Fund (CCDF) revenue for local commissions to expand access to quality child care. The Commission also uses General Fund to match federal Title XIX Medicaid funds through DHS for qualified services in local Healthy Start programs, and then distributes the Medicaid revenues as Other Funds to counties for Healthy Start programs. The 2009-11 budget anticipates $4.6 million in these matching funds, although this could be less if the Healthy Start program's General Fund support is reduced.

Federal Funds make up about 5% of the total budget. These come primarily from the U.S. Department of Justice, Office of Juvenile Justice and Delinquency Prevention (OJJDP), to support juvenile crime prevention efforts. The juvenile crime prevention program and funding were moved to this Commission from the Criminal Justice Commission in 2005. The Commission expects to receive about $3.9 million in OJJDP funding for 2009-11. The Commission will also receive about $200,000 in a federal grant for Positive Youth Development activities, although this grant will end during the 2009-11 biennium.

The Commission's budget does not include revenues leveraged by local commissions to support local programs and activities. From July 2005 through December 2006, local commissions leveraged over $30 million in cash and in-kind resources, excluding volunteer hours. For July 2007 through December 2008, with fewer than half of the counties reporting for October through December 2008, counties report leveraging over $18 million.

### 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 serve 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. This bill required a coordinated, comprehensive planning process for all early childhood, alcohol and drug, and juvenile services. Counties developed these plans, put the programs in place, and track local outcomes. Counties updated their local plans in 2008 to reflect critical issues that face children, youth, and families, and identify strategies and investments for solutions to address those issues.

State agencies are to review and consider the local plans as they look at their program operations and budget requests. An on-going collaboration of state and local agencies – Partners for Children and Families (PCF) – is involved in planning, plan review, and implementation, and supporting services for children and families across the state.

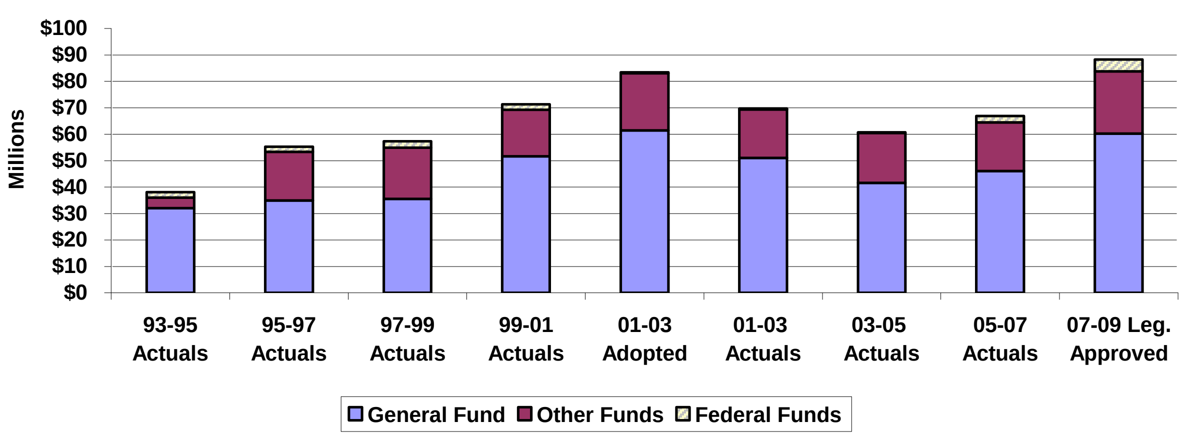
The State Commission distributes state and federal funding to help communities address the priorities identified in the local comprehensive plans. The Local Basic Capacity grant funds local commission staff and overhead, and on-going support for the local coordinated comprehensive plan. The Great Start grant; the Children, Youth, and Families grant; the Youth Investment grant; the juvenile crime prevention grant; Family Preservation and Support; and Child Care and Development resources all fund investments in programs and services as determined by local communities through the local plans. Other designated program funding supports the Healthy Start home visitation program, Court Appointed Special Advocates (CASA), relief nurseries, and initiatives for Community Schools and Runaway and Homeless Youth. State staff provide support for the State Commission, coordination of the Commission's programs and initiatives, technical assistance to counties, program monitoring, data collection and reporting, and central administrative functions.

Since 1999, the Legislature has expanded the Commission's responsibilities on several fronts:

- The Oregon Children's Plan in HB 3659 (2001) created an early childhood policy framework for a system of voluntary screening, referral, and supports for children ages 0 to 8 and their families;
- HB 2082 (2001) directed the Commission to help develop and implement community schools;
- HB 2202 (2005) required a statewide assessment and planning for services to homeless and runaway youth and their families; and
- HB 3029 (2005) transferred responsibility for juvenile crime prevention programs from the Criminal Justice Commission to the Commission on Children and Families.

These added responsibilities have not always been accompanied by increased funding. As the following chart shows, although the Commission's 2001-03 legislatively adopted budget was over $80 million total funds, the budget was reduced significantly in the 2002 special sessions, and did not return to its original 2001-03 level until the current biennium.

**Commission on Children and Families Budget History**



The reductions earlier this decade affected the Healthy Start home visitation program; locally-invested county program funds and local staffing grants; relief nurseries and CASA funding; and funding for community one-call centers and referral lines, physician training, and program evaluation for the Oregon Children's Plan. First Steps violence prevention, family resource centers, and Together for Children programs were eliminated. The 2003 Legislature abolished one-third of the Commission's technical assistance and administrative staff positions. After these actions, the agency's 2003-05 General Fund budget was almost 30% less than its original 2001-03 General Fund budget. A net budget increase in 2005-07 was largely due to the transfer of juvenile crime prevention programs from the Criminal Justice Commission to this agency, and funding for two new relief nurseries. The 2007 Legislature added funding for local commission support, Healthy Start, juvenile crime prevention grants, CASA, relief nurseries, Community Schools and Homeless and Runaway Youth initiatives.

Limited program funds and support services have affected both the state Commission's ability to develop its statewide programs as directed by the Legislature, and counties' capacity to carry out their local comprehensive plans. One example is the Healthy Start home visitation program, which provides support for new families during the pre-natal period through age 3. This is the Commission's single largest program, at $22.6 million General Fund and $4.8 million Other Funds for the 2007-09 biennium. Previous evaluations of the program have shown that child maltreatment is lower for at-risk families who receive Healthy Start services than for families who do not. However, the Healthy Start program is now expected to serve only about 45% of the estimated 18,000 first-birth families in the state each year, rather than the 80% level originally expected by the 2001 Legislature. This is due to both funding levels and a change in program focus over time. The program was originally designed as a "universal" program to offer services to all first-birth families. The 2005 Legislature encouraged the Commission to target state program funds to high-risk first-birth families, with services to low-risk families provided by volunteer services or from other funding sources.

At $13.6 million total funds, overall funding for local staffing and planning (the Local Basic Capacity Grant), is about half that of the Healthy Start program. By rule, each local commission is to employ 2.00 FTE to support the local work, but historically state funding has not been enough to pay for 2.00 FTE. Funding was increased by $3 million in the 2007-09 budget to cover 2.00 FTE for each county, but the Commission reports that without a further increase in the 2009-11 budget, rising county costs will again exceed the amount available to counties.

Juvenile crime prevention grants have been reduced significantly over the past decade. The 2001 Legislature appropriated $17.7 million General Fund for the grants, but that funding was later reduced. The 2007 Legislature added back $2 million General Fund, bringing the 2007-09 General Fund budget to $8.6 million.

Federal law requires juvenile and family courts to appoint a *Guardian Ad Litem* for a child in cases of child abuse or neglect. However, state funding for the CASA program continues to be much less than needed to support CASA volunteers for all eligible children. Although the 2007 Legislature added $1 million General Fund to build local program capacity, and private foundation grants supplemented the state support, the $3.2 million total funds in the Commission's budget allows local programs to serve only about 34% of the children and youth who need a CASA volunteer.

Relief nurseries provide comprehensive family services for at-risk families. There are currently 11 programs operating in eight Oregon counties, with $4.8 million total funds budgeted for the 2007-09 biennium. Over the past several biennia, the Legislature has added some funding to support new relief nurseries, but more resources would allow existing nurseries to expand their services and support start-up of additional programs in ready communities.

### Essential Budget Level

The essential budget level for the Commission is $1.8 million General Fund (3%) and $375,294 total funds more than the 2007-09 legislatively approved budget as of December 2008. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. One-time costs approved for data system work and for evaluation of the relief nurseries program during the 2007-09 biennium are not included in the essential budget level.

### Issues and Options

The Commission tied its 2009-11 agency request budget to five long-term initiatives: enhance the early childhood system; link communities and schools; implement the 36 local coordinated comprehensive plans and the state comprehensive plan; support healthy children, youth and families; and maintain safe, healthy, and stable systems for Oregon's communities. It further defined five more targeted priorities: comprehensive health care for children, early childhood supports, predictive risk factors (adolescent problems), family addictions, and child safety. The Commission proposed adding $12.2 million General Fund to support local system development and implementation of local comprehensive plans through expanded funding for the Great Start, Children, Youth and Families, and juvenile crime prevention grants; for Basic Capacity grants to local commissions; and for state staff who provide technical assistance to counties. It also proposed an additional $14.9 million General Fund for Healthy Start, relief nurseries, CASA, Homeless and Runaway Youth, and Community Schools, citing this as a strategic investment in programs and initiatives proved to be effective in improving success rates for Oregon's children and families.

The Governor's recommended budget for the Commission for the 2009-11 biennium is $55.9 million General Fund and $82.4 million total funds. This is $6.2 million (10%) General Fund and $6.2 million (7%) total funds below the calculated essential budget level for the 2009-11 biennium, and $4.4 million (7.3%) General Fund and $5.8 million (6.6%) total funds below the 2007-09 legislatively approved budget as of December 2008. The Governor's budget includes none of the Commission's requested program enhancements, but reflects an across-the-board reduction in every General Fund program and activity on a pro-rata basis. This includes administrative support reductions equal to two positions (1.50 FTE). The across-the-board reductions range from $3,180 for Positive Youth Development to $2.3 million in Healthy Start. However, the Commission's Budget Work Group is reviewing the across-the-board reductions and is expected to present an alternative reduction plan to the 2009 Legislature. The budget also anticipates no cost of living increase in the transfer of Child Care Development Funds from the Employment Department, so this will likely affect the level of funding distributed to the counties for child care quality and accessibility initiatives.

As the Legislature considers the agency's 2009-11 budget, there are a number of factors to be weighed. Some of these factors are noted below.

- The primary focus of the Commission and its partners is prevention and wellness; as such, the work of the Commission is sometimes perceived to be less immediately critical than other state "safety net" programs.
- As currently structured, the Commission is the state component of a broader system that depends on local, county-based commissions and partners to operate effectively. The system is based on local flexibility to address local priorities within broader state guidelines, and leverages significant money and resources locally. However, the system also requires state support to carry out its work and address the issues identified in the local comprehensive plans.
- With fewer state and local resources, it will be more difficult to leverage other community funds or support innovative services for children and families. For example, the Commission has worked with the Casey Family Program and the Department of Human Services on a project to invest Casey Family Program resources to improve outcomes for children in foster care. Commission staff invested considerable time to bring the project to Oregon, and eight counties have been selected to begin the work. If successful, the Commission expects to replicate the project statewide, but limited resources could hamper the success and scope of this project, and other similar efforts in the future.
- The Commission has worked with the counties to improve local investments by focusing on evidenced-based programs and programs with demonstrated positive outcomes. The system also includes statewide programs such as Healthy Start and CASA, the relief nursery program that is now operative in only part of the state, and other, newer program initiatives for Runaway and Homeless Youth and Community Schools. Across-the-board reductions will affect the local infrastructure and flexible local funding as well as the statewide programs, and touch long-standing legislative priorities as well as newer ones.
- Funding for the Commission and its partners is largely General Fund, with some flexible Other Funds. Some General Fund in this budget is counted towards federal maintenance of effort requirements in other programs, such as for the Temporary Assistance for Needy Families (TANF) block grant; reductions here can affect the state's ability to meet those requirements. The flexibility of some of the Other Funds means the Legislature could redirect some Other Funds in the Commission's budget from their current program uses to other uses within this or the Department of Human Services budget, if it were determined that the current program uses were a lower priority.

As the budget is being reviewed, the Legislature will need to weigh the commission system as whole, local comprehensive plan priorities, statewide program policies and direction, and all funding streams available to the Commission, within the context of the broader state budget.

## Department of Human Services (DHS) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 2,707,105,503 | 3,333,145,661 | 3,352,885,424 | 4,232,552,182 |
| Lottery Funds | 9,191,451 | 13,160,998 | 13,160,998 | 13,712,288 |
| Other Funds | 1,054,749,567 | 1,299,020,802 | 1,276,252,633 | 1,079,143,952 |
| Federal Funds | 4,999,773,629 | 5,828,141,279 | 5,956,883,538 | 6,922,214,458 |
| Other Funds (NL) | 31,931,072 | 30,240,335 | 40,000,000 | 40,000,000 |
| Federal Funds (NL) | 1,021,155,188 | 1,085,753,867 | 1,205,753,867 | 1,242,362,895 |
| **Total Funds** | **$9,823,906,410** | **$11,589,462,942** | **$11,844,936,460** | **$13,529,985,775** |
| Positions | 9,525 | 9,935 | 10,351 | 10,187 |
| FTE | 9,124.28 | 9,613.71 | 9,727.30 | 9,919.58 |

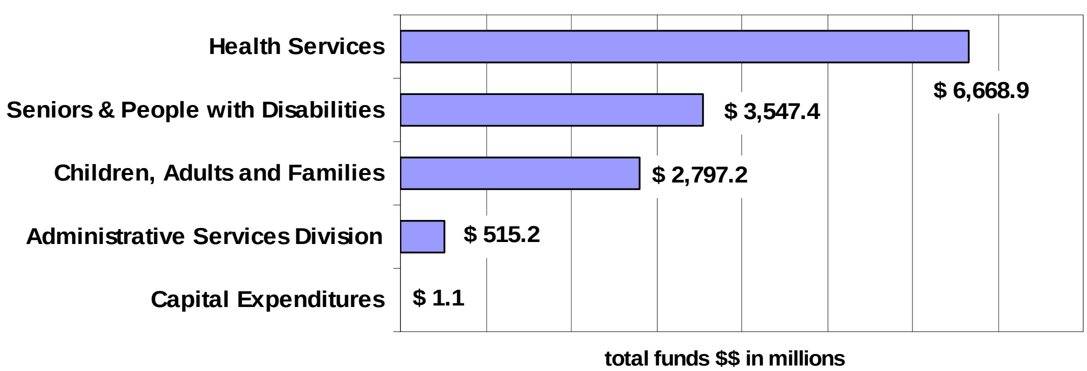
### Agency Overview

The Department of Human Services (DHS) is the largest agency within the Human Services program area, making up over 98% of total program area expenditures. Overall, the DHS budget comprises about 25% of the state's combined $16.7 billion General Fund and Lottery Funds budget at the 2009-11 essential budget level, and 27% of the state's $50.3 billion total funds budget.

The DHS budget is organized by four program areas:

- ***Children, Adults and Families*** includes self-sufficiency and family safety services; vocational rehabilitation services; child protection, child welfare, and adoption services; and the field staff who deliver these services.
- ***Health Services*** consists of three divisions: the Public Health Division (PHD); the Addictions and Mental Health Division (AMH); and the Division of Medical Assistance Programs (DMAP), which includes the Oregon Health Plan.
- ***Seniors and People with Disabilities*** includes Medicaid long-term care, Oregon Project Independence, Older Americans Act funding, and direct financial support for seniors and persons with disabilities, including those with developmental disabilities, and the field staff associated with these programs.
- The ***Administrative Services Division*** includes the DHS Director's Office and central administrative and support functions.

The chart below shows how DHS' budget, at the $13.5 billion total funds essential budget level for 2009-11, is allocated among program areas.




Although not included in the 2009-11 essential budget level calculation, the Governor has proposed $279.2 million in Other Funds expenditures, financed by Certificates of Participation, to continue the Oregon State Hospital replacement project.

### Revenue Sources and Relationships

The General Fund supports 31.3% of DHS expenditures at the 2009-11 essential budget level. Almost all of the General Fund is used as match or to meet state maintenance of effort requirements to receive Federal Funds. DHS will also receive $13.7 million of statutorily dedicated Lottery Funds, about 0.1% of its total budget for gambling addiction prevention and treatment services.

Other Funds revenues support 8.3% of DHS expenditures. These come from a wide variety of sources including tobacco taxes, Medicaid provider taxes, certificates of participation, grants, the unitary tax assessment, beer and wine taxes, fees, estate collections, child support collections, health care premiums, third party recoveries, pharmaceutical rebates, transferred federal funds from other state agencies, and charges for services. Nonlimited Other Funds come from infant formula rebates in the Women, Infants and Children (WIC) program. Since 2003, health care provider taxes have been a significant source of Other Funds revenue. These taxes are used to support higher Medicaid reimbursement for services as well as benefits for the Oregon Health Plan. The hospital and managed care organization (MCO) taxes sunset on September 30, 2009, so the expenditures that these revenues support are phased out in the essential budget level calculation.

Overall, Federal Funds support 60.3% of DHS expenditures. Federal Funds subject to expenditure limitation are over half of the DHS budget. The largest source of 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 Program (CHIP), 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

Given the broad range of Oregonians it serves, and multiple funding sources, DHS must operate within a complex and dynamic budget environment. Demographics and economics, federal law and funding, health care cost inflation and utilization, and state policies and politics all greatly influence this budget.

Demographics and Economics

Population changes, especially the number of people who are elderly, disabled, or living in poverty, greatly affect the need or demand for DHS services. The health of the economy also has a significant effect on this budget. Typically, when the economy is poor, demand for DHS services increases and program caseloads grow. During the current biennium, for example, growth in TANF, Food Stamps, and Oregon Health Plan caseloads put significant pressure on the DHS budget, forcing DHS to take management actions to control costs in its December 2008 plan to balance its 2007-09 budget. At the same time, state revenues are not growing as expected, and DHS is facing a further $40 million General Fund reduction for the 2007-09 biennium.

Federal Law and Funding

As noted above, federal revenue supports about 60% of DHS' total expenditures. Federal revenue is tied to a significant body of law and federal administrative rules. A number of DHS' programs, such as the Oregon Health Plan (OHP), are governed by waivers of certain federal regulations. The waivers must be approved by federal agencies, with later approvals again if the state wants to make program changes. Federal laws generally require state staff to ensure that federal regulation and policy is carried out consistently or that information management systems are capable of producing federally required reports. Most of the General Fund in DHS' budget is used to match Federal Funds or to meet federal maintenance of effort (MOE) requirements. As a result, General Fund budget reductions often also result in federal revenue reductions, and might jeopardize the state's ability to meet federal match or MOE requirements, thus forfeiting federal funds or incurring penalties.

Federal funding levels are also subject to statutory change or program re-interpretation. For example, human services programs nationally are facing a number of proposed federal Medicaid rule changes. Almost all of these changes are under moratorium until April 2009, and it is uncertain if they will be implemented after that. However, changes in Medicaid Targeted Case Management are not affected by a moratorium, and are expected to cost DHS $47 million in 2009-11. Further, DHS expects to lose federal funds because of several Medicaid and TANF program audit findings, including $49 million related to TANF Emergency Assistance claims and up to about $120 million related to Medicaid Personal Care claims.

Health Care Cost Inflation and Utilization

The biggest single share of DHS' budget is medical costs. DHS will use $5.5 billion of its $13.5 billion budget for direct payments to acute health care providers or Medicare premium payments in the OHP, Non-OHP, and CHIP budgets. Health care inflation rates over the last several years have significantly outpaced general economic inflation rates, as well as the rate of state revenue growth. As a result, health care consumes a larger share of the total state budget. The adopted budget assumes that a 14% increase in the health care budget for both inflation and higher utilization of services.

State Human Services Policy
Oregon's human services programs have, for the last 20 years or more, moved to intervene earlier and in less-costly ways to prevent or mitigate the problems these programs address. For example, in the early 1980s, the Medicaid long-term care system received federal waivers to implement the nation's first home and community-based care system. Mental health services or programs for persons with developmental disabilities, which once were dominated by large institutions such as the Oregon State Hospital or Fairview Training Center, are now more focused on smaller, community-based care settings. Community-based care can be less costly to the state if community services are eligible for federal matching funds where institutions are not, but over time, Oregon has opted to provide a broader range of services in communities than were available at the state hospital or training centers. For example, the Oregon State Hospital replacement project is expected to not only replace the current hospital facility, but also improve the community mental health system statewide.

There has been a recent trend to address smaller, more specific populations that existing, core programs do not reach. For example, SB 232 (2005) and SB 328 (2007) expanded the "guilty except for insanity" defense and Psychiatric Security Review Board oversight for adult offenders to include juvenile offenders with mental illness and developmental disabilities; DHS provides program services to those youth. HB 2406 (2007) created a new program to provide home nursing care, durable medical equipment, and respite care for medically involved children so they can be cared for at home. New programs usually require extensive staff time and new funding to implement. Over time, funding for these services may compete with other program needs in the agency.

Politics
Almost 85% of the DHS budget is earmarked for special payments to individuals, local governments, health care providers and suppliers, long-term care providers, training institutions, foster care providers, and others who deliver services. As a result, numerous organizations, trade associations, labor unions, advocates, and clients have a direct economic interest in the budget. When budget reductions need to be made, or major enhancements are proposed, these groups become actively involved in the politics that surround the DHS budget.

All of these factors tend to make significant policy changes difficult. A proposed program change might have a significant fiscal impact, might be inconsistent with federal law (or at least require a lengthy federal approval process), might challenge past policy direction and create controversy, or might simply be unable to survive navigation through the political process.

### Essential Budget Level
The calculated essential budget level for DHS is $879.7 million General Fund and $1,685 million total funds more than the 2007-09 legislatively approved budget as of December 2008. This is a 26.2% General Fund increase and a 14.2% total funds increase. The single most significant factor in the increase is projected growth in caseloads and costs for mandated programs, such as the Oregon Health Plan and long-term care for the elderly and physically disabled, which adds over $350 million General Fund and $975 million total funds to the 2005-07 budget level. Fund shifts in mandated programs – replacing Other Funds and Federal Funds with General Fund – adds $216 million General Fund but reduces Other and Federal Funds by a similar amount. Inflationary increases add $175 million General Fund and $699 million total funds. The net effect of programs phased-in and phased-out from the 2007-09 biennium is $84 million General Fund and $46 million total funds. The essential budget level also reflects the full 24-month cost for employee wage and benefit increases, provider rate increases, and other program enhancements phased-in during the 2007-09 biennium.

### Issues and Options
The environmental factors described above are expected to put pressure on the DHS budget for the 2009-11 biennium, and the projected economic slowdown is expected to limit the state resources available. The Governor's recommended budget for DHS is $3,521.3 million General Fund, $13,728.5 million total funds, and 11,011 positions (10,364.67 FTE). This proposal reduces DHS' General Fund budget by $711.2 million (14.8%) General Fund below the essential budget level. The proposed total funds budget is $198.5 million (1.5%) above the essential budget level. The Governor's budget includes an expansion of health care coverage through the Healthy Kids Plan, funded by higher tobacco taxes and matching Medicaid funds, and the Oregon Health Plan

Standard program, funded by provider taxes paid by hospitals and health insurers and matching Medicaid funds. It continues work on replacing the Oregon State Hospital, with the new facility to be completed in September 2011. However, significant program reductions would be made in cash assistance, employment services, and child care assistance for low-income families with children; for mental health and alcohol and drug treatment services; and in services for seniors and people with disabilities. These proposals are referenced in more detail in the DHS program area discussions that follow.

As of mid-January 2009, Congress is considering a federal stimulus package that is likely to include a larger federal share for state Medicaid programs, as well as other selected funding increases. Greater federal matching funds could be used to avoid proposed Medicaid reductions and help address growing program caseloads, or, depending on the restrictions that accompany the increased funding, could possibly free up General Fund that could be used elsewhere in the state budget. During the last economic recession earlier this decade, the federal government provided additional Medicaid funds through a temporary enhanced match rate. It appears likely similar relief will be approved again. The size, timing, and specific program provisions for the temporary increase are all unknown at this time, but will be a critical factor in finalizing the DHS budget.

Without federal fiscal relief, the 2009 Legislature will face much more difficult choices. Generally, reductions in human services programs can touch three things: administrative expenses, client eligibility and benefits, or provider reimbursements. The Governor's proposed budget for the agency includes all three. Some of the Governor's proposals make sense regardless of fiscal environment; others have both program and practical problems. The Legislature will need to evaluate these proposals, and consider other options as available, as it tries to balance human services expenditures with its other policy priorities.

# DHS/Addictions and Mental Health Division (AMH) – Program Area Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 376,609,834 | 502,640,599 | 508,287,169 | 595,550,758 |
| Lottery Funds | 9,191,451 | 13,159,192 | 13,160,998 | 13,712,288 |
| Other Funds | 31,226,451 | 32,261,396 | 34,287,119 | 35,568,815 |
| Federal Funds | 168,726,910 | 225,084,125 | 213,040,345 | 267,916,806 |
| **Total Funds** | **$585,754,646** | **$773,145,312** | **$768,775,631** | **912,748,667** |
| Positions | 1,512 | 1,655 | 1,870 | 1,765 |
| FTE | 1,437.74 | 1,544.72 | 1,592.69 | 1,669.11 |

### Summary Description

The Addictions and Mental Health (AMH) Division budget provides treatment services to those afflicted with addictions or mental disorders. Services are delivered through community non-profit providers, county mental health agencies, as well as the Oregon State Hospital (OSH) system which has facilities in Salem, Portland, and Pendleton. The budget includes funding for state policy and administrative staff.

### Revenue Sources and Relationships

Much of the Other Funds revenue within the AMH budget is used to offset the need for General Fund, and the sources for this revenue are varied. They include beer and wine tax revenue, settlements with third-party insurers, sales income, federal grants administered by non-governmental contractors, Medicare Part D (prescription medication) reimbursement, and other miscellaneous sources.

Federal Funds revenue of $267.9 million in the essential budget level is dominated by Medicaid, which accounts for nearly 78% of the division's 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 adopted budget for Medicaid is approximately 39% state funds and 61% Medicaid funds. Other federal revenue sources include the community mental health services block grant, the substance abuse treatment and prevention block grant, and a modest amount of Temporary Assistance for Needy Families (TANF) funds.

### Budget Environment

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 (rather than institutional) level.

### Essential Budget Level

The essential budget level of $912.7 million total funds is about $143.9 million or 19% higher than the 2007-09 legislatively approved budget of $768.8 million. General Fund supporting the essential budget level is $87.3 million or 17% higher than the 2007-09 legislatively approved budget. The increases are largely the result of adding a full biennial cost for community-based facilities that were developed during the 2007-09 biennium, inflationary costs including medical inflation for several expenditure categories at the state hospital, and the cost of anticipated caseload growth in community-based treatment programs.

### Issues and Options

As discussed below in more detail, the Governor's budget adds a significant number of staff to the OSH, but makes large reductions to AMH community-based services for non-Medicaid eligible clients. Overall, the Governor's budget for AMH is about $68.8 million total funds ($38.7 million General Fund) lower than the essential budget level. While the Governor's policy analysts are hopeful that some of (currently) non-Medicaid eligible clients will receive community-based mental health and alcohol and drug treatment services from an expanded OHP Standard program, the Governor's budget would probably still leave a number of non-Medicaid eligible clients without service. The budget represents a bona fide attempt to increase OSH staffing to more appropriate levels—but at a significant cost to community-based programs that are designed to care for those leaving the OSH as well as treating clients before they need the level of care available at the OSH. The reality is that Oregon's mental health system needs all elements of a continuum of care—lower levels of care to prevent those with disorders from worsening conditions, as well as competent acute care to stabilize those whose conditions have become disabling.

## AMH – Special Payments

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 363,077,873 | 482,118,576 | 489,465,093 | 576,641,264 |
| Lottery Funds | 7,492,224 | 11,109,035 | 10,529,936 | 10,824,774 |
| Other Funds | 29,646,742 | 30,735,147 | 31,851,248 | 33,116,155 |
| Federal Funds | 158,277,252 | 213,416,988 | 203,915,422 | 259,473,559 |
| **Total Funds** | **$558,494,091** | **$737,379,746** | **$735,761,699** | **$880,055,752** |
| Positions | 1,383 | 1,427 | 1,642 | 1,630 |
| FTE | 1,315.65 | 1,384.61 | 1,431.84 | 1,537.07 |

### 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 often have a normal to high measured intelligence, but people with developmental disabilities 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 Oregon Health Plan (OHP) eligible persons with mental disorders. A substantial amount of OHP mental health and addiction service capitation expenditures and some fee-for-service payments are included in the Division of Medical Assistance Programs (DMAP).

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 (OSH) and Eastern Oregon Psychiatric Center (EOPC), or Blue Mountain Recovery Center. The FTE associated with this budget are state employees who work at the OSH or EOPC.

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 and counties are statutorily required to provide pre-commitment services – that is services that may prevent commitment to the OSH. 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.

Addiction 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 provides funding for a variety of treatment services including outpatient, intensive outpatient, residential, and detoxification services for adults and children. The budget supports a number of beds for the dependent children of adults receiving residential treatment services. Outpatient services include specialized programs that use synthetic opiates, such as methadone, to assist in the treatment of chronic heroin addiction. Outpatient services also include DUII education and treatment for first offender diversion referrals, as well as convicted repeat offenders. This program area also includes Lottery funding for gambling addiction prevention and treatment.

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 OSH provides psychiatric evaluation and diagnosis, as well as intermediate and long-term inpatient care. The Oregon State Hospital facility in 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. The Oregon State Hospital facility in Portland is in leased space near the Lloyd Center. 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.

### Revenue Sources and Relationships

Funding for mental health and alcohol and drug treatment programs is about 66% General Fund, 5% Other Funds and Lottery Funds, and 29% Federal Funds. Most of the federal funding comes from Title XIX Medicaid, which supports institutional care for some elderly patients and community mental health services. The Title XIX federal match rate is about 61% 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, the federal Alcohol and Drug and Mental Health Services Block Grants provide about $45 million for adult community support services and for local services for severely emotionally disturbed children and adolescents. Both the federal Alcohol and Drug and Mental Health Services Block Grants have maintenance of effort (MOE) requirements.

Other Funds revenues are also received from patient resources, beer and wine tax receipts, Lottery Funds for the prevention and treatment of gambling addictions, and earnings for patient work. The essential budget level includes a Lottery Funds expenditure limitation of $10.8 million to fund the Gambling Addiction and Treatment Program. The Gambling Addiction and Treatment Account receives 1% of net lottery proceeds. Other Funds revenue also consists of patient resources including Social Security benefits and private insurance, as well as personal assets.

### Budget Environment

Mental illness, like many other somatic conditions, can be successfully treated or managed if appropriate treatment regimens are available at the right time. Because mental illness and mental health are on a continuum, effective mental health treatment then, requires a range of therapeutic interventions (including appropriate pharmaceuticals) and clinicians who can assess which intervention to employ. This understanding of mental illness and effective treatment has and will continue to have budget implications. If, for example, there is inadequate funding for “front-end” services – services that can assist persons who are having moderate symptoms, those persons may deteriorate and need more costly treatment later. By the same token, if funding is inadequate for acute care treatment, patients may recycle through the therapeutic system repeatedly. Also, if there is poor access to other supports such as housing, employment opportunities, or caring friends and family, a person with serious mental disorders may be unable to lead a stable and productive life.

Recognizing the fact that effective treatment requires a variety of venues aside from institutional hospital settings, the state shifted significant resources from large, state-owned institutional settings to local, community-based care and treatment for mental health services. As a result, the Oregon State Hospital has gone from a peak population of over 5,000 persons in the 1950s to a current population of about 740 residents. In the process, the role of the hospital has changed from a focus on custody and care to providing active specialized psychiatric treatment. At the same time, funding for community-based care grew. In fiscal year 1999-2000, 75% of the funding for mental health services was spent through community programs, compared to 37% in the 1987-88 state fiscal year. This reflects the closure of the Dammasch State Hospital in 1995 and the downsizing at the Oregon State Hospital in favor of alternative community services.

Despite this trend, the state’s recession from 2001-04 had a drastic and deleterious impact on Oregon’s mental health system. The Oregon Health Plan Standard program which served just over 100,000 persons in January 2003 was closed in July 2004 and today stands at 30,000. Capitation payments to mental health organizations under the Standard program plunged, and hundreds of mental health workers in community-based organizations were laid off. As a result, hospital emergency rooms and county correctional facilities saw increases in the number of persons with mental disorders they had to serve or incarcerate, respectively.

Mental Health system problems did not go unnoticed. Even before the recession, several task forces were convened to study the mental health system and to make recommendations. In December 1996, a legislative task force issued its report recommending, “[t]he entire Medicaid population of the state should be included in managed mental health plans under the Oregon Health Plan.” The Mental Health Alignment Workgroup in its January 2001 report to then Governor Kitzhaber stated that the existing mental health system was fragmented and was inadequately funded. The 2001 Legislative Assembly passed HB 3024 which required that DHS compile a Statewide Mental Health Plan. SB 267, passed by the 2003 Legislative Assembly, required that mental health and addiction services provided by DHS (along with various programs within the Oregon Youth Authority, Department of Corrections, the Commission on Children and Families, and the Criminal Justice Commission) be "evidence-based," or reflect scientifically based research and demonstrate cost-effectiveness. Another Task Force convened in October 2003 by Governor Kulongoski stated that a there was a critical "[n]eed to retool the community and state hospital mental health and addiction systems to consistently provide evidence-based and promising practices that promote recovery rather than traditional services which overemphasize pathology and dependence."

Arguably, one of the more significant factors that prompted these efforts so far, has been a series of legal proceedings that required action. The Olmstead case in Georgia, for example, upheld the rights of individuals to receive timely services in the least restrictive and most appropriate setting. Oregon settled a lawsuit related to Olmstead, *Miranda v. Kitzhaber*. As part of the settlement, DHS agreed to discharge 31 clients of the OSH who were ready to enter the community and to develop 75 additional community-based placements. A federal court's decision concerning the Oregon State Hospital in *OAC v. Mink* required the hospital to admit individuals who are accused of crimes and found mentally unfit to stand trial within seven days of the finding. Prior to this decision, the OSH would admit individuals for evaluations only if there was room at the hospital. The court's decision was finalized in 2003. After that, the OSH forensics caseload growth rate began to rise. The Department's response to this has been the development of more forensic community-based placements. This trend continues today. More recently, a March 2006 settlement agreement in the lawsuit *Harmon v. Fickle* requires the OSH to achieve higher staffing ratios to improve patient care. To support these efforts, the Emergency Board allocated General Fund to DHS to add more clinical staff and to develop still more community-based facilities. In addition, the Board received regular progress reports at subsequent meetings.

Concerns about the Oregon State Hospital and the state's mental health system further compelled the Governor and Legislature to provide funding in the 2005-07 biennium for an analysis of the state hospital. This funding was used by DHS to hire a contractor which studied the hospital and mental health system. On February 28, 2006, the Department released a report on the OSH entitled, *Framework Master Plan, Phase II Report*. The report contained an analysis of the demand for hospital services for the next 25 years and made recommendations to meet the demand. The report noted that hospital demand was predicated on a robust array of community-based mental health services—a mental health system not yet in place in Oregon.

In response to the report, Governor Kulongoski and legislative leadership decided to build two new facilities—a 620 bed facility in Salem at the present OSH campus and a 360 bed unit near Junction City adjacent to a planned Department of Corrections facility. During the 2007-09 biennium, DHS hired a variety of consultants and contractors, did extensive planning, and finally, in September 2008 broke ground for the new Salem facility. At the time this was written in December 2008, demolition work was being conducted, and DHS expected final construction bids to be submitted in March 2009. The budget for both the facilities is about $458.1 million. DHS provided regular project updates at most interim Joint Committee on Ways and Means and Emergency Board meetings throughout the 2007-09 biennium.

While much of the legislative and public's attention has been on the new hospital facilities, DHS also worked hard to develop for community mental health residential treatment placements. These efforts have been difficult and DHS has encountered opposition from communities that are reluctant to site residential treatment facilities that will serve former OSH patients—particularly forensic patients. As a consequence, DHS has not been able to develop as many placements as it would like. The Governor appointed a workgroup comprised of mental health advocates, crime victim advocates, law enforcement representatives, community mental health providers, Psychiatric Security Review Board members, and other stakeholders to assess the situation and make recommendations. The group met a number of times during 2008 and will issue a report for the Governor and Legislature. Despite the debate, however, federal law (Fair Housing Act and the Americans with Disabilities Act) is clear. It prohibits discrimination related to housing based on race, color, age, religion, gender, . . . and disability.

As a backdrop to all of this, the U.S. Department of Justice (USDOJ) conducted a review of the OSH under the Civil Rights of Institutionalized Persons Act (CRIPA) and issued a highly critical report in January 2008. The USDOJ found deficiencies in five general areas: adequately protecting patients from harm, providing appropriate psychiatric and psychological care and treatment, appropriate use of seclusion and restraint, providing adequate nursing care, and providing discharge planning to ensure placement in the most integrated settings. The Legislature assembled a joint OSH Oversight Committee which met throughout 2008 to investigate hospital procedures and to hear how DHS was responding to the USDOJ report findings. A new OSH superintendent was appointed and the Legislature set aside $6.7 million General Fund during the February 2008 special session to hire additional OSH staff. These funds were allocated by the Emergency Board in stages during 2008 as DHS reported on its efforts to hire more staff and to improve treatment and living conditions at the OSH. These efforts will continue.

### Essential Budget Level

The 2009-11 essential budget level for AMH programs of $880.1 million total funds is $144.3 million, or about 20%, higher than the 2007-09 legislatively approved budget. The General Fund budget is $576.6 million and is $87.1 million, or about 18% higher, than the 2007-09 legislatively approved budget. The increases are primarily the result of three factors: adding a full biennial cost for community-based facilities that were developed during the 2007-09 biennium—and therefore, only partially funded, inflationary costs including medical inflation for a number of the budget categories at the OSH, and anticipated caseload growth in community-based programs.

### Issues and Options

The Governor's budget is $67.4 million total funds ($37.8 million General Fund) lower than the 2009-11 essential budget level. This net reduction is primarily the result of additional funding for the OSH ($60 million total funds and 717 positions), but much less funding for community-based addiction and mental health prevention and treatment ($120.4 million total funds, $91.5 million General Fund). Specifically, the Governor's budget eliminates cost of living increases for mental health providers, cuts supported employment for about 280 people each year, reduces adult outpatient mental health services for non-Medicaid clients by 90%, decreases funding for acute inpatient psychiatric care by half, cuts half of the funding for alcohol and drug outpatient treatment for clients not eligible for Medicaid, and reduces alcohol and drug residential treatment programs for 1,900 non-Medicaid eligible clients each year. In addition to these community-based care reductions, the Governor's budget assumes the closure of the Blue Mountain Recovery Center on January 1, 2010. The Governor's policy analysts are hopeful that the re-opening of OHP Standard, discussed in the Division of Medical Assistance Program (DMAP) budget section, will allow some of these (currently) non-Medicaid eligible clients to become eligible for OHP Standard services—including community-based mental health and alcohol and drug treatment.

## AMH – Program Support and Administration

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 13,531,961 | 20,522,023 | 18,822,076 | 18,909,494 |
| Lottery Funds | 1,699,227 | 2,050,157 | 2,631,062 | 2,887,514 |
| Other Funds | 1,579,709 | 1,526,249 | 2,435,871 | 2,452,660 |
| Federal Funds | 10,449,658 | 11,667,137 | 9,124,923 | 8,443,247 |
| **Total Funds** | **$27,260,555** | **$35,765,566** | **$33,013,932** | **$32,692,915** |
| Positions | 129 | 228 | 228 | 135 |
| FTE | 122.09 | 160.11 | 160.85 | 132.04 |

### Program Description

This budget unit includes staffing to manage and administer AMH prevention, community-based addiction, gambling, and mental health services. The increase in positions and FTE from 2005-07 to the 2007-09 legislatively adopted budget is primarily the result of adding 108 positions to support the *Harmon v. Fickle* settlement agreement (mentioned above). These positions and related expenditures were appropriately transferred from the program support and administration budget to the program budget for the 2009-11 biennium because most of them were used to increase OSH staffing ratios. The OSH budget is a part of the AMH program budget.

### Revenue Sources and Relationships

Lottery and Other Funds constitute 17% of the program support and administration budget for AMH and Federal Funds (administrative Medicaid funds along with some Community Mental Health and Substance Abuse Prevention and Treatment Block Grants) comprise about 26% of the revenue supporting this budget.

### Essential Budget Level

The essential budget level of $32.7 million total funds ($18.9 million General Fund) is about 1% lower than the 2007-09 legislatively approved budget. While the budget includes funding for caseload increases and inflationary costs, it also removes $425,000 General Fund that had been included in the 2007-09 biennium for a community mental health assessment ($150,000) and the Children's Wraparound Project ($275,000). The essential budget also reflects a $1.4 million General Fund transfer of costs associated with the development of secure community-based residential treatment facilities from this budget unit to the AMH program budget.

### Issues and Options

The Governor's budget is $1.4 million total funds ($0.9 million General Fund) lower than the essential budget level. The reduction reflects a 4% cut to personal services and a 2% decrease in administrative costs as well as the transfer of one position (along with $153,464 General Fund) to the OSH budget.

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

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 457,592,052 | 545,639,592 | 575,896,338 | 716,614,815 |
| Other Funds | 125,400,369 | 127,914,385 | 127,656,851 | 131,064,642 |
| Federal Funds | 748,829,958 | 827,476,135 | 870,895,262 | 809,918,597 |
| Federal Funds (NL) | 933,881,972 | 983,024,816 | 1,103,024,816 | 1,139,633,844 |
| **Total Funds** | **$2,265,704,351** | **$2,484,054,928** | **$2,677,473,267** | **$2,797,231,898** |
| Positions | 4,161 | 4,284 | 4,416 | 4,428 |
| FTE | 4,027.96 | 4,180.72 | 4,216.70 | 4,352.47 |

### Summary Description

Children, Adults and Families (CAF) is responsible for helping Oregon's vulnerable families and individuals meet their basic needs. CAF provides services in three key program areas:

- Self-sufficiency programs promote independence for families and adults.
- Child welfare programs help provide safe and permanent families for Oregon's abused, neglected, and dependent children.
- Vocational rehabilitation services for adults with disabilities other than blindness.

It administers these programs through coordination and collaboration with the families and individuals as well as community partners, and through direct services provided by state staff. Field staff provides CAF program services and benefits to clients through more than 100 community offices throughout the state.

CAF is also responsible for qualifying individuals and families for the Oregon Health Plan, in coordination with the Department of Human Services' Division of Medical Assistance Programs.

The primary focus of the Self-Sufficiency programs is to meet immediate critical needs for low-income families while helping them become independent of public assistance. The key programs are the Supplemental Nutrition Assistance Program (Food Stamps), Temporary Assistance for Needy Families (TANF) including Job Opportunity and Basic Skills (JOBS) services, Employment Related Day Care, Refugee Assistance, and Prevention Services. In 2007, over 600,000 individuals received food stamps; almost 33,000 families received TANF program benefits; and 18,235 families received child care assistance. Refugee resettlement services were provided to over 800 refugees.

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 or neglected, or whose families are unable to provide their basic care. In 2007, CAF received more than 63,500 reports of abuse and neglect. The primary goal is to enable families to provide a safe home for their children with in-home supports, education, and treatment, if needed. However, in 2007 more than 15,000 children spent time in foster care. When children cannot be kept safely at home or returned home safely from foster care, the secondary goal is to secure permanent alternative families for children through adoption or other efforts.

The Office of Vocational Rehabilitation Services administers Rehabilitation Services, the Youth Transition Program, Supported Employment Services, and the Independent Living Program. The programs served 16,650 individuals in federal fiscal year 2007, with 2,871 individuals placed in employment.

### Revenue Sources and Relationships

At the calculated essential budget level, General Fund supports about 26% of this budget; Other Funds, about 5%; and Federal Funds, about 69%. The General Fund share has grown significantly from prior biennia, and the Federal Funds share decreased, due to federal rule changes that have limited how states can use certain federal funds, changes in Oregon claims in response to federal audits, and the capped nature of a several key block grants, as discussed below.

The major source of CAF's Other Funds is $91 million in federal Child Care and Development Funds transferred from the Employment Department. The budget also includes child support recoveries and client trust account funds from client resources, such as federal Supplemental Security Income disability payments. These are used to offset state assistance and maintenance costs for children in care. Other overpayment recovery revenues are also used to offset General Fund. CAF receives Criminal Fines and Assessment Account revenues to support grants for Domestic Violence Services and the Sexual Assault Victims Fund. Domestic Violence Services also receives Other Funds from a surcharge on marriage licenses, and federal funds. User fees 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 transferred to the program.

Nonlimited Food Stamps benefits are the single largest source and use of federal funds in CAF. Food Stamps benefits, which are 100% federally funded, are projected at $1.1 billion for the 2009-11 biennium. This is up 3% from the 2007-09 biennium, and up 22% from the 2005-07 biennium. Federal funds also help pay for program administrative costs, on a 50% state/50% federal basis.

Other Federal Funds come from capped or formula-based block grants, payments for partial reimbursement of eligible state costs, and miscellaneous grants for specific amounts and purposes. Oregon receives $166.8 million a year from the federal TANF block grant, which pays for cash assistance, JOBS services, child care, and other self-sufficiency programs. The Title XX Social Services Block Grant (SSBG) is estimated at $36 million for the biennium. Another federal source is the Title IV-B Safe and Stable Families (Family Preservation and Support) grant, estimated at $17 million for 2009-11. CAF uses these funds in its own budget to pay for family reunification work and post-adoption services. CAF will transfer about $14 million in federal funds to the State Commission on Children and Families for grants to counties, relief nurseries, and the Healthy Start program.

Section 110 of the Rehabilitation Act of 1973 (Basic 110 Grant) provides federal support for rehabilitative services. This grant is distributed to states based upon population and per capita income. 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%. The Basic 110 Grant requires General Fund or Other Funds match, at a 21.3% state/78.7% federal rate. Rehabilitative services revenue also includes federal Rehabilitation Act funds for Supported Employment and staff training, and for Independent Living Rehabilitation.

The federal government partially reimburses eligible state costs through the Title XIX Medicaid program and the Title IV-E Foster Care and Adoption Assistance program. Medicaid funding is used for case management services, special rates for certain children in foster care, and related administrative services. Title IV-E funding is used for child welfare services, adoption assistance, and related administrative costs. Reimbursement levels in these programs varies with federal match rate changes, the number of children served, and eligibility of the services provided. For the 2009-11 biennium, the federal match rate is estimated at 62.7% for program costs, and 50% for administrative costs. The federal share for program costs is higher than the 61.48% average for the 2007-09 biennium. Although the budget projects continuing revenue from these sources, CAF will receive less Medicaid Targeted Case Management and Personal Care revenues than it has previously, due to federal regulation changes and disallowances. There are continuing risks to these revenues from federal legislation, regulatory changes by the Centers for Medicare and Medicaid Services (CMS), and federal budget actions.

CAF expects to receive about $9.7 million in federal Refugee Resettlement funds to pay for refugee program and administrative expenditures. In addition, CAF uses about $5.2 million of TANF funds for the refugee program. Other federally designated grants support family violence prevention, child abuse prevention and treatment, and other targeted services.

### 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), a capped block grant. Congress reauthorized the program through 2010 in the Deficit Reduction Act of 2005. New federal regulations took effect October 1, 2006 (the start of federal fiscal year 2007). The 2007 Legislature adopted legislation to restructure Oregon's TANF program.

The $166.8 million for the annual federal TANF block grant comes with strings: Oregon must meet maintenance of effort (MOE) requirements and client work participation rates, or face financial penalties. The MOE requirement means non-federal support must be at least 75% of the state contribution in the 1994 base year. For Oregon, state support from the General Fund or other state resources must be at least $91.6 million per year. If Oregon fails to meet the work participation rate -- states must reach 50% work participation for most families and 90% for two-parent families -- the MOE requirement increases from 75% to 80%. Oregon's MOE has come from several agencies, including the 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. In recent years, Oregon has also counted the refundable Working Family Child Care tax credit towards its MOE requirement.

Oregon's economic downturn has resulted in a significant increase in caseloads in Food Stamps and TANF cash assistance and employment services. Food Stamps program benefits are fully federally funded, but staffing for the program is supported with a mix of federal and state funds. TANF program cash benefits and employment services are funded primarily with the capped TANF block grant. The block grant does not increase based on higher caseload demands or costs, so the state is faced with adding state funds or decreasing services.

The 2007 Legislature made significant investments in the Employment Related Day Care (ERDC) program, which provides child care subsidies for low-income working families. The federal Child Care and Development Fund that supports this program is a capped federal grant. Oregon historically uses TANF funds or General Fund to cover program costs above the available level of CCDF funding. However, increases in other TANF program costs and competing demands for General Fund resources put pressure on funding for ERDC services.

Child Welfare Services

Resources have been added in recent years to improve staff training, case planning, federal reporting, and services for older youth, but Oregon's child welfare system continues to be challenged. In 2007, reports of child abuse and neglect were again up significantly, although fewer victims were reported than in the previous year. 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 of the victims age 5 or younger. Families of abused and neglected children often face multiple stressors such as alcohol and drug abuse, law enforcement involvement, unemployment, and domestic violence. The large number of young victims, combined with the intensity of family problems, results in very complex cases that are difficult and costly to resolve.

DHS uses a "strengths/needs-based" practice, which emphasizes keeping children in their immediate families or with extended relatives, when possible. When children cannot remain safely at home, however, they enter foster care. In federal fiscal year 2007, 4,626 children entered foster care, and 5,531 left. This is the second year in a row in which more children left foster care than entered, although DHS reports that Oregon continues to place more children in foster care than most other states in the country. On an average daily basis, 9,788 children were in foster care. As in the previous year, about 64% of children leaving foster care in 2007 were reunited with their parents. Others left foster care for adoption or other permanent arrangements.

Vocational Rehabilitation Services

Increased demand for vocational rehabilitation services, combined with cost escalation in services such as tuition, books, rehabilitation technology, assistive devices, and medical services, has put significant pressure on Oregon's budget. Funding increases at the federal and state level are generally limited to inflationary adjustments because these services are not considered as an "entitlement" for which increased funding is a given. These adjustments have not been adequate to fully serve those in need of services.

### Essential Budget Level

The calculated essential budget level (EBL) for the Children, Adults and Families Division is $140.7 million (24.4%) General Fund and $119.8 million (4.5%) total funds higher than the 2007-09 legislatively approved budget through December 2008. The significant General Fund increase includes program phase-ins of about $15 million, inflationary adjustments of $11.4 million, and mandated caseload increases of $14.3 million, but the increase is primarily due to the use of a net $106.8 million General Fund to backfill Federal Funds not available in the 2009-11 budget period for certain mandated programs. The Federal Funds issues arise from more limited federal TANF resources available for 2009-11, as well as changes in the use of TANF Emergency Assistance, Medicaid Targeted Case Management and Medicaid Personal Care funding made in response to new federal regulations and program audits.

By definition, the essential budget level includes funding to support expected caseload growth or replace Federal Funds revenue shortfalls in mandated programs, such as substitute care and adoptions assistance. The EBL calculation includes mandated caseload costs and fund shifts for Food Stamps, substitute care and adoptions programs, and related staffing costs. It does not include funding to cover caseload growth or revenue shortfalls for non-mandated programs, such as TANF, child safety or vocational rehabilitation services. The program must request additional funding for these non-mandated programs as policy option packages.

### Issues and Options

Demand for many of the services provided by CAF increases in poor economic times. Although some of the federal funding that supports CAF's programs is essentially uncapped if state matching funds are available – like Foster Care and Adoption Assistance payments – federal funding supporting TANF, child care, and vocational rehabilitation programs are capped. This creates a significant budget challenge to continue services and programs if state General Fund is not available to cover the higher costs.

Budget reduction options include reducing client services or benefits through changes in eligibility or benefit levels; adjusting provider payments; and cutting administrative expenditures. The 10% reduction option list that the Department of Human Services submitted as part of the 2009-11 budget development process included all three types of options for CAF. The agency has made efforts to improve its operations and trim administrative costs as part of its budget rebalance efforts for the current biennium. CAF is also already limiting access to TANF JOBS services and to vocational rehabilitation services as part its 2007-09 budget rebalance plan.

The Governor's 2009-11 budget for the Children, Adults and Families Division is $673.2 million General Fund, $2,715.6 million total funds, and 4,397 positions (4,309.51 FTE). Non-limited Federal Funds for Food Stamps benefits accounts for $1.139.7 million of the total funds budget. The Governor's budget is $43.4 million (6.1%) General Fund and $81.7 million (2.9%) total funds below the calculated essential budget level, but $97.3 million (16.9%) General Fund and $38.1 million (1.4%) total funds more than the 2007-09 legislatively approved budget as of December 2008. This budget proposal backfills some, but not all, of the federal fund shortfalls expected in the 2009-11 biennium due to capped federal funds and increasing caseloads. Although the child welfare program area is largely protected, the budgets for CAF's non-mandated programs such as TANF and vocational rehabilitation services would be seriously inadequate to cover expected higher caseloads and costs for services. Many of the 2007-09 investments in TANF and ERDC program services would be reversed and significant policy changes made to limit access and reduce client and provider payments. The Governor's budget would not add funding for any program enhancements other than eligibility determination staffing for the Healthy Kids Program, which would expand health care coverage to Oregon's children. Specific budget proposals are described in more detail in the CAF Programs and CAF Program Support and Administration sections below.

As the 2009 Legislature considers budget options for this program area, it will need to consider these in the context of related programs in not only in the Department of Human Services program budget, but also in other agency budgets, such as the Department of Education, the State Commission on Children and Families, and the Oregon Youth Authority. Updated information on federal law or regulation changes, federal funding levels, MOE, and other federal program requirements will also be critical factors.

## CAF Programs – (Special Payments Only)

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 227,050,539 | 282,967,820 | 290,429,491 | 366,203,882 |
| Other Funds | 106,781,192 | 115,931,675 | 114,780,063 | 118,348,864 |
| Federal Funds | 436,629,995 | 505,310,636 | 515,218,658 | 480,031,255 |
| Federal Funds (NL) | 933,881,972 | 983,024,816 | 1,103,024,816 | 1,139,633,844 |
| **Total Funds** | **1,704,343,698** | **1,887,234,947** | **2,023,453,028** | **2,104,217,845** |

### Program Description

Self-Sufficiency Programs provide assistance for low-income families to help them become self-supporting. The major programs in this area are:

- The *Supplemental Nutrition Assistance Program* (*Food Stamps)* is a federally funded benefit program to help low-income families, single adults, and childless couples buy the food they need to stay healthy. In November 2008, more than 507,000 Oregonians, more than 13% of Oregon's population, received food stamp benefits. The benefit costs are included in the Self-Sufficiency budget as Nonlimited Federal Funds; eligibility determination staff costs are part of the Program Support and Administration budget as limited expenditures.

- *Temporary Assistance to Needy Families (TANF)* provides cash assistance grants, 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. Beginning July 2007, the maximum monthly benefit for a family of three was $528. TANF also provides Job Opportunity and Basic Skills (JOBS) education, training, job placement, and support services; post-employment payments to help families transition to work; temporary financial assistance and support services for Domestic Violence survivors; services to families eligible for Supplemental Security Income or Supplemental Security Disability Income (pre-SSI/SSDI); and Family Support and Connections services to help families at risk of child abuse or neglect.

- *Employment Related Day Care (ERDC)* is designed to help parents stay employed by subsidizing child care services for low-income working families. Clients make a co-payment based on income and household size, and the state subsidizes the remaining costs up to the DHS maximum rate.

- The *Refugee Program* works with community groups and social and workforce agencies to provide time-limited cash and medical assistance, Food Stamps, and employment services to new refugees in Oregon.

- *Prevention Services* support abstinence education and teen pregnancy prevention efforts.

<u>Child Welfare Services</u> work to assure the safety of children and provide services to their families, including responding to reports of child abuse or neglect, providing substitute care when necessary, and arranging adoption or guardianship services and supports.

- *Child Protective Services* – This program assesses reported child abuse or neglect and, if needed, prepares and implements safety plans for children, including case management or contracted services for families. Services may include substance abuse treatment, domestic violence and sexual abuse services, parent training, and intensive family services.

- *Substitute Care* represents a broad range of care, supervision, and treatment services for children in temporary or permanent custody of the state. Family foster care homes and "special rates" foster care are the primary service elements. Residential Care is provided by private agencies in residential or therapeutic foster care settings for children who cannot live in a family setting.

- The *Adoptions* program provides adoption and guardianship services to help achieve permanent living placements for children in the child welfare system who cannot return home, including Adoption Assistance payments to help remove financial barriers to adoption or guardianship for special needs children.

<u>Other Programs</u> include 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. This budget also covers payments to the Employment Department for the Office of Administrative Hearings, and transfers of federal Title XX Social Services Block Grant (SSBG) funds to the State Commission on Children and Families for its Youth Investment Program grants to counties and relief nurseries funding. DHS also passes through SSBG and Title IV-E Foster Care funds to Oregon's Native American tribes for child welfare services for Native American youth.

This budget also supports the Office of Vocational Rehabilitation Services, which coordinates <u>Vocational Rehabilitation Services</u> to individuals with disabilities, with a goal to prepare and engage them in gainful employment.

- *Vocational Rehabilitation Services* provides training, vocational, and educational services to persons with disabilities that are substantial impediments to obtaining or maintaining employment. These services are delivered through field offices and employees outstationed across the state.

- *Youth Transition Program* provides coordinated vocational rehabilitation services to students who are currently in school to ensure a smooth transition to adult services and employment after school completion.

- *Supported Employment Services* provides vocational rehabilitation services, on a time-limited basis, to severely disabled clients for placement in community-based competitive work sites.

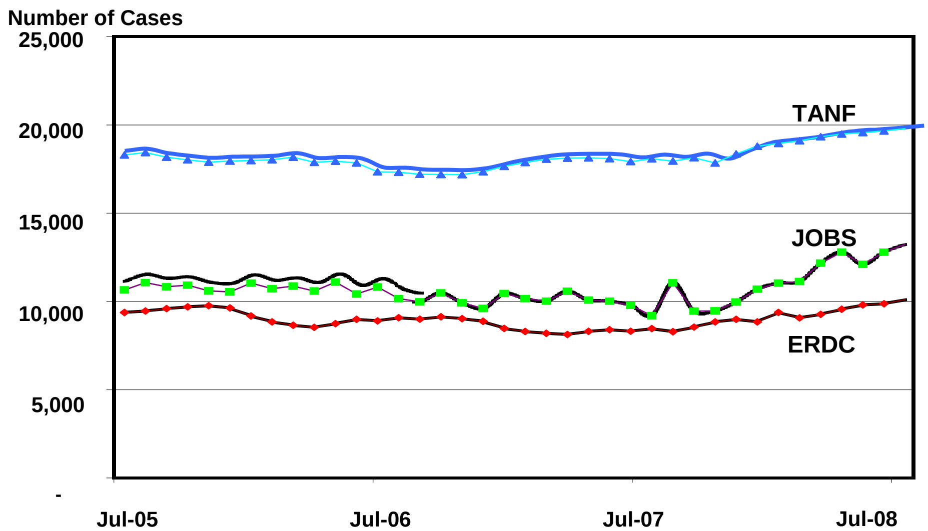
- *Independent Living Program* supports the State Independent Living Council and community-based Centers for Independent Living, which help persons with severe disabilities maintain independence at home, in the community, and in employment.

**Budget Environment**

Self-Sufficiency Programs

The number of families receiving TANF cash assistance has declined dramatically since the mid-1990s. As Oregon's economy weakened at the start of this decade, however, cash assistance caseloads increased, and since July 2007 caseloads have continued upwards at an even higher rate. 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 earlier this decade due to state revenue constraints and other human services caseload growth, and caseloads dropped. The 2007 Legislature approved additional investments in JOBS and the Employment Related Day Care program as part of the TANF program restructuring, but program growth has exceeded expectations. The table below shows the recent caseload history in the TANF, JOBS, and ERDC programs.

**TANF, JOBS, ERDC Caseloads**
**July 2005- July 2008**




Many clients face barriers to employment such as drug and alcohol problems, lack of reliable transportation or affordable child care, or a work disability such as mental illness. Timely access to treatment programs and support services is critical to address these problems and move clients off cash assistance.

With federal TANF reauthorization, DHS has restructured its program to both meet federal requirements and achieve better outcomes for the very low-income families with children who receive TANF services. The 2007 Legislature passed HB 2469 to implement the new program, and added $14.6 million General Fund and $16.9 million in federal TANF funds to CAF's budget for the restructured program. The basic design of the program includes "Pre-TANF" screening and evaluation with supportive services to meet basic needs, on-going TANF services, post-employment TANF supports, and "state-only" programs to qualify eligible families for Social Security disability benefits, and support two-parent families. Early reports show higher work participation rates and improved employment outcomes, but cash assistance caseloads and JOBS services costs have been significantly higher than expected for the 2007-09 biennium to date. In December 2008, DHS advised the

Emergency Board that, as part of the Department's budget rebalance plan, it would take management actions to curtail $7.4 million in projected JOBS costs to keep the program within budget for the rest of the current biennium. It is likely the more limited service level will reverse some or all or the improved program outcomes.

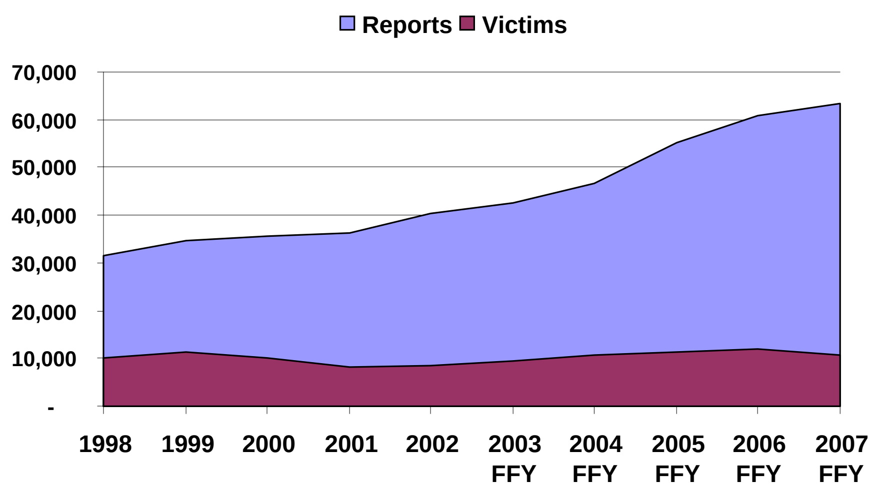
After several biennia of program reductions, the 2007 Legislature added $26.9 million General Fund and $13 million in federal TANF funds to improve funding for the Employment Related Day Care program. This restored program eligibility for families up to 185% of the federal poverty level, reduced client co-payments, and increased child care provider rates effective October 2007.

The Department of Human Services' Fall 2008 caseload forecast projects an average 273,532 households receiving Food Stamps for the 2009-11 biennium, up 11.3% from an average of 245,721 households in 2007-09. The TANF cash assistance forecast is at 20,214 average cases for 2009-11, a 3.8% increase from the Fall 2008 forecast for the 2007-09 biennium and a 19% increase from the Fall 2007 forecast for the current biennium, which had projected this caseload to decline. The number of families on Employment Related Day Care is expected to be up 15.2%, from 10,100 average families in 2007-09 to 11,638 in 2009-11. This forecast does not reflect any long-term caseload impact from program limits or reductions imposed for budget reasons.

Child Welfare Services

In federal fiscal year (FFY) 2007, CAF received 63,504 reports of suspected abuse and neglect, continuing a trend of increased reports since 1996. The number of victims, however, decreased about 11% from the prior year, to 10,716; this is about 1.2% of the state's estimated 870,623 children aged 0 to 18. As the following graph shows, the number of reports has more than doubled in the past ten years, while the number of victims in FFY 2007 is about 5% higher than the number of victims reported in 1998.

**Child Abuse/Neglect Reports and Victims**




Child safety expenditures in this program area are designed to give early intervention and support services to families to help prevent out-of-home placement or return children home more quickly. Funding for the services in this budget has not kept pace over time with the continuing growth in reports of abuse and neglect. However, other programs in CAF and the State Commission on Children and Families, such as Family Support and Connections in the Self-Sufficiency program area, or the Healthy Start and relief nurseries programs in the State Commission on Children and Families, provide complementary services for at-risk families.

Substitute Care expenditures during the 2007-09 biennium have been lower than originally budgeted, and are now expected to be only about 2% above the 2005-07 expenditure levels. Foster care placements continue to trend downwards: the Department of Human Services' Fall 2008 forecast estimates an average 6,978 children per month will be in out-of-home care during the 2009-11 biennium, a 5.7% decrease from the 7,404 average during the 2007-09 biennium. In federal fiscal year 2007, 15,060 children were served in all foster care arrangements, down slightly from 16,142 children in the previous year. Family foster care is the primary setting, with about 4,900 foster families providing care. The number of family foster homes dropped about 400 from the year earlier. About 30% of the children placed in family foster care are placed with relatives. Regular foster care monthly rates are $399 for a child through age 5, $414 for ages 6 through 12, and $512 for ages 13 and older. 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 were restored to prior levels in November 2003. Subsequent adjustments have been limited to standard inflationary increases. Many children in foster care require additional special rates foster care payments, based on emotional, behavioral, mental, or physical problems that require special services for the children and increased skills and supports for foster parents and relative caregivers. Children in foster care also are eligible for physical and mental health services through the Oregon Health Plan, funded in the Division of Medical Assistance Programs budget.

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. Capacity in residential treatment programs has been constrained by budget, and many providers' costs have increased more rapidly than the rates paid by DHS. DHS has recently completed a needs assessment for its Behavioral Rehabilitation Services providers and implemented the new rate structure for those providers and others effective January 2009.

The Adoptions Program provides adoption and permanent guardianship options for children in foster care who are unable to safely return to the care of their biological parent(s). The number of adoptive placements increased greatly from 1999 through 2002, reaching a peak of 1,118 finalized adoptions in federal fiscal year 2002, due to federal Adoptions and Safe Families Act deadlines to place a "backlog" of children who had been in foster care. During federal fiscal year 2007, 995 adoptions were finalized, down about 9% from the 1,095 finalized in 2006. An additional 334 children left foster care for a guardianship arrangement, about a 29% increase from the number of guardianship placements in the previous year.

In almost all cases, children placed receive adoption or guardian assistance payments and medical coverage to provide for their special needs. For the 2007-09 biennium, the average cost per case for adoption assistance payments was $492 per month. This program budget continues to grow due to both the increasing number of new adoptive and guardianship arrangements, and the cumulative nature of the caseload which reflects continued payments until the children "age out" at age 18.

Other Programs

Social Services Block Grant (SSBG) funding is capped at the federal level, and has been periodically reduced over the last few biennia. The Legislature has generally chosen to use General Fund to replace SSBG shortfalls in the Department of Human Services and the State Commission on Children and Families budgets, or use SSBG to replace General Fund when unexpended SSBG funds are available.

LEMLA program expenditures are variable, and, over time, program revenues may build up in excess of projected costs. In 2005, the Legislature redirected $0.8 million in LEMLA funds to offset General Fund expenditures elsewhere in the Department of Human Services. This was done as a revenue transfer and does not affect this budget's expenditures. DHS advised the Emergency Board in December 2008 that it proposed to redirect $1 million in LEMLA funds as part of its 2007-09 budget rebalance plan, subject to passage of needed legislation during the 2009 session.

Vocational Rehabilitation Services

Almost all of the clients (about 89%) who receive vocational rehabilitation services have severe disabilities which require a broad array of services. The increasing severity of the disabilities, and the extent of the services needed to correct or address the disabilities, increase the cost and difficulty of rehabilitation and employment. For 2007, the Office of Vocational Rehabilitation provided services to 16,650 individuals, down about 8% from the 18,100 served during 2006. Oregon's economic downturn has also made it more difficult to place clients, making fewer jobs available and increasing competition for jobs that are available. The program helped 2,871 people achieve employment in 2007, down about 4% from the 2,984 who achieved employment in 2006.

The Fall 2008 forecast for vocational rehabilitation suggests an average of 9,362 monthly clients for the 2009-11 biennium, compared to 9,201 clients during the 2007-09 biennium. This is a projected 1.7% caseload increase. More significantly, costs for vocational rehabilitation services have been outpacing inflation. The program cites medical cost increases of 12%; rehabitional technology devices, 11%, interpreter services, 29%; and transportation, 9%.

Federal funding for vocational rehabiliation services has generally remained flat, with only cost-of-living adjustments, for the past two decades. This has not kept pace with the increased costs and demands for rehabilitative services. Nor have state budget resources been able to fill the gap. General Fund reductions in the 2001-03 and the 2003-05 budgets were followed by a shortfall in one-time Federal Funds which had been expected to be available for the 2005-07 budget. This shortfall, and a budget reduction approved for the 2007-09 biennium, left the program far short of meeting caseload demand in the current biennium. In June 2008, the Emergency Board allocated more General Fund to the program, to be matched with supplemental federal funding from other states' unused allocations, but Oregon received only $0.2 million of the $8.7 million it expected from the federal reallocation. DHS advised the Emergency Board in December 2008 that it would implement an Order of Selection, which mandates services to the most severely disabled individuals first, to manage within its current budgeted resources for the rest of this biennium.

### Essential Budget Level

The essential budget level for CAF Programs is $366.2 million General Fund and $2,104.2 million total funds. This is $75.8 million General Fund and $80.8 million total funds higher than the 2007-09 legislatively approved budget. The increase covers cost-of-living increases for clients and providers; expected caseload changes in Food Stamps, substitute care, and adoptions programs; and fund shifts related to federal Medicaid and Foster Care and Adoption Assistance matching rates. It also funds investments phased-in during the 2007-09 biennium for TANF reauthorization, child care improvements, and child foster care relative caregiver reimbursements.

### Issues and Options

As noted earlier, the essential budget level calculation does not cover projected caseload growth or revenue shortfalls for non-mandated programs, such as TANF or vocational rehabilitation services. Any added funding for these non-mandated programs must be part of a policy option package. In addition to proposals for a broad range of program expansions and enhancements, the 2009-11 agency request budget included packages that would add $85 million General Fund to backfill revenue shortfalls in CAF's self-sufficiency and child welfare programs, and $19.5 million General Fund for vocational rehabilitation case services.

The Governor's proposed 2009-11 budget for CAF Programs is $322.8 million General Fund and $2,036.9 million total funds. At $1,139.6 million, Food Stamps benefits make up 56% of the CAF Programs budget. The Governor's budget is $43.4 million (11.9%) General Fund and $67.3 million (3.2%) total funds less than the calculated essential budget level, but $32.3 million (11.1%) General Fund and $13.4 million (0.7%) total funds more than the 2007-09 legislatively approved budget. To achieve this budget level, the Governor's budget would eliminate all client and provider cost of living adjustments, take cost savings from significant budget and policy changes in the TANF and ERDC programs, eliminate or reduce several child welfare programs, leave unfunded projected caseloads and cost increases in vocational rehabilitation services, and make no new investments in this program area. More specifically, the Governor's budget anticipates all of the following:

- No cost of living increases for clients or providers
- Eliminate ERDC for self-employed persons
- Eliminate ERDC for undocumented adults
- Limit ERDC to only families leaving TANF
- Increase ERDC client copayment an average of 6%
- Eliminate the current minimum first month's co-payment for new ERDC families
- Reduce the ERDC maximum provider payment to the 65th percentile of the 2006 market rate
- Make a further unspecified ERDC program reduction of $2.7 million Other Funds
- Reduce Pre-TANF payments for basic living expenses
- Include parents' Supplemental Security Income benefits as income when calculating TANF benefit levels
- End Cooperation Incentive Payments as supplement to TANF grants effective July 1, 2010
- Reduce the Post-TANF payment to $100 until July 1, 2010, and reduce it to $50 at that time
- Establish a TANF "job quit" penalty: no benefits if unemployed within 12 months without good cause
- Eliminate TANF grants for non-needy caretaker relatives with incomes above 185% of the federal poverty level
- Eliminate TANF for unemployed two-parent families effective July 1, 2010
- Eliminate Supportive Remedial Day Care services for at-risk or foster care families
- Reduce child welfare Other Medical services by 50%
- Eliminate crisis case management services for homeless youth

The Governor's budget reflects almost all of the CAF program reduction options identified in DHS' 10% General Fund reductions list submitted as part of the 2009-11 budget development process. One option to eliminate child welfare's System of Care flexible funding ($1.7 million General Fund, $5.3 million total funds) is not part of the Governor's budget, but a listed 50% reduction in Supportive Remedial Day Care ($1.6 million General Fund, $1.9 million total funds) was changed to a proposal to eliminate those day care services. Another option would reduce TANF Domestic Violence services by 10% ($0.1 million General Fund, $0.9 million total funds), but this is not part of the Governor's budget proposal. More significant reductions would reduce regular and special foster care rates by 10-20%, and reduce vocational rehabilitation client service dollars by 20% overall.

Most of CAF's programs expect higher demand in the 2009-11 biennium. The 2009 Legislature will face a severe challenge to meet those needs, much less expand services or add new programs, given the limitations on federal resources and Oregon's economic downturn. A federal stimulus package could provide some additional resources – such as a temporary increase in the federal share of Medicaid and Foster Care and Adoption Assistance expenditures -- but the prospect for such relief is uncertain. The Legislature will need to work with the agency to review its core programs and policies, client and provider needs, federal requirements, program outcomes, and all available resources, as it fashions the 2009-11 biennium budget for CAF Programs.

## CAF – Program Support and Administration

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 230,541,513 | 262,671,772 | 285,466,847 | 350,410,933 |
| Other Funds | 18,619,177 | 11,982,710 | 12,876,788 | 12,715,778 |
| Federal Funds | 312,199,963 | 322,165,499 | 355,676,604 | 329,887,342 |
| **Total Funds** | **561,360,653** | **596,819,981** | **654,020,239** | **693,014,053** |
| Positions | 4,161 | 4,284 | 4,416 | 4,428 |
| FTE | 4,027.96 | 4,180.72 | 4,216.70 | 4,352.47 |

### Program Description

This budget includes field staff for Self-Sufficiency, Child Safety, Substitute Care, Adoptions, Other Programs, Vocational Rehabilitation Services, and the Service Delivery Area (district) field administration. The Statewide Processing Center also processes applications and determines eligibility for the Oregon Health Plan. The Program Support and Administration budget also reflects expenditures for the Office of the CAF Director/Division Administration, the Office of Self-Sufficiency, the Office of Child Safety and Permanency, the Office of Program Performance and Reporting, and the Office of Vocational Rehabilitation Services. These offices provide policy and program direction and oversight for CAF. Centralized support for program service delivery is provided through eligibility determination, payment processing, fraud investigation, and quality control functions.

### Budget Environment

CAF Program Support and Administration makes up more than 40% of the total positions and FTE in DHS. Statewide actions that affect positions, such as salary and benefit adjustments, have a large budget impact in these units. This is particularly true if those adjustments are phased-in during the biennium, as in the 2007-09 biennium, then rolled-up for the full 24-month period for the next biennium.

For most CAF programs, the budget reflects historical staffing standards used to adjust staffing based on caseload growth or reductions. Since 2001, because of statewide revenue constraints, staffing levels for some programs have been funded at lower levels than these historical models would support. During the 2007-09 interim, the Legislature and the Emergency Board approved a net 132 added positions (35.98 FTE) for child welfare services and food stamps eligibility, but the approved budget does not fully fund positions that the historical models would prescribe. This has increased caseloads for existing field staff and challenged the agency to develop alternative or more efficient methods of providing services to clients. As a result of several staffing studies over the past four years, DHS has developed workload-based standards that better reflect the staffing levels needed to complete work in Food Stamps and Medicaid eligibility, TANF case management, and child welfare services. CAF programs are reviewing their workload processes as well.

### Essential Budget Level

The Program Support and Administration essential budget level is calculated at $64.9 million (22.7%) General Fund and $39 million (6%) total funds higher than the 2007-09 legislatively approved budget. The General Fund increase is primarily the result of $51.9 million General Fund added to the budget to replace $51.9 million in Federal Funds: $38.2 million to cover a shortfall resulting from federal regulation changes for Medicaid Targeted Case Management, and $13.7 million to backfill a change in the use of TANF Emergency Assistance for some child welfare out-of-home cases. Reclassification actions, technical adjustments, and limited duration and other position phase-outs resulted in a net reduction of 60 positions (but a net increase of 18.16 FTE) from the 2007-09 budget level. The essential budget level carries forward positions in self-sufficiency and child welfare that were funded for less than 24 months in the 2007-09 biennium, and adds a net $7.4 million General Fund, $7.3 million Federal Funds, and 132 positions (122.61 FTE) based on the projected caseload growth in Food Stamps and a small reduction expected in Substitute Care caseloads.

### Issues and Options

The essential budget level for Program Support and Administration does not reflect another $6.8 million in Other Funds and Federal Funds revenue needed, but not expected to be available, to cover standard inflationary increases and the loss of TANF Emergency Assistance funding previously used to support non-mandated programs. DHS included a request for General Fund to backfill this Federal Funds shortfall in its agency request budget, and the Governor's recommended budget includes $6.8 million General Fund to do this.

The Governor's recommended budget would fund the CAF Program Support and Administration budget at $350.4 million General Fund, $678.7 million total funds, 4,397 positions and 4,309.51 FTE. This is $65 million (22.7%) General Fund and $24.7 million (3.8%) total funds more than the 2007-09 legislatively approved budget level. The Governor's General Fund budget, with the backfill described above, is at the EBL level, but total funds are down $14.3 million (2.1%) from EBL overall. The Governor has proposed reductions of $6.7 million General Fund, $17.6 million total funds, and 54 positions (63.63 FTE). These include savings of $3.1 million General Fund and $7.6 million total funds from reducing personal services by 4% overall, reducing administrative services and supplies expenditures by 2%, and reducing Attorney General expenditures by 10%. The balance of the reductions ($3.5 million General Fund, $8.7 million total funds, 54 positions, 63.63 FTE) are related to program proposals to establish an income limit for non-needy caretakers in the TANF program, eliminate the unemployed two-parent TANF program July 2010, establish a TANF "job quit" penalty, reduce staffing for the pre-SSI/SSDI program, limit the Employment Related Day Care program to families who are leaving TANF, and make other changes in ERDC eligibility and co-payment requirements.

The Governor's budget includes 26 new positions (23.67 FTE), funded with $1.8 million Other Funds and $1.4 million Federal Funds, for eligibility determinations for the proposed Healthy Kids program. CAF would need another $4.5 million Other Funds, $4.5 million Federal Funds, and 71 positions (69.32 FTE) to support the Governor's proposed continuation and expansion of the Oregon Health Plan standard program with provider tax revenue and federal matching funds. This increase was left out of the Governor's budget in error.

For CAF Program Support and Administration, the 10% General Fund reduction options submitted as part of the 2009-11 budget development process have largely been included in the Governor's budget. The only other CAF proposal on that list that would affect this budget would be to reduce the TANF Domestic Violence Program by 10%, which would result in a small (0.93 FTE) reduction here.

As noted above, CAF has reviewed its workload needs and staffing levels in its major program areas. The agency request budget included a total of $38.9 million General Fund, $35.3 million Federal Funds, and 646 positions (568.48 FTE) to implement new workload-based models in the self sufficiency, child welfare, and vocational rehabilitation programs. These packages are not part of the Governor's budget. Workload process improvements and improved information systems could help mitigate the need for new staff to handle current caseloads and projected increases, and the agency has identified some areas for such improvements. However, services to clients and positive program outcomes are dependent on front-line staff with adequate time and skills to meet clients' needs, and staffing support in these areas remains a challenge for the agency. As the 2009 Legislature considers this budget, the link between staffing and service delivery is a critical issue.

## DHS/Division of Medical Assistance Programs (DMAP) – Program Area Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 815,215,821 | 1,012,785,917 | 1,044,295,669 | 1,389,479,651 |
| Lottery Funds | 0 | 1,806 | 0 | 0 |
| Other Funds | 670,376,796 | 767,379,823 | 712,734,820 | 627,572,781 |
| Federal Funds | 2,247,080,649 | 2,630,615,402 | 2,647,761,241 | 3,214,322,813 |
| **Total Funds** | **$3,732,673,266** | **$4,410,782,948** | **$4,404,791,730** | **$5,231,375,245** |
| Positions | 169 | 164 | 179 | 178 |
| FTE | 164.39 | 161.55 | 171.08 | 171.28 |

### Summary Description

The Division of Medical Assistance Program (DMAP) Health Services program area includes the Oregon Health Plan (OHP), Non-Oregon Health Plan (Non-OHP), the Children's Health Insurance Program (CHIP), as well as program support and administration. It is the largest of the Department of Human Services' (DHS) program area budgets, and the essential budget level for 2009-11 includes $1.4 billion of General Fund.

The ***Oregon Health Plan (OHP)*** provides medical care to more than 400,000 low income Oregonians. Services include physician, pharmaceutical, hospital, vision, dental, and other acute care services. The Health Plan includes the state's Medicaid waiver programs (OHP Plus and OHP Standard), the Children's Health Insurance Program (CHIP) and, the Family Health Insurance Assistance Program (FHIAP) in the Office of Private Health Partnerships (a separate state agency). The DMAP budget contains funding for CHIP and the state's Medicaid waiver programs.

The ***Non-OHP*** budget is also part of DMAP and has, in the past, included payments of Medicare premiums for certain low-income eligible populations. This part of the budget is transferred from DMAP to the Seniors and People with Disabilities (SPD) budget for the 2009-11 biennium. The Non-OHP budget retains payments on behalf of Qualified Medicare Beneficiaries for other forms of Medicare cost sharing such as co-payments or coinsurance. The Non-OHP budget contains a General Fund "clawback" payment to the federal government that is required under the Medicare Modernization Act (MMA) of about $137.6 million within the 2009-11 essential budget level. In addition, this part of the budget includes funding for the state's Breast and Cervical Cancer program, the Citizen Alien Waived Emergency Medical program, and limited prescription drug coverage for select former clients of the Medically Needy Program.

The ***Program Support and Administration*** budget provides funding for staff who provide policy direction and administrative support for all divisional programs as well as persons who manage the Health Plan's automated claims payment system.

### Revenue Sources and Relationships

Other Funds revenue includes a significant amount of Tobacco Tax (approximately $321.4 million in the 2009-11 essential budget level), Medicaid provider taxes, pharmaceutical manufacturer drug rebates, client contributions, third party recoveries, numerous licensing and other fees, and other governmental or quasi-governmental entity (such as the Oregon Department of Education, Oregon Health and Science University, or the Office of Private Health Partnerships) funds eligible for federal match.

Federal Funds revenue sources are two: Medicaid, which accounts for better than 90% of the division's cluster's Federal Funds, and Children's Health Insurance Program (CHIP) revenue. Medicaid requires a state match and the match rate is recalculated each year by the federal government. The composite match rate used in the adopted budget for Medicaid is approximately 39% state funds and 61% Medicaid funds for most services. CHIP funds also require state matching funds. The match rate for CHIP is about 27% state funds to 73% Federal Funds. Medicaid Federal Funds are, in theory, available as long as a state has matching funds. CHIP Federal Funds are a block grant and each state's allocation is limited by Congress.

### Budget Environment

The DMAP budget primarily finances health care services. As such, the budget is subject to several influences.

The OHP budget is greatly influenced by federal Medicaid and Medicare law, the Centers for Medicare and Medicaid Services (CMS – the federal agency which oversees Medicaid and approves state waivers of certain Medicaid administrative rules), significant increases in health care costs and utilization, and economic conditions. As a general rule, when the economy is not doing well, more people are without medical coverage and seek Medicaid services.

### Essential Budget Level

The essential budget level for 2009-11 of $5.2 billion total funds is $826.6 million, or 19%, higher than the 2007-09 legislatively approved budget. General Fund of $1.4 billion is $345.2 million, or 33%, higher than the legislatively approved budget. These significant increases are largely the result of caseload increases, higher medical service costs, lower amounts of Other Funds (which is replaced with General Fund), and increasing diagnostic related grouping (DRG) hospital reimbursement (within managed care capitation rates) to 100% of costs. Today, DRG hospitals receive reimbursement based on 80% of their Medicare costs. Partially offsetting these increases is the transfer of premium payments for low-income Medicare beneficiaries from DMAP to the Seniors and People with Disabilities (SPD) budget totaling $306.4 million ($127.5 million General Fund).

### Issues and Options

The Governor's budget increases the DMAP budget by $589.6 million total funds, but reduces the General Fund within this budget by $413.2 million. The adjustments to the essential budget level made in the Governor's budget are detailed below but, at their most basic, are of three types: the replacement of $231 million General Fund with new and existing Other Funds revenue sources; various program reductions; and the expansion of OHP Standard and medical coverage for children known as the Healthy Kids Plan. The expansion of OHP Standard and the addition of the Healthy Kids Plan are funded with new provider tax revenue and federal Medicaid and CHIP funds.

The Governor's budget relies upon nearly $700 million of new provider tax revenue and $112 million of new tobacco tax revenue. Some of this new revenue ($110 million) along with $97 million of existing provider tax cash and accrued ending balance is used to replace General Fund as mentioned above. Another $212.8 million of the new provider tax revenue is used to establish a caseload reserve and not expended in the Governor's recommended budget.

The program reductions included in the Governor's budget reflect dramatic changes; they include the elimination of dental services except for children and pregnant women; a reduction in the number of eligible people based upon changes in the SPD long-term care program, and a reduction (from the essential budget level) to reimbursement for both hospitals and managed care plans. A federal economic stimulus package that includes an enhancement to the Medicaid match rate is currently being debated by Congress. This package may require that states maintain their current Medicaid program in order to be eligible for the enhanced federal funding. If that is the case, a number of the reductions included in the Governor's budget could not be implemented. On the other hand, with the additional Federal Funds, these reductions may also be avoidable.

## DMAP – (Special Payments Only)

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 797,697,811 | 991,610,262 | 1,022,490,946 | 1,365,285,390 |
| Other Funds | 665,918,515 | 759,336,051 | 708,274,876 | 618,913,556 |
| Federal Funds | 2,220,396,474 | 2,589,579,833 | 2,603,572,670 | 3,169,579,538 |
| **Total Funds** | **$3,684,012,800** | **$4,340,526,146** | **$4,334,338,492** | **$5,153,778,484** |

### Program Description

For budgetary purposes, DMAP special payments are divided into three sections: Oregon Health Plan (OHP) payments, Non-Oregon Health Plan (Non-OHP) payments, and the Children's Health Insurance Program or CHIP.

Oregon Health Plan

The OHP essential budget level for the 2009-11 biennium is about $4.7 billion total funds—about 91% of the $5.2 billion of special payments made by DMAP. The OHP is governed by a Medicaid state plan which includes waivers to various Medicaid administrative rules. In addition, Oregon statutes also dictate what the state's Medicaid plan will include. The plan, proposed amendments to the plan, and waivers to Medicaid rules all require review and approval by the Centers for Medicare and Medicaid Services (CMS), the federal agency which administers Medicaid. 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 such changes often involve numerous interested parties (e.g., advocates for clients, managed care organizations, hospitals, physicians, pharmacists, pharmaceutical companies, and commercial insurers).

The Medicaid state plan details who is eligible for the program, what services or benefits are offered, and how, in general terms, providers will be reimbursed. These three elements—eligibility, benefits, and reimbursement—are the main levers that are used to control the OHP budget.

- Eligibility for OHP

The following is a list of those who are eligible for the Oregon Health Plan. Medicaid is considered an entitlement, under federal law. That is, anyone who meets the eligibility criteria established in a Medicaid state plan must be provided services, without regard to the state's financial ability to pay for those services. If a state wants to reduce eligibility, it must receive approval from CMS to do so.

1. Persons receiving cash assistance under the Temporary Assistance to Needy Families (TANF) program.
2. Families transitioning from TANF into employment, who are eligible for 12 months after cash assistance ends.
3. Children in foster care or for whom adoption assistance payments are made.
4. Persons in the Poverty Level Medical (PLM) program, 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 2006, the SSI grant of $603/month for a household of one was about 74% of FPL. 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 233% of FPL. To qualify for long-term care, however, a person must also have impairments that limit their activities of daily living.
5. Blind and disabled persons, who are eligible for SSI or, like seniors, are eligible for Medicaid long-term.
6. Blind and disabled persons who are presumed eligible for SSI. Many of these persons would have likely qualified for the General Assistance program, a program that was eliminated in the 2005-07 legislatively adopted budget.
7. Adults with incomes under 100% of FPL who are not eligible for Medicare may be eligible for the OHP Standard program. The program currently serves an average caseload during the 2007-09 biennium of about 24,000. Recently, OHP Standard had about 32,000 beneficiaries. Prior to 2004, OHP Standard was open to anyone eligible and had a peak caseload, in January 2003, of over 100,000. Budget reductions, however, forced the Legislature to close OHP Standard to newly eligible people and the caseload decreased. The state funds used to support OHP Standard are generated from hospital and managed care provider taxes. Under current law, these taxes will end September 30, 2009.

- OHP Benefits

All those eligible for the OHP, except for those eligible for OHP Standard, receive a benefit package known as "OHP Plus." Today, OHP Plus includes hospital, physician, prescription drug, durable medical equipment, dental, non-institutional mental health and drug and alcohol services, and transportation to medical providers with limited or no co-payments. OHP Standard is a less comprehensive benefit package and, as initially designed, excluded transportation, vision, and a portion of the dental services. In addition, Standard requires premium payments for eligible persons with household incomes between 10% and 100% of the federal poverty level. If the premium is not paid, the client will lose coverage.

Underlying all the benefits is the OHP "prioritized list of services." For the OHP Plus package, for example, services are available based on a prioritized list of health conditions and specific treatments. Theoretically, the amount of funding available determines the services that are covered. The Health Services Commission, administered by the Office for Oregon Health Policy and Research in the Department of Human 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, the Health Care Financing Administration (the predecessor to CMS) allowed only modest rationing of services using this method. Likewise, CMS has been extremely reluctant to limit treatment by excluding treatments based on the prioritized list.

- <u>OHP Provider Reimbursement</u>

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. Nearly 75% of those eligible are served through managed care organizations (other than those providing dental services), which receive capitation payments from DHS and who assume the risk of providing necessary medical services for their members. The remaining 25% are served on a fee-for-service basis. Dental care organizations (managed care organizations providing dental services) serve more than 90% of those OHP clients eligible for dental coverage.

<u>Non-Oregon Health Plan</u>

The *Non-OHP* budget includes four major types of expenditures: a General Fund payment to the federal government required under the Medicare Modernization Act for clients eligible for both Medicare and Medicaid known as the "clawback" payment ($137.6 million General Fund and total funds), and expenditures for the Citizen Alien Waived Emergency Medical (CAWEM) program ($86.5 million total funds), women eligible for the Breast and Cervical Cancer Prevention and Treatment Program ($24 million total funds), and certain former clients of the Medically Needy program ($146,552 General Fund and total funds). Prior to the 2009-11 biennium, the Non-OHP budget also included Medicaid payments for certain clients who were not eligible for OHP, but did qualify for assistance with their Medicare premiums. The essential budget level for 2009-11, however, transfers this program to the Senior and People with Disabilities (SPD) budget. A similar program, which pays for other Medicare cost sharing including deductibles, coinsurance, and copayments is retained within the Non-OHP budget ($9.1 million total funds). The entire Non-OHP essential budget level for 2009-11 is about $258 million total funds ($171.8 million General Fund).

<u>Children's Health Insurance Program</u>

The *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 received federal approval in March 1998, and the program was implemented in July 1998. Oregon's policy makers took advantage of the more favorable federal CHIP match rate (approximately 73% for CHIP versus 61% for Medicaid) to expand OHP services to more children than would have been covered if the funds were coming from Medicaid alone. To qualify for CHIP, children must be 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% (or, in some instances, 133%) and 185% FPL. Those eligible for CHIP receive the OHP Plus benefit package. The 2009-11 essential budget level for CHIP is about $193 million ($1.8 million General Fund). Most of the state matching requirement is met using tobacco tax revenue.

### Revenue Sources and Relationships

The federal government funds approximately 61% of OHP Medicaid costs. Most of the state's 39% match comes from the General Fund and tobacco taxes, and Medicaid provider taxes. As noted above, the state match for the OHP Standard program is now exclusively funded with provider tax revenue. Although the provider taxes were scheduled to end January 2008, the 2007 Legislature continued these taxes until September 2009. The remaining state match for the OHP Plus benefits 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. The legislatively adopted budget for 2005-07 used $24.5 million of Tobacco Master Settlement Agreement funds, but this revenue source was not used in the 2007-09 DHS budget.

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, 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.

### Budget Environment

Many factors affect the budget of DMAP, 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 is a brief discussion of four of the significant factors affecting the DMAP budget.

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 several biennia ago, DHS developed a new method of forecasting OHP caseloads that showed promise of being more accurate and providing better data for management planning.

Like most statistical forecasting methods, however, the new forecasting models had limitations. Because of its reliance upon recent historical data, the model could not predict the significant upswing in caseload that resulted from the economic recession during the 2001-03 biennium. The model could not accurately predict the rapid reduction in the Standard caseload that occurred in the spring of 2003 resulting from policies that eliminated certain benefits and, more importantly, added the requirement to pay premiums for coverage. And the caseload forecast used to develop the 2005-07 OHP budget understated the actual caseloads significantly. In response, departmental staff reviewed the model and data internally, they consulted with experts outside the agency, and most importantly, forecasting staff attempted to develop a stronger link to program staff who were aware of policy changes and the goals of those changes. In addition, the DHS director met regularly with several legislators to compare forecasts with actual caseload results.

These efforts to improve DHS forecasting are reasonable and hopefully will lead to greater forecasting accuracy. Even so, the best DHS forecasts must be regarded with caution for budgetary purposes. The caseload forecasts for the OHP used to generate the 2009-11 essential budget level or Governor's recommended budget were developed in the fall of 2008. These forecasts used actual data through March 2008– three years and three months prior to the end of the 2009-11 biennium. Clearly, this forecast is inherently risky – especially given current economic conditions or if policies are modified without reasonable certainty of the financial consequences. Unlike commercial insurers, the OHP does not have established reserves that can be used if caseload forecasts (or for that matter, costs) are understated and more funding is required – except for the state's General Fund.

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. In other words, Medicaid must adequately reimburse providers of medical care to compete with other health care purchasers in the market place so Medicaid clients may receive services. Because costs for medical services have risen dramatically over the last decade or so, states purchasing Medicaid services have had to spend greater proportions of their budgets on medical services. Causes for these cost increases are complex and include greater use of medical services by an aging population, the use of new high-cost medical technology such as pharmaceuticals or diagnostic tools, medical labor shortages, and a growing uninsured population. When uninsured persons use medical care, but cannot pay for it, providers may be forced to increase their charges to clients who will pay, thereby driving up commercial and public health care costs. Further, some analysts believe that unique billing systems and extensive paperwork requirements may be responsible for as much as 25-30% of all health care costs. Solutions to health care cost problems have been proposed, but have not been easy to implement in either the private health care market or in public programs such as Medicaid or Medicare.

Federal Policy and Funding Changes – Medicaid is a state-federal partnership of unequal partners. The federal share of administrative costs ranges from a low match rate of 50% for most administrative functions to 90% for certain programs. Most program costs are matched at a rate of approximately 39% state to 61% 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 DMAP programs. The Medicare Modernization Act (MMA), passed by Congress in December 2003, for example, greatly influenced the health plan budget. The MMA provided a new Medicare benefit, Part D prescription drug coverage. Oregon's 52,000 "dual-eligibles" (clients eligible for both Medicare and Medicaid) had been receiving their prescription drugs through Medicaid. The Medicare Part D benefit meant that these clients would no longer receive a Medicaid drug benefit. This lowered the costs of the Medicaid program considerably. At the same time, Congress required states to make a payment to the Medicare program to support part of the federal government's Part D costs. This payment became known as the "clawback." This General Fund payment is included in the agency's Non-OHP payments' budget that is discussed above. The clawback is based on a formula that conceptually represents a percentage (less than 100%) of the savings states would realize from the elimination of Medicaid drug costs for dual-eligible clients. The percentage used in calculating the clawback is reduced over time, allowing states to realize more savings from the implementation of the MMA Part D benefit.

In January 2006, Congress passed the Deficit Reduction Act (DRA) which made significant changes to the Temporary Assistance for Needy Families (TANF) program, as well as changes to Medicaid. Most notable is the requirement for clients to document their citizenship status and provisions that allow states more flexibility to make changes to their Medicaid programs that could moderate cost growth by limiting benefits or eligibility. More recently, in early December 2006, Congress passed the Tax Relief and Health Care Act which lowered the ceiling for Medicaid provider taxes from 6% to 5.5%. While this has lowered provider tax revenue available to fund OHP Standard, Congress' action to codify this ceiling in statute also means that CMS will not be able to lower the ceiling further administratively – as the agency had been considering.

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, DMAP 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.

### Essential Budget Level

The essential budget level for 2009-11 of $5.2 billion total funds is about $819.4 million or 19% higher than the 2007-09 legislatively approved budget. General Fund of $1.4 billion is about $342.8 million or 34% higher than the approved budget. These increases are primarily the result of four factors: caseload increases, higher medical services costs (up about 14% over the 2007-09 biennium), lower amounts of available Other Funds (e.g., tobacco tax revenue) requiring the use of General Fund instead, and the transfer of premium payments for low-income Medicare beneficiaries from DMAP to SPD ($306.4 million total funds, $127.5 million General Fund). In addition to these four main budget drivers, the essential budget level raises reimbursement for Diagnostic Related Group (DRG) hospitals (within managed care capitation rates) to 100% of costs (during 2007-09, reimbursement for DRG hospitals was 80% of costs), removes $7 million of General Fund ($17.9 million total funds) that was used in 2007-09 to improve managed care plan reimbursement for physicians, and eliminates Other Funds and Federal Funds payments to enhance managed care plan reimbursement to compensate them for the provider taxes paid during the 2007-09 biennium. As noted earlier, these taxes sunset in September 2009.

### Issues and Options

Overall, the Governor's budget is $579.5 million total funds higher than the 2009-11 essential budget level. General Fund, however, is about $411.6 million lower than the essential budget level. The Other Funds and Federal Funds used in the Governor's budget are higher by $652.6 million and $338.4 million, respectively.

There are primarily three sets of adjustments that the Governor's budget makes to the essential budget level. First, the Governor's budget replaces $231 million of General Fund with a variety of Other Funds including $100 million of new tobacco tax revenue, $97 million of existing provider taxes that represent an expected ending cash and accrued balance on September 30, 2009, $10 million of new proposed provider tax revenue, $20 million of revenue from the Master Settlement Agreement with tobacco producers, and $5.7 million of Other Funds expenditure limitation that is not actually supported with revenue. In addition, the Governor's budget includes $1.7 million of General Fund to offset a net reduction in several additional sources of Other Funds.

The second type of essential budget level adjustments made in the Governor's budget are program reductions. A partial list of these reductions is below:

- Reduces reimbursement for DRG hospitals (within managed care capitation rates) by $59.7 million General Fund ($162 million total funds) to 80% of costs. The essential budget level reimbursement was 100% of cost. The 2007-09 level is 80% of cost.
- Eliminates dental coverage except for pregnant women and children on the OHP, reducing General Fund by $22.5 million ($60.2 million total funds).
- Reduces capitation payments to managed care plans by 3%, decreasing General Fund expenditures by $24.9 million ($67.7 million total funds).
- Adds prior authorization to the preferred drug list mechanism and adds mental health prescription drugs to the preferred drug list, reducing General Fund expenditures by $12.8 million ($24.7 million total funds). This change in policy would require a statutory revision.
- Reduces the DMAP budget by $54.9 million General Fund ($147.3 million total funds) to reflect reductions in the Adults and People with Physical Disabilities program within the SPD budget. The SPD budget assumes that income eligibility for its long-term care program would change from 300% of Supplemental Security Income (SSI) payments to 150% of the FPL using an "I – waiver." The DMAP reduction, however, is not consistent with this change and instead, assumes eligibility would be changed from 300% SSI to 100% SSI. The DMAP reduction is consequently worse, and eliminates more General Fund in DMAP than the policy change would generate--leaving the DMAP budget short by an estimated $25 – $30 million.

The third set of changes to the essential budget level the Governor's budget includes are two program enhancements—an expansion of OHP Standard ($961 million total funds) and an expansion of Medicaid and CHIP coverage for children, known as the Healthy Kids Plan ($190.6 million total funds). The state's matching funds are generated through new provider taxes--$358.7 million for OHP Standard, and $89.2 million for Healthy Kids. These amounts include only the payments made to medical providers or insurers and do not include program administrative costs, which are elsewhere in the DHS and Office of Private Health Partnerships' budgets.

The Governor's budget anticipates about $700 million of new provider taxes and $112 million of new tobacco taxes. As noted above, much of the new provider tax revenue would be used to support Healthy Kids and the expansion of OHP Standard. In addition, the Governor's budget sets aside $212.8 million of provider taxes in a caseload reserve. The new tobacco taxes are primarily used to replace General Fund ($100 million) and also to enhance the Tobacco Prevention and Education Program ($7 million) within the Public Health Division. Another $5 million is used in the Department of Transportation to maintain and expand senior and disabled transportation programs.

The use of $110 million new revenue as well as $97 million of existing provider tax revenue to replace General Fund in this budget is risky. If the new revenue fails to materialize, other program reductions may be necessary. Moreover, if new provider taxes are not approved, the $97 million of existing provider taxes would not be available to continue the OHP Standard program for a time, after the current provider taxes sunset.

DHS is hopeful that a proposed federal stimulus package will include a substantial increase to the Medicaid match rate. During the last recession, states were only eligible for the enhanced match rate and federal funds if they maintained Medicaid eligibility. If this condition is part of the next stimulus package, a number of the reductions in the Governor's budget could not be implemented. On the other hand, if additional federal funds are available in lieu of General Fund, it may not be necessary to implement those reductions. At the time this was written, the economic stimulus package was still being debated by Congress.

## DMAP – Program Support and Administration

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 17,518,010 | 21,175,655 | 21,804,723 | 24,194,261 |
| Lottery Funds | 0 | 1,806 | 0 | 0 |
| Other Funds | 4,458,281 | 8,043,772 | 4,459,945 | 8,659,225 |
| Federal Funds | 26,684,175 | 41,035,569 | 44,188,571 | 44,743,275 |
| **Total Funds** | **$48,660,466** | **$70,256,802** | **$70,453,239** | **$77,596,761** |
| Positions | 169 | 164 | 179 | 178 |
| FTE | 164.39 | 161.55 | 171.08 | 171.28 |

### Program Description

This budget unit includes funding for the staff that administer the DMAP programs. Of the $77.6 million total funds essential budget level for 2009-11, about $26.9 million is used for personal services (salary, and other payroll expenses such as medical insurance, Public Employee Retirement System contributions, or Social Security taxes). The budget includes $33.9 million total funds for professional services, such as actuarial, pharmacy benefit management, or disease management services. The other services and supplies' budget of $12.4 million is used for travel, office expenses, telecommunication, Attorney General services, and training. Finally, the 2009-11 essential budget level includes a $4.4 million total funds payment to the State Commission on Children and Families for its Healthy Start program. The Commission transfers $2.2 million of its General Fund to DMAP where it is matched with federal administrative Medicaid funds and subsequently returned to the Commission in this special payment.

### Revenue Sources and Relationships

The Program Support and Administration budget for DMAP is funded with General Fund, allocations of Other Fund revenue discussed earlier, such as tobacco tax, provider tax, or prescription drug rebates from pharmaceutical manufacturers, and federal Medicaid revenue.

### Essential Budget Level

The 2009-11 essential budget level for DMAP Program Support and Administration of $77.6 million total funds ($24.2 million General Fund) is $7.1 million total funds ($2.4 million General Fund) higher than the 2007-09 legislatively approved budget. The total funds increase is about 10% and the General Fund increase is about 11%. The increases are primarily the result of including a standard inflationary increase, adding $160,715 General Fund to account for a shortage of Other Funds revenue, and transferring 10 positions along with funding from the Administrative Services Division to DMAP to maintain, rather than develop, the new Medicaid Management Information System (MMIS). In addition, the essential budget level removes about $4.6 million of Federal Funds expenditure limitation used in 2007-09 for a Health Records Bank project.

### Issues and Options

The Governor's 2009-11 recommended budget is $87.7 million total funds, about $10.1 million total funds higher than the essential budget level. The $22.6 million of General Fund in the Governor's budget, however, is about $1.6 million lower than the 2009-11 essential budget level. The Governor's budget reflects seven main changes to the essential budget level that are listed below:

- Re-establishes Federal Funds expenditure limitation for Health Records Bank funding of $3.2 million, along with 2 positions (0.76 FTE).
- Transfers the volunteer transportation program ($2.2 million total funds reduction) from DMAP to the Administrative Services Division.
- Transfers 3 positions and $0.3 million total funds from the Children, Adults, and Families budget to DMAP.
- Reduces the personal services budget by 4%, or $0.9 million total funds.
- Reduces the services and supplies budget by 2%, or $1.1 million total funds.
- Adds $0.4 million along with 4 positions to assist with the expansion of the OHP Standard Program. The funding for this expansion is split between new provider tax revenue and federal Medicaid funds.
- Adds $10.4 million total funds (provider tax revenue and federal Medicaid funds) to support the administrative work involved with the new Healthy Kids Program; this adjustment also adds 11 positions (10.76 FTE).

## DHS/Public Health Division (PHD) – Program Area Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 33,794,290 | 50,006,198 | 50,089,158 | 53,943,534 |
| Other Funds | 47,421,874 | 58,625,334 | 63,719,995 | 64,055,724 |
| Federal Funds | 203,665,614 | 222,964,656 | 248,476,901 | 264,058,695 |
| Other Funds (NL) | 31,931,072 | 30,240,335 | 40,000,000 | 40,000,000 |
| Federal Funds (NL) | 87,273,216 | 102,729,051 | 102,729,051 | 102,729,051 |
| **Total Funds** | **$404,086,066** | **$464,565,574** | **$505,015,105** | **$524,787,004** |
| Positions | 621 | 675 | 714 | 687 |
| FTE | 590.11 | 655.68 | 677.73 | 668.31 |

### Summary Description

The Public Health Division (PHD) provides a diversity of services to improve and protect the health of all Oregonians. The division manages more than 100 prevention-related programs that halt the spread of disease, protect against environmental hazards, and promote healthy behaviors. Much of the work is carried out by local county health departments which are supported in their work by Public Health Division staff. For the purposes of this discussion, the division's budget is divided into two parts: special payments, and program support and administration.

### Revenue Sources and Relationships

The Division's essential budget level of $525.8 million total funds is comprised of General Fund (10%), Other Funds (12%), Federal Funds (50%), non-limited Other Funds (8%), and non-limited Federal Funds (20%). Non-limited expenditures are not constrained by a budgetary restriction and agencies may make these expenditures as long as revenue is available. Within the PHD, non-limited Other Funds and Federal Funds support the Women, Infants, and Children (WIC) program. The non-limited Federal Funds of $102.7 million represent WIC food grant expenditures and the $40 million of non-limited Other Funds represent expenditures of rebates from the manufacturers of infant formula.

The Other Funds supporting the essential budget level come from licenses and fees (e.g., health records and statistics or the Medical Marijuana program), charges for services (e.g., newborn screening fees or public health laboratory receipts), or other revenues such as Susan G. Komen breast cancer grants, or Ryan White program prescription drug rebates. Other Funds revenue also includes transfers from other state agencies such as tobacco tax receipts from the Department of Revenue that are used to support the tobacco prevention and education program (TPEP) or funds from the Military Department that support chemical emergency preparedness.

Federal Funds that support the essential budget level include Medicaid for the Family Planning Expansion Program (FPEP), the Maternal and Child Health Block Grant, Bioterrorism Preparedness and Response, Chronic Disease Prevention, Cancer Prevention and Control, Ryan White HIV/AIDS treatment grants, and numerous smaller federal Centers for Disease Control (CDC) grants that focus on other particular public health concerns.

### Budget Environment

During the 20th century, life expectancy in the United States rose from 47 years in 1900 to 77 years in 2000. Some studies suggest that of the 30 year increase, public health interventions account for 25 years and medical care innovations account for 5 years of the increase. In addition, public health interventions increased life expectancy at much less cost than clinical medical care. Nonetheless, public health budgets are often given short shrift and budgets for clinical care receive greater attention and support by policymakers. The irony is that when public health programs are working well, few people are aware of it.

Public health budget drivers include population growth and characteristics (e.g., ethnic diversity, age and gender distribution, percentages of population engaged in risky or healthy behaviors) as well as emerging threats to the public health such as diseases or environmental hazards. In April 2008, the Trust for America's Health, a non-partisan health policy organization, issued a report of state health indicators. Oregon had the highest asthma rate (15.1%), but ranked 48th in the percentage of adults who are physically inactive. We had the lowest percentage of low birth weight babies of any state, but ranked 13th in children aged 19-35 months without all immunizations.

The point is that Oregon's population has characteristics that require a dynamic and active public health response. Some of the characteristics are already better than most other states, and Oregon's public health system can build on those. Alternatively, some of Oregon's health indicators are poor compared to other states and ought to be a focus of attention.

### Essential Budget Level

The 2009-11 essential budget level for the division is $524.8 million total funds ($53.9 million General Fund). This budget level is about $19.8 million, or 4% higher, than the 2007-09 legislatively approved budget. The budget includes adjustments for personal services costs, inflation (including medical inflation), the continuation of 6 limited duration positions to support federal grant activities, and a technical adjustment that moves 6 positions along with $1.3 million of total funds to the Seniors and People with Disabilities (SPD) budget to support the Medicare Buy-in program.

### Issues and Options

Like many other human services programs, public health faces significant funding challenges. The Oregon Coalition of Local Health Officials (CLHO) conducted an assessment last summer of the capacity of the public health system in Oregon to fulfill its mission. This public health advocacy group issued a report in October 2008 which stated: "After years of flat or declining resources and increasing costs, there is now an imminent threat to local public health's ability to continue serving Oregonians. This statewide capacity assessment revealed significant gaps in all Essential Functions of Public Health and a related gap in the system statewide. The gap identified in this report between Oregon's current local public health capacity and what it would take to make [local public health departments] fully functional is $69.4 million a year."

The 2009-11 agency request budget for PHD proposed adding $75.2 million to the essential budget level to enhance a variety of projects. Most of this request ($73.4 million) was General Fund because most of the Other Funds and Federal Funds available for public health have already been obtained. The request included $26 million to improve local public health systems, $6.1 million to expand public health nurse visits, $7.4 million to enhance environmental public health programs, $4.8 million to reduce obesity, and $5.4 million to expand access to the agency's breast and cervical cancer program.

The Governor's budget of $501.2 million total funds is $23.6 million total funds ($2 million General Fund) lower than the essential budget level. Most significantly, the budget reflects a reduction in the Family Planning Expansion Program (FPEP) of nearly $22 million total funds ($2.2 million General Fund). The Governor's recommended budget adds about $3 million General Fund in the PHD to provide obesity prevention and education programs. Also, the Governor's budget adds about $1.9 million General Fund to replace lower Federal Funds of $0.9 million and to enhance (by $1 million) local public health system improvements. Finally, it adds $7 million of new tobacco taxes (Other Funds) to augment the tobacco prevention and education program (TPEP) and $1.4 million of new provider or insurer taxes (Other Funds) for school-based health clinics as part of the Healthy Kids Plan.

## PHD Programs – (Special Payments Only)

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---:|---:|---:|---:|
| General Fund | 17,699,454 | 31,440,244 | 28,394,961 | 32,882,601 |
| Other Funds | 2,872,902 | 6,156,323 | 5,318,502 | 6,157,103 |
| Federal Funds | 113,627,748 | 114,557,339 | 136,722,408 | 143,438,199 |
| Other Funds (NL) | 31,931,072 | 30,240,335 | 40,000,000 | 40,000,000 |
| Federal Funds (NL) | 86,513,583 | 101,929,051 | 101,929,051 | 101,929,051 |
| **Total Funds** | **$252,644,759** | **$284,323,292** | **$312,364,922** | **$324,406,954** |

### Program Description

Special Payments of $324.4 million are about 62% of the total funds PHD essential budget level for 2009-11. Of this total, $165.6 million is paid to counties to support local public health departments in their efforts to promote public health initiatives, and $138.8 million is distributed to providers of services—most of it ($132.2 million) in the form of WIC food vouchers.

The WIC program is the Special Supplemental Nutrition Program for Women, Infants, and Children and is federally funded through the U.S. Department of Agriculture. The program is designed to improve health outcomes and influence lifetime nutrition and health behaviors in a targeted, at-risk population. WIC serves pregnant women, breastfeeding women with children under 12 months old, non-breastfeeding women with children under 6 months old, and infants and children under 5 years old in households with incomes less than 185% of FPL. The program provides nutrition education, breastfeeding promotion and support, breast pumps (in certain circumstances), monthly vouchers for supplemental, prescribed nutritious foods, and information and referral to other health programs like immunization and social service programs.

There are 34 local public health departments in Oregon to serve 36 counties. Two counties (Wasco and Sherman) joined to form one health department, and Gilliam County never established a public health department. DHS PHD contracts with the Wasco/Sherman public health department to provide those services in Gilliam County. These local public health departments provide public health prevention services and some clinical services including public health nurse home visiting, HIV screening and counseling, immunization programs, and communicable disease testing, treatment, and follow-up. Some public health departments such as Multnomah County's provide primary care through safety net clinics. At a minimum, local public health authorities must provide: communicable disease management; tuberculosis case management; immunizations; tobacco prevention, education, and control activities; public health emergency preparedness; maternal child health services; family planning (e.g., Family Planning Expansion Program or FPEP); WIC; vital records; and environmental health services. Oregon statutes require local public health authorities to submit annual plans that DHS must review and approve or disapprove. Counties often supplement state and federal funding with local resources to carry local public health activities.

### Revenue Sources and Relationships

PHD special payments are supported with $32.9 million of General Fund at the essential budget level. Other Funds subject to limitation ($6.2 million) comprise only 2% of this budget. Of this amount, $5.2 million is tobacco tax used to support the Tobacco Prevention and Education Program (TPEP). Non-limited Other Funds of $40 million are rebates from manufacturers of infant formula and are used in the WIC program. This revenue is about 12% of the special payments budget.

Federal Funds revenue of $245.3 million in the budget supports approximately 76% of this public health special payments budget. The largest source of federal revenue ($101.9 million) is expended within the Women, Infants, and Children (WIC) food voucher program and these expenditures are not subject to expenditure limitation. The amount is included in the budget to provide a perspective on total program expenditures. Approximately $62 million of federal revenue is generated by Medicaid and is used to support the Family Planning Expansion Program – a 9 to 1 federal match program that provides contraceptive services, including annual medical exams and contraceptive supplies to eligible clients. Other federal revenue sources include the Bioterrorism Preparedness and Response Grant, the Maternal and Child Health Block Grant, the Cancer Prevention and Control grant, HIV Prevention Project and HIV Title II Care grants, as well as other individual federal grants that range from $71,000 to $1.2 million for the biennium.

### Essential Budget Level

The essential budget level for PHD special payments of $324.4 million total funds is $12 million or 4% higher than the 2007-09 legislatively approved budget through December 2008. It includes adjustments for standard inflation as well as medical inflation that total $6.1 million total funds ($1.1 million General Fund). The medical inflation increase of 4.4% for the 2009-11 biennium amounts to $1.2 million total funds ($0.2 million General Fund) and has been applied to the Family Planning Expansion Program, School-based health center program, and HIV/TB program.

### Issues and Options

The Governor's budget reduces PHD special payments by $25.1 million. The reduction is primarily the result of three adjustments: reducing the FPEP program as noted above by $22 million total funds ($2.2 million General Fund), eliminating inflationary increases of $6 million that are included in the essential budget level, and transferring $3.3 million General Fund from PHD special payments to PHD program support and administration. These reductions are partially offset by three enhancements to the essential budget level: a $1.5 million General Fund increase to support obesity prevention and education, $1.4 million Other Funds to increase funding for school-based health centers as part of the Healthy Kids Plan, and $7 million of new tobacco tax revenue to enhance tobacco prevention and education efforts.

## PHD – Program Support and Administration

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 16,094,836 | 18,565,954 | 21,694,197 | 21,060,933 |
| Other Funds | 44,548,972 | 52,469,011 | 58,401,493 | 57,898,621 |
| Federal Funds | 90,037,866 | 108,407,317 | 111,754,493 | 120,620,496 |
| Federal Funds (NL) | 759,633 | 800,000 | 800,000 | 800,000 |
| **Total Funds** | **$151,441,307** | **$180,242,282** | **$192,650,183** | **$200,380,050** |
| Positions | 621 | 675 | 714 | 687 |
| FTE | 590.11 | 655.68 | 677.73 | 668.31 |

### Program Description

The Program Support and Administration budget for the Public Health Division consists of six program offices that are listed below. The Office of Multicultural Health, which had been a part of the PHD, was moved within DHS to the Director's Office during the 2007-09 biennium. The six PHD program offices are:

- The State Public Health Director
- Environmental Public Health
- Family Health
- Disease Prevention and Epidemiology
- State Public Health Laboratories
- Community Health and Health Planning

The ***Office of the State Public Health Director*** is responsible for strengthening the application of policy, planning, and performance measurement across the division. The office provides support and technical assistance to county health departments and oversees county health plans and funds from DHS. In addition, the office conducts emergency readiness training to prepare state and local public health officials for possible terrorist incidents and pandemic influenza.

The ***Office of Environmental Public Health*** 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 systems, and has a regulatory role in ensuring that 3,600 drinking water systems, 18,000 restaurants, 13,600 radiation sources, 3,400 swimming pools, 2,300 tourist facilities, and 362 miles of coastline. 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 centralized program. The program provides technical assistance, consultations with health care providers, and targeted health education programs.

The ***Office of Family Health*** program area supports programs for individuals and families at risk because of age, income, or other factors. The Office is composed of five principal programs. The Women's and Reproductive Health program works to reduce unintended pregnancies, promote healthy birth outcomes, and increase awareness of women's health issues. The Perinatal, Child and Oral Health program promotes the health and well being of pregnant women and children by providing a variety of primary preventive activities and health services. In addition, it promotes oral health awareness and education, and increases access statewide. Adolescent Health programs focus on teen pregnancy prevention, school-based health centers, nutrition, and adolescent mental health. The Immunization section works to prevent diseases that can be thwarted by using vaccines. The Nutrition and Health Screening program supports Women, Infants, and Children (WIC) expenditures by providing nutrition education, breast feeding information, and other assistance including breast pumps, food vouchers, and referral services.

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 Office's budget includes funding for tobacco use education and prevention as well as the prevention of breast cancer.

The ***Office of State Public Health Laboratories*** provides testing of human and non-human samples needed by state and local agencies and health care providers, responds to public health threats and emergencies, and assures, through regulation, the quality of testing in other clinical and environmental laboratories. The laboratory conducts newborn screening for Oregon's citizens and also for Idaho, Alaska, Hawaii, Nevada, and New Mexico. It tests for diseases caused by viruses and other microorganisms to support outbreak investigations and public health surveillance. Laboratory staff oversee the Laboratory Response Network for biological and chemical terrorism preparedness.

The ***Office of Community Health and Health Planning*** works with public and private entities to ensure that hospitals and other institutions providing medical care can meet state operational standards. Office staff oversee other health care providers such as emergency medical technicians, ambulance services, and trauma systems. The Office certifies about 8,000 emergency technicians biennially, licenses 140 ambulance services, and supports the activities of the Patient Safety Commission. In addition, this office promotes access to health care services—it helps establish and expand community health centers and rural health clinics.

### Revenue Sources and Relationships

The 2009-11 essential budget level for PHD program support and administration is about $200.4 million total funds. General Fund of $21.1 million is about 11% of the budget. Other Funds revenue is comprised of licenses and fees ($5.7 million), charges for services ($18.4 million), sales income ($6.3 million), and $20.3 million of smaller Other Funds revenue sources. In addition, Other Funds revenue reflects funds that are transferred from other state agencies including $9.5 million of tobacco taxes from the Department of Revenue, $0.8 million from the Military Department that is used for chemical emergency preparedness, and $0.3 million from the Employment Department for childcare health consultation. Altogether, Other Funds revenue is 29% of PHD program support and administration expenditure limitation.

Federal Funds of $121.4 million make up about 60% of the essential budget level for 2009-11. Federal Funds sources include Ryan White funds ($12.4 million), Public Health Emergency Preparedness ($7.3 million), WIC administrative support ($7.8 million), Maternal and Child Health Block Grant ($4.6 million), Immunization ($8.9 million), and Breast and Cervical Cancer funds from the Centers for Disease Control ($4.6 million).

### Essential Budget Level

The essential budget level for PHD program support and administration of $200.4 million total funds is $7.7 million or 4% higher than the 2007-09 legislatively approved budget through December 2008. It includes standard adjustments for personal services costs and inflation (including a modest amount of medical inflation). The essential budget level includes $0.9 million of Other Funds ($0.1 million) and Federal Funds ($0.8 million) to continue 6 limited duration positions (6.00 FTE) associated with various federal grants during the 2009-11 biennium. Finally, the essential budget level reflects a technical adjustment that moves 6 positions (5.50 FTE) along with $1.3 million total funds to the SPD budget to support the Medicare Buy-in program. Most of the Buy-in program budget has been in the Division of Medical Assistance Programs, but is being transferred to SPD for the 2009-11 biennium.

### Issues and Options

The Governor's recommended budget of $201.9 million total funds is about $1.5 million total funds higher than the essential budget level. It reduces personal services and services and supplies expenditures by $6 million total funds, but adds funding for obesity prevention and local public health system improvement, health facility oversight, hospice agency oversight, and the administration of the U.S. Environmental Protection Agency's lead-based paint removal project. The budget includes fee increases that total about $1.2 million Other Funds.

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

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 876,171,708 | 1,033,408,843 | 971,881,457 | 1,235,487,891 |
| Other Funds | 156,521,706 | 172,783,985 | 196,316,687 | 185,089,976 |
| Federal Funds | 1,428,790,730 | 1,677,595,142 | 1,717,964,054 | 2,126,854,424 |
| **Total Funds** | **$2,461,484,144** | **$2,883,787,970** | **$2,886,162,198** | **$3,547,432,291** |
| Positions | 2,044 | 1,993 | 2,016 | 2,041 |
| FTE | 1,929.97 | 1,940.50 | 1,949.18 | 2,002.20 |

*Note: The FTE and position count does not include non-state staff for which SPD provides reimbursement in the Area Agencies on Aging (AAA), or regional brokerages and counties that arrange services for people with developmental disabilities. The 2009-11 essential budget level would support 1,540 FTE of these non-state employees.*

### Summary Description

The Seniors and People with Disabilities (SPD) Division provides services for seniors and adults with physical disabilities, and adults and children with developmental disabilities. SPD administers Oregon's Medicaid long-term care program under a federal Home and Community Based Care waiver under Section 1915(c) of the Social Security Act. Clients receive a range of services including case management, supportive in-home care, community-based residential care, and nursing facility care. SPD and its partners provide Medicaid long-term care services to about 27,000 seniors and adults with physical disabilities. Services to those with developmental disabilities include case management, family or community support services, and comprehensive (residential) care. SPD and its partners serve about 12,000 adults and 4,600 children with developmental disabilities.

The SPD budget supports local Area Agencies on Aging (AAAs) staff, county and state Medicaid field staff, and the disability determination services unit who determines eligibility for Social Security Supplemental Security Income (SSI) and Social Security Disability Insurance (SSDI) benefits. The budget also includes Oregon Project Independence and federal Older Americans Act funding; federally required payments to aged, blind and disabled persons who receive SSI; and limited employment programs for elderly and disabled persons.

### Revenue Sources and Relationships

General Fund makes up about one-third of the SPD budget. Other Funds revenue is about 5% of the overall budget. The Other Funds come primarily from clients' contributions towards their care, estate recoveries, and nursing facility Medicaid provider taxes. Federal Funds make up about 60% of the budget. Federal revenues are predominately federal Medicaid funds. Oregon matches Medicaid program revenue at about 38% state funds and 62% Federal Funds. This match rate changes each federal fiscal year and depends on Oregon's income relative to other states. Most Medicaid administrative functions are matched on a 50/50 basis.

### Budget Environment

Over the last 25 years, the delivery of services for seniors and people with disabilities has shifted from institutional care to community-based care. In Oregon, long-term care for Medicaid-eligible seniors and people with disabilities has largely moved from nursing facilities and "training centers" to in-home care, adult foster homes, group homes, and assisted living facilities. For example, the major state institution for persons with developmental disabilities, Fairview Training Center, closed in February 2000. Services are now delivered almost exclusively through local and regional partnerships. The Eastern Oregon Training Center, the only state institution for developmental disability services, is in the process of closing during the 2009-11 biennium.

A major budget driver for SPD is growth in the number of elderly persons and individuals with disabilities. As of July 1, 2009, more than 13% of Oregon's population is expected to be age 65 or older. That age group is expected to grow 5.9% during the 2009-11 biennium, from 509,599 on July 1, 2009 to 539,482 on July 1, 2011. The state's population over 85 years of age is expected to grow about 5.3% during 2009-11, from 77,385 persons on July 1, 2009 to 81,458 persons on July 1, 2011. The growth rate for the elderly population is faster than that of Oregon's general population, which is projected to grow about 2.4% during the same period. Also, as the "baby boomers" grow older, the number of people with physical disabilities is expected to increase. Growth is also expected related to developmental disabilities, particularly from autism and alcohol- and drug-caused disabilities.

Another budget driver for this program area is the breadth of services it provides. Many program advocates assert that the shift to community-based care in Oregon has saved money and allowed better care for more elderly and people with disabilities. Any savings for state government, however, are more difficult to evaluate. Although Oregon's Medicaid costs (38% paid by Oregon state funds) are likely lower than they might otherwise have been because less costly long-term care options have prevented or delayed expensive nursing facility use, to the extent Oregon has covered non-mandated services or populations under its federal waivers, the state's costs are higher than they would otherwise have been. Other savings would have accrued primarily to the federal government because long-term care services would have prevented or delayed expensive hospitalization that is paid for by Medicare, an entirely federally funded program. Consequently, the federal government has effectively shifted some of the acute costs of caring for economically poor seniors to state government. In any case, the SPD budget will come under increasing pressure as the population ages, disabilities become more prevalent, and more people seek care.

The Governor and Legislature have recognized the issue of long-term care sustainability. During the 2005-07 interim, the Governor appointed a work group composed of advocates, service providers, researchers, and agency staff to make recommendations on the future of long-term care in Oregon. In November 2006, the Governor's Commission on Senior Services issued a report with a variety of recommendations on long range planning, the community infrastructure of supports for seniors, services, and funding. The 2007 Legislature directed the agency to report to the Emergency Board during the 2007-09 interim, and to the 2009 Legislature on potential system changes, acuity-based reimbursement, reimbursement rates, access for eligible clients, any needed Medicaid waivers, and a timetable for implementing the proposed changes. During the 2008 supplemental session, the Legislature passed SB 1016 that directed a similar plan, but also asked for cost projections for a variety of other services and system enhancements. The 2009-11 agency request budget included a variety of funding proposals, totaling $105.8 million General Fund and $220.7 million total funds, largely in response to SB 1016.

Legal rulings concerning services are other factors that significantly affect this budget. Historically, Oregon did not provide services for developmentally disabled persons on an entitlement basis. However, court decisions in other states have supported individuals who are seeking access to state and federal services "in the most integrated setting appropriate to the needs of qualified individuals with disabilities" (e.g., Olmstead v. L.C., 1999 U.S. Supreme Court decision). In keeping with this legal decision, Oregon's settlement of the Staley v. Kitzhaber litigation (the Staley Settlement Agreement) phases in universal access to developmental disability services – particularly community-based services known as support services. The initial cost estimate was $350 million total funds (General Fund and federal Medicaid funds) for the six-year plan, beginning in the 2001-03 biennium. The settlement agreement was renegotiated in the spring of 2003 due to the state's financial situation at that time. The original settlement agreement ended on June 30, 2007, at which time all eligible people with developmental disabilities would have been entitled to appropriate services. The renegotiated agreement extends the settlement until June 30, 2011.

Several significant changes were made to the SPD budget earlier this decade in response to state budget constraints. Medicaid long-term care services were eliminated for people who had been categorized by level of impairment in service priority levels 14-17 (the least impaired), the General Assistance program was eliminated, the Oregon Project Independence (OPI) program was reduced, and, as noted above, services under the Staley Settlement Agreement were phased-in at a lower, renegotiated level.

However, the budget has most recently seen a number of funding enhancements. The 2003 Legislature adopted a nursing facility provider tax that provided a significant increase to Medicaid nursing facility reimbursement; the 2007 Legislature continued the tax until 2014 and added General Fund to provide nursing facility reimbursement at the 63rd percentile of allowable nursing facility costs. In response to 2000's Ballot Measure 99, the 2003 Legislature also funded a wage increase, medical insurance, and worker's compensation insurance for home care workers who provide in-home care to people eligible for Medicaid long-term care. In 2007, the Legislature approved higher reimbursement for group home service providers, additional funding for in-home care worker benefits, more intensive nursing facility staffing, new services for youth with developmental disabilities who are under the jurisdiction of the Psychiatric Security Review Board (SB 328), and for children with significant disabilities who require complex medical care (HB 2406).

### Essential Budget Level

The calculated essential budget level is an increase of $263.6 million (27%) General Fund and $661.3 million (22.9%) total funds from the 2007-09 legislatively approved budget as of December 2008. Standard personal services roll-up and general inflation are part of this increase, but the majority of the increase is attributable to program transfers to this budget from the Department of Human Services' Division of Medical Assistance Programs, mandated caseload growth in Medicaid long term care and developmental disability programs, and phased-in costs from enhancements funded for only part of the 2007-09 biennium (most significantly, rate increases for long-term care and community providers of developmental disability services).

### Issues and Options

As with most DHS programs, budget reduction options for SPD generally involve reducing client services or benefits through changes in eligibility or benefit levels; adjusting provider payments; and cutting administrative expenditures. The 10% reduction option list that DHS submitted as part of the 2009-11 budget development process included all three types of options for SPD. During the 2007-09 biennium, SPD's budget was reduced from the legislatively adopted level as part of the larger Department of Human Services budget rebalance. These reductions included management actions to create administrative savings, but for the most part the reductions were due to caseloads or other program savings that did not adversely affect either clients or providers. Achieving greater savings in the 2009-11 budget will likely result in more direct impact on clients and providers.

The Governor's recommended budget for SPD for 2009-11 is $999.4 million General Fund and $2,944.6 million total funds, with 2,022 positions (1,982.81 FTE). This is $27.5 million (2.8%) General Fund and $58.5 million (2%) total funds more than SPD's 2007-09 legislatively approved budget at December 2008, but $236.1 million (19.1%) General Fund and $602.8 million (17%) total funds below the calculated essential budget level for 2009-11. The Governor's proposal does not move forward any of the long-term care system enhancements identified by the agency and its stakeholders over the past several years. It would significantly restructure the Medicaid long-term care program, reducing income eligibility and some services under a new federal Medicaid 1915(i) state plan option, resulting in about a 19% reduction in the number of seniors and persons with physical disabilities who would receive services. Nursing facility rates would be reduced by limiting the allowable cost claimed for reimbursement. Other changes in the in-home care program would affect both clients and providers. Funding would also be reduced across the range of developmental disability services, and full implementation of the Staley Settlement Agreement would be delayed until 2013. These proposals are discussed in more detail in the Programs and Program Support and Administration sections below.

SPD programs rely heavily on federal Medicaid funding. This allows Oregon to leverage significant federal funds with a modest state General Fund match, but it also means General Fund reductions in this budget create a larger reduction in federal revenue coming into the state. Federal stimulus package proposals under discussion would include a substantial, temporary increase to the Medicaid match rate. However, during the last recession, states were only eligible for the enhanced match rate and federal funds if they maintained Medicaid eligibility and services. With this requirement, the Governor's proposal to shift Oregon's long-term care system from the current Home and Community Based Care waiver, resulting in more restrictive income eligibility and more limited services, would not be feasible. However, such a reduction might not be needed if the federal funds increase materializes. At this time, the timing, amount, and program provisions of a federal stimulus package are still uncertain.

## SPD – Programs

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 733,425,570 | 861,014,449 | 791,350,534 | 1,094,307,359 |
| Other Funds | 142,245,873 | 154,402,621 | 182,529,269 | 169,442,938 |
| Federal Funds | 1,224,375,806 | 1,433,971,246 | 1,472,733,437 | 1,927,953,803 |
| **Total Funds** | **2,100,047,249** | **2,449,388,316** | **2,446,613,240** | **3,191,704,100** |
| Positions | 846 | 840 | 825 | 817 |
| FTE | 832.68 | 816.75 | 802.81 | 799.32 |

## Program Description

SPD Programs serve seniors and people with physical disabilities, and adults and children with developmental disabilities. Programs are generally categorized as services for the aged and disabled (APD) or for those with developmental disabilities (DD). SPD makes payments to a variety of long-term care facilities and service providers for these populations. For APD, these include nursing facilities, assisted living facilities, residential care facilities, adult foster homes, and in-home providers including those funded through Oregon Project Independence (OPI). DD services are delivered through counties and support service brokerages, state-operated and private group homes, and the Eastern Oregon Training Center (EOTC).

This program area also includes the Older Americans Act services, Oregon Project Independence (OPI), the Oregon Supplemental Income Program (OSIP), the Employed People with Disabilities Program, and cash payments for special needs. Beginning in 2009-11, SPD will also administer the Medicare Buy-in Programs.

The FTE included in this budget are state employees who work at the Eastern Oregon Training Center and 31 state-operated group homes for people with developmental disabilities. Although the positions and FTE are not reflected above, SPD reimburses Area Agencies on Aging for a staffing level of 840 FTE. Regional brokerages providing services to persons with developmental disabilities are reimbursed for a staffing level of 200 FTE, and county developmental disabilities programs are reimbursed for a staffing level of 500 FTE. Food Stamps eligibility staff are part of the SPD Program Support and Administration budget; Food Stamps benefits are budgeted in the Children, Adults and Families Services Division (CAF) budget.

<u>Services for Seniors and People with Physical Disabilities</u>

*Medicaid long-term care* services for the elderly and clients with physical disabilities fall into one of three major delivery categories: in-home programs designed to delay the need for more costly institutionalized care, community-based facilities or "substitute homes," and nursing facilities. In-home care services are provided by home care workers who work as independent contractors with oversight by the Home Care Commission, and through providers working through local Areas on Aging. Community-based facilities include adult foster care homes, assisted living, residential care, enhanced residential care, and specialized living facilities. Providence Elder Place (PACE), a jointly funded Medicare and Medicaid program that integrates acute medical care and community-based care under a system of capitated rates, serves people at high risk of needing nursing facility care. Nursing facilities provide comprehensive care for people who require 24-hour skilled nursing care in addition to assistance with activities of daily living.

Medicaid law requires states, at a minimum, to provide nursing facility care. Since the 1980's, however, Oregon has operated its long-term care program under a Medicaid Home and Community-Based Care waiver approved by the Health Care Financing Administration (now called the Centers for Medicare and Medicaid Service, or CMS). This waiver allows individuals who would otherwise require the level of care furnished in a nursing facility to opt instead for a home and community-based care option. The nursing facility Medicaid rate includes the cost of room and board. The community-based facility rates, such as those for adult foster homes or assisted living facilities, cover Medicaid services but not the cost of room and board. Clients use their own resources (e.g., Supplemental Security Income) to pay for room and board in community-based facilities and to offset some of the reimbursement cost for nursing facilities.

In the mid-1980s, Medicaid long-term caseloads were about evenly divided between community-based care and nursing facilities. Today, community-based care makes up more than 80% of overall caseload. In June 2008, 5,160 clients were in nursing facilities, representing about 19% of the 26,763 APD total. About 10,600 clients, about 40% of the total caseload, received in-home services. About 15% of the clients were in foster homes, about 14% in assisted living facilities, about 8% in residential care, and 4% in PACE or other services.

Eligibility for Medicaid long-term care is based in part upon the ability to perform certain activities of daily living. Applicants for Medicaid long-term care are evaluated on their ability to perform activities of daily living such as eating, toileting, mobility, bathing, and dressing. This evaluation is used to rank the applicant within categories known as "service priority levels." Priority level 1 clients are those most unable to perform activities of daily living and more likely to need services offered in nursing facilities. In contrast, those at lower priority levels are less impaired and more likely to receive in-home assistance. Oregon provides services for clients in categories 1 through 13. All eligible clients are entitled to nursing facility care, but under Oregon's waiver, may opt instead for community-based options such as in-home, adult foster home, or assisted living facility care.

Eligibility is also based upon income and assets. Clients may have incomes up to 300% of the Supplemental Security Income (SSI) grant, or about $2,022 per month, which is about 233% of the federal poverty level (FPL) for an individual. However, federal law also allows people in states that set income eligibility at more than 100% of the SSI grant to establish income cap trusts. By establishing an income cap trust, an individual is deemed eligible for Medicaid long-term care, assuming they also have the functional limitations described above. In effect, virtually anyone in Oregon could qualify for Medicaid long-term care, if they are impaired and willing to establish an income cap trust. This also means that attempts to limit budgetary growth by lowering income eligibility standards are ineffective under the current waiver provisions.

The rates DHS pays nursing facilities for services are based on audited financial cost data submitted during the fall prior to a regular biennial 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." Additionally, the 2003 Legislature passed a long-term care provider tax on most nursing facilities, including some primarily private pay facilities. This tax is matched with federal Medicaid funds and used to pay higher Medicaid nursing facility reimbursement rates that, through the 2005-07 biennium, were equal to the 70th percentile of audited nursing facility costs. The 2007 Legislative Assembly extended this tax through 2014 (HB 3057), but established the reimbursement level at the 63rd percentile of audited nursing facility costs.

Assisted living rates were initially set in 1990 at 80% of the nursing home rate. Community-based provider rates such as those for adult foster homes, assisted living facilities, and residential care facilities are tiered based upon client impairment. Rates have been increased over time using inflationary adjustments, but there is no consistency of reimbursement rates across service setting based on the level of services provided. That is, reimbursement rates are based more on where clients live than the extent of individual client needs.

SPD is the state administrator of the *Older Americans Act* (OAA), a federal program targeted to people 60 years old and older. SPD distributes the funds to local Area Agencies on Aging, which deliver a variety of services including information and referral, transportation, congregate meals and "meals on wheels," senior employment programs, legal services, insurance counseling, and family caregiver counseling and training. In 2007, about 323,000 Oregonians received OAA services.

*Oregon Project Independence* (OPI) serves about 2,900 Oregonians each month with in-home services. To qualify, clients must be 60 years of age or older, or have Alzheimer's or other related dementia, and be assessed as in service priority levels 1 through 18 (a broader range than the levels 1 through 13 served through Medicaid long-term care). Those with incomes over 100% of the federal poverty level ($867/month for an individual) pay all or part of the cost of the services received.

The *Oregon Supplemental Income Program* (OSIP) provides a small monthly cash supplement for disabled, aged, or blind individuals receiving federal SSI benefits though the Social Security Administration. The maximum federal SSI benefit for individuals is $638 per month in 2008. OSIP 2007-09 base payments to the elderly and disabled are about $1.70 per month. Although the OSIP monthly grants are small relative to the SSI grant, this payment meets the federal requirement for SPD's maintenance of effort (MOE).

The *Employed People with Disabilities* (EPD) program helps people with disabilities who are working to remain at home and retain eligibility for Medicaid, when they would otherwise be above the income and resource standards.

The *Special Needs Cash Payments* program is used for one-time expenditures to allow a client to retain independence and mobility in a safe environment, and reduce the need for more expensive long-term care payments. For example, funds could be used to adapt a home's stairs into a ramp, or repair a broken furnace.

*Medicare Buy-In Programs* provide payments for Medicare beneficiaries who meet income guidelines. The state pays the Medicaid Part B premium for Special Low Income Medicare Beneficiaries for Medicare recipients with income from 100 to 135% of the federal poverty level. For those with incomes at or below the federal poverty level, the state pays the Medicare Part B premium, the annual deductible and co-insurance charges on Medicare-covered services. These payments were previously part of the Division of Medical Assistance Programs budget, but are moved to SPD beginning with the 2009-11 biennium.

Services for People with Developmental Disabilities

DHS offers a wide array of services for people with developmental disabilities. Most of these services are administered under Medicaid waivers structured similarly to the Home and Community-Based Care waiver for seniors and people with physical disabilities. That is, clients must meet Medicaid financial eligibility requirements (e.g., household income levels up to 300% of the SSI grant) and have developmental disabilities that impede their ability to function independently. Developmental disabilities include mental retardation, cerebral palsy, Down's syndrome, autism, and other impairments of the brain that occur during childhood. Some people with developmental disabilities also have significant medical or mental health needs. Like seniors or people with physical disabilities, clients with developmental disabilities may use income cap trusts to meet financial eligibility requirements.

County staff determine eligibility for DD services, assess client needs, determine service rates, arrange and oversee contracts with providers, and respond to protective services issues. Regional brokerages provide case management and link individuals with services. Local providers deliver the support and residential services. Beginning with the 2009-11 biennium, this budget also covers payments to counties and brokerages for program administration (DD Local Field Authority) as well as for program services.

Program services for people with developmental disabilities are described below:

- *Support services* are for adults and children who live at home and are typically provided by individuals hired by the client, with the help of a personal agent, who gives them the assistance they need to remain in their own homes. The primary support services available under the Staley Settlement Agreement include home modifications and services to help clients function appropriately within their communities, respite care for primary caregivers such as parents, and non-medical transportation. In addition to Staley support services, support services are provided for children living at home, to help prevent out-of-home placements. Regional non-profit brokerages work with clients and their families to arrange appropriate support services.

- *Institutional services* are provided at the Eastern Oregon Training Center (EOTC) and nursing facilities that specialize in the care of people with developmental disabilities. EOTC provides intermediate care facility 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, for adults with developmental disabilities. EOTC is being downsized and the remaining clients will ultimately move to community-based care facilities during the 2009-11 biennium.

- *Comprehensive services* serve adults and children who are living at home and receiving 24-hour supports, or living in residential facilities or group homes. Adult residential programs provide 24-hour group home care for people aged 18 and over with a developmental disability. Children's residential care includes foster care, proctor care, and community residential group homes. Children's Intensive In-Home Services are provided 24-hours a day for medically fragile children, medically involved children, and children with intensive behavioral disabilities. Comprehensive services also covers self-directed supports for adults to manage the services they need to live safely at home. Clients receiving comprehensive services may also receive diversion services (to prevent a crisis) or transportation if needed.

- The *state operated community program* is a 24-hour community residential care program for 148 people who have intensive support needs because of medical or behavioral conditions. There are 31 group homes operated by state employees. The positions and FTE are included in this long-term care budget.

Clients may receive services from more than one category and require services from different categories at different points of their lives depending upon their somatic conditions, age, and ability to function.

### Revenue Sources and Relationships

The General Fund supports about 34% of the SPD Programs budget, about 60% comes from Federal Funds, and the balance is from Other Funds revenue. Other Funds include client contributions for in-home care, estate recoveries, and nursing facility provider taxes. The nursing facility provider tax is used to match federal Medicaid funds for facilities that serve Medicaid clients. The tax currently funds about 25 to 30% of Medicaid nursing facilities reimbursement. This tax is scheduled to sunset in 2014.

Other Funds support for Oregon Project Independence (OPI) comes from the Senior Property Tax Deferral Account, which is expected to transfer $3.5 million to the program for the 2009-11 biennium. This is down significantly from the $16.6 million transferred in the 2007-09 biennium.

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, but for 2009-11 is estimated to be about 38% state funds to 62% Federal Funds. Federal Older Americans Act funding supports those program services; match rates for these funds are 15%, except for the Title IIIE program (family caregiver program) which requires 25% state funds. Administrative funding also requires a 25% state match rate. Oregon uses OPI funding as well as AAA local resources as its required match and to meet OAA maintenance of effort requirements for state funding.

### Budget Environment

A major cost driver for SPD Programs is caseload growth, as Oregon's population ages and the number of persons with disabilities increases. Although caseloads have remained fairly stable in the Medicaid long-term care program over the last few biennia, over time the population is projected to increase. The Department of Human Services' Fall 2008 caseload forecast projects nursing facilities caseloads will average 5,284 cases per month during the 2009-11 biennium, 1.3% more than the 5,215 average monthly cases expected for 2007-09. Community-based care facility caseloads are expected to be relatively stable, at 10,548 monthly average cases in 2009-11, up just 10 (0.1%) from the 10,538 average for 2007-09. In-Home caseloads are forecast to average 10,345 cases in the 2009-11 biennium, down 1.4% from an average 10,488 cases in the 2007-09 biennium.

Nursing facilities are the most expensive element of the long-term care system. Oregon is participating in a federal Money Follows the Person demonstration project to help move long-term nursing facility residents who could live in other settings with appropriate services and supports, from nursing homes to community-based care. Starting in April 2008 and through September 2011, 1,000 residents are expected to move out of nursing facilities back to the community. This includes 260 seniors in nursing facilities; 500 adults with physical disabilities in nursing facilities; 40 children with developmental disabilities in pediatric nursing facilities; and 200 adults with developmental disabilities in nursing and intermediate care facilities. If successful, this effort could have a long-term impact on how Oregon provides services to these populations.

As noted earlier, the Staley Settlement Agreement was Oregon's response to legal issues regarding access to state and federal services for people with disabilities. Under that agreement, Oregon is to phase-in universal access to DD services, particularly community-based services known as support services, to eliminate a waiting list for services and reduce the number of situations requiring a crisis response. To deliver support services, a "brokerage" system was established statewide to help people with developmental disabilities and their families access available support services. By the end of the 2007-09 biennium, there will be 12 regional brokerages in place. The Staley support services caseload was expected to total about 5,900 in the 2007-09 biennium. The comprehensive services caseload is expected to total 300 by the end of the 2007-09 biennium. By July 2009, anyone needing support services is to be enrolled within 90 days after becoming eligible. DHS does not yet forecast caseloads for DD programs, but as of April 2008, 16,659 clients were receiving developmental disability services, including more than 4,800 adults receiving services through support services brokerages. When the Staley Settlement Agreement is fully phased-in, program services are to be available on an entitlement basis, so it is expected that this program area will continue to grow.

Another cost element is provider reimbursement, which must be adequate to assure adequate access for clients, allow providers to operate effectively, and attract and retain an adequate number and skill level of staff. Reimbursement rates have been set through a variety of methodologies at various times. SPD has identified several steps that would improve its rate structures. In the DD program, SPD is implementing the third year of a five-year project, the Oregon ReBAR project, a rate model for adult residential services, using a federal Real Choice grant. Funding methodologies for reimbursement of both DD program brokerages and county administrative and staffing costs were revised and implemented during 2007-09. In the APD program area, following the 2007 Legislature's direction to review and recommend an acuity-based care reimbursement system, timetable and systems changes, during the 2007-09 biennium SPD increased rates for community-based care providers by $260 a month as part of a strategy towards market level rates.

SPD's 2009-11 agency request budget included a $46.2 million General Fund and $124.9 million total funds package for restructuring rates for Medicaid home and community-based services for seniors and adults with physical disabilities. Also, Ballot Measure 99 (November 2000) 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 which have continued in subsequent biennia. In the 2007 regular session and the 2008 special session, the Legislature approved wage increases for most SPD providers to help assure continued access to services in community-based facilities. These increases are rolled forward into the 2009-11 biennium.

### Essential Budget Level

The calculated essential budget level for SPD Programs is $303 million (38.3%) General Fund and $745.1 million (30.4%) total funds higher than the 2007-09 legislatively approved budget as of December 2008. About half the increase results from the transfers of the Medicare Buy-In Programs from the Division of Medical Assistance Program to SPD ($102.2 million General Fund, $249.6 million total funds), and the shift of DD Local Field Authority from SPD's Program Support budget to DD Community-Based Care ($49 million General Fund, $111.6 million total funds). Funding for enhancements phased-in during the 2007-09 biennium -- such as rate increases for APD community based care facilities, DD providers and new facility staffing standards for Certified Nursing Assistants -- account for $28.4 million General Fund and $72.6 million total funds above the 2007-09 budget level. Additional mandated caseload growth projected for 2007-09 (at the Fall 2008 forecast level) accounts for $73.5 million General Fund and $220.9 million total funds. Cost of living adjustments and other inflationary increases add $29.4 million General Fund and $109.4 million total funds to the current budget.

### Issues and Options

Over the past several biennia, the SPD Programs budget has grown significantly due to mandated caseloads, mandated cost increases, and program improvements such as provider rate increases and new program services. Even after adjusting for the transfers of the Medicare Buy-In Programs and DD Local Field Authority, the calculated total funds essential budget level for 2009-11 is 15.7% higher than the 2007-09 legislatively approved budget and 34.8% higher than the 2005-07 expenditures. Oregon's ability to maintain current services -- facing projected growth in the populations who receive those services and increased financial need as the economy falters -- is problematic.

In response to legislative direction during the 2007 session and the 2008 special session, SPD developed a long-range plan for services for seniors and people with physical disabilities, both those eligible for Medicaid-funded long term services and those who are not. The plan would increase community resources (e.g., through Aging and Disability Resource Connections) and restructure rates to support flexible, specialized and adequate community services and connect individual needs to reimbursement rates. DHS' 2009-11 agency request budget included $10 million General Fund for the new community resources and $46.2 million General Fund and $78.7 million Federal Funds for the rate restructuring proposal, with other smaller requests for related investments.

The Governor's 2009-11 recommended budget for SPD Programs is $866.7 million General Fund and $2,604.5 million total funds, with 801 positions and 784.38 FTE. The proposed budget would reduce General Fund by $227.6 million (20.8%) and total funds by $578.2 million (18.4%) from the calculated essential budget level, but would be $75.3 million (9.5%) General Fund and $157.9 million (6.4%) total funds higher than the current 2007-09 legislatively approved budget. However, the transfers of the Medicare Buy-In Programs and the DD Local Field Authority that are made in the essential budget level adjustments distort the comparison to the 2007-09 budget level. Without these transfers, the Governor's budget would be $75.9 million (9.6%) General Fund and $203.4 million (8.3%) total funds less than the 2007-09 legislatively approved budget.

The budget does not include investments to support the long-range plan SPD developed for Oregon's long-term care system for adults and people with physical disabilities. It instead takes the agency a different direction, assuming cost savings of $98.8 million General Fund and $264.9 million total funds from a major system shift. To achieve these savings, Oregon would implement, as of January 1, 2010, a new Medicaid state plan option to replace the current Home and Community Based Care waiver. The Deficit Reduction Act of 2005 established the new state plan option in Section 1915(i) of the Social Security Act. Under the new "i" plan, services would be limited to persons with incomes under 150% of FPL (about $1,300 a month, or 200% of SSI) who have impairments or limitations in two or more activities of daily living. Those with higher incomes would lose eligibility for long-term care – including in-home services -- as well as for Oregon Health Plan (OHP) coverage. The income limit under the new plan is expected to eliminate eligibility for almost 4,300 of the roughly 26,700 clients currently in the long-term care program, about a 19% reduction. Using June 2008 as a snapshot of the caseload, it is estimated that nursing facilities, assisted living facilities, residential care facilities, contract residential care, and PACE would all lose from 28% to 52% of their current Medicaid clients. Non-relative foster homes would lose about 23% of their clients, with in-home and other caregivers losing a much smaller share.

Adopting the "i" plan option in lieu of the current Home and Community Based Care waiver for long-term care services is one approach to restricting expenditures and trying to craft a program that is more sustainable over the long term. However, there are significant questions on both the feasibility of the plan and the savings estimated in the Governor's budget. To achieve those savings, the timeline for implementing the plan would have to be more aggressive than appears to be practicable. There is no provision for alternative supports for any of the current clients who would lose long-term care services and OHP coverage, even though more than 2,300 of the clients who would lose eligibility are currently assessed in the top 3 of the current 13 service priority levels, and are arguably the most vulnerable of the program's clients. As currently proposed, the budget savings are based on a January 1, 2010 cut off and there is no transition period; CMS has historically not allowed states to "grandfather" in current clients when implementing waiver amendments or new Medicaid state plans. Although two other states have used the "i" plan option to expand rehabilitation or mental health services to a limited group, no other state has used this approach to reduce its general caseloads by imposition of the 150% FPL income limit. It is also expected that if a federal stimulus package provides a temporary Medicaid match rate enhancement for states, it will come with a requirement that states cannot limit program eligibility after a date certain, e.g., October 2008. If Oregon then chooses to restrict eligibility with the "i" plan option, it would lose its eligibility for the enhanced Medicaid match rate funds.

If the 2009 Legislature supports moving from the current waiver to the "i" plan option, DHS will need to develop both a more realistic timeline and a more accurate savings estimate. Alternatively, the 2009 Legislature could direct DHS to investigate the feasibility of other program savings under the current waiver, possibly by a more stringent review of program applicants' eligibility based on their ability to perform activities of daily living, or greater consistency in reimbursement for services provided regardless of service setting.

Another significant savings proposal would change the current allowable cost used in setting nursing facility rates. It would limit the allowable cost claimed for reimbursement and remove medical cost inflation in the rebasing year. This is expected to save $39.1 million General Fund and $66.7 million Federal Funds in 2009-11.

The Governor's budget proposes a number of other savings and program reductions from the essential budget level in both APD and DD services, as follows:

- No cost of living increases for clients or providers
- Eliminate health care benefits premium overpayment for Home Care Worker health insurance premiums
- Reduce the Home Care Worker training budget by 50%
- Eliminate Home Care Worker benefits for new workers if working fewer than 20 hours per week and prorate benefits for those working more than 20 hours a week but less than full time
- Eliminate Home Care Worker services for persons receiving fewer than 80 hours per month
- Achieve greater savings from nursing facility client diversion efforts
- Reduce the Children In-Home Intensive Services Medically Fragile budget for private insurance pay-ins
- Reflect savings from slower start-up in the Juvenile Psychiatric Security Review Board program
- Eliminate the General Fund transfer to the DD Housing Fund
- Reduce sheltered employment supports for in-home DD clients
- Cap DD Nursing Facilities Specialized Services at 15 clients
- Reduce DD Special Projects community training budget by 49%
- Reduce the number of new and current clients receiving DD comprehensive services
- Reduce payments for DD in-home services and Family Support Programs
- Reduce DD brokerage support services from 1,400 to 700 new clients entering services
- Assume savings from a partial hiring freeze for Transfer Area Agencies on Aging and for DD state operated community programs

Oregon Project Independence expenditures are budgeted at $7.4 million Other Funds for 2009-11. This is down from the $13 million approved for the 2007-09 biennium due to a reduction in revenue available from the Senior Citizens Property Tax Deferral Program. This is expected to reduce service levels and create wait lists.

The Governor's budget does not propose any General Fund enhancements for SPD Programs. It does propose to increase Other Funds fees collected from long term care providers for trustees appointed for troubled health care facilities. During 2007-09, SPD assisted in the transition of clients from two facilities with court appointed trustees by continuing utilities, buying food and supplies, and paying trustees until legal resolution of available resources to help stabilize or close these facilities. The proposal would increase the $300,000 fund balance now available for such expenditures by $200,000, to $500,000.

The Governor's budget proposal incorporates all of the possible savings and reductions in SPD Programs that were identified in the 10% General Fund reductions DHS submitted for the 2009-11 budget development process. Further work and creative thinking will be needed to identify other options that might be more feasible or palatable than those the Governor has put on the table. As with other DHS program areas, federal program requirements and funding levels are critical factors in Oregon's ability to deliver program services – a federal stimulus package and resulting federal Medicaid match rate increase could help support Oregon's current services in the short term, but it could also constrain policy and program decisions.

## SPD – Program Support and Administration

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 142,746,138 | 172,394,394 | 180,530,923 | 141,180,532 |
| Other Funds | 14,275,833 | 18,381,364 | 13,787,418 | 15,647,038 |
| Federal Funds | 204,414,924 | 243,623,896 | 245,230,617 | 198,900,621 |
| **Total Funds** | **361,436,895** | **434,399,654** | **439,548,958** | **355,728,191** |
| Positions | 1,198 | 1,153 | 1,191 | 1,224 |
| FTE | 1,097.29 | 1,123.75 | 1,146.37 | 1,202.88 |

### Program Description

Program Support and Administration includes expenditures for SPD's central policy and administrative functions, as well as program offices that provide direction, oversight, and direct services to support SPD's programs. This budget also supports the Governor's Commission on Senior Services, the Oregon Disabilities Commission, the Oregon Developmental Disabilities Council, and the Home Care Commission.

The program offices include the Office of Senior and Disability Services, the Office of Developmental Disability Services, the Office of Federal Resource and Financial Eligibility, and the Office of Licensing and Quality of Care. These people oversee nursing facility, community-based care facility, and developmental disability services; administer the federal Medicaid program for SPD clients and programs; and license, monitor, and provide training to improve the quality and safety of services within Oregon's long-term care system. The budget includes about 400 positions (293.18 FTE) in these central offices.

Field services for seniors and people with physical disabilities are delivered through three different structures:

- "Type A" Area Agencies on Aging (AAAs) provide Older Americans Act and Oregon Project Independence services in 21 counties. There are nine Type A AAAs, and they are typically private non-profit agencies. Staff are employees of the AAA.
- "Type B" AAAs are local government bodies, such as counties or councils of governments. For 2007-09, DHS contracts with the five largest counties to provide services in the counties of Multnomah, Lane, Clackamas, Linn-Benton-Lincoln, and Marion-Polk-Yamhill-Clatsop-Tillamook. These are described as "Transfer AAAs", and are staffed by local government employees. (However, Clackamas has notified the state of its intention to operate as a Type A AAA; the state will then operate a local SPD office in that county.) In four other counties ("Contract AAAs") – Douglas, Jackson, Josephine, and Washington – services are provided through state employees supervised by the county. At this time, both Transfer AAAs and Contract AAAs administer Medicaid, cash assistance and Food Stamps programs, and Older Americans Act and Oregon Project Independence programs.
- In Type A AAA areas, local SPD offices administer Medicaid, cash assistance and Food Stamps programs.

This budget includes 358 positions (351.10 FTE) for state office field staff and 289 positions (283.70 FTE) for staff in the Contract AAAs. It includes funding, but not positions and FTE, for the staff who work in the Type A AAAs (which are reimbursed at a flat rate of $5,000) and for the Transfer AAAs (about 840 FTE).

Other direct services are provided through the Disability Determination Services (DDS) program, and the Children's Intensive In-Home Services program staff. DDS assesses clients' eligibility for Social Security Act claims for disability insurance (SSDI) and Supplemental Security Income (SSI). In Oregon, about 130,000 people receive federal SSDI or SSI benefits that total approximately $70 million each month. DDS includes 191.02 FTE, which are 100% federally funded. The Children's Intensive In-Home Services staff manage the Medicaid waivers for medically fragile and behaviorally disturbed children, and work with children with disabilities and their families to direct services for those children.

### Revenue Sources and Relationships

Other Funds revenue comes primarily from licensing fees, local county and other governmental agency matching funds (for Medicaid). Transfer funds from the Long-Term Care Ombudsman and Board of Nursing are also matched with Medicaid and returned to these two state agencies. DHS reports that licensing fees for both nursing facilities and community-based care providers have not been increased since 1979. These fees, and fines for noncompliance, are lower than in other states.

Federal Funds revenue includes about $40 million of funding through Titles II and XVI of the Social Security Act for SSDI and SSI eligibility determination. Other Federal Funds revenue comes predominately from Medicaid that is matched, for the most part, dollar for dollar with General Fund. In addition, a modest amount of federal revenue comes from the Medicare, Food Stamps, and Older Americans Act programs.

### Essential Budget Level

The Program Support and Administration essential budget level is calculated at $39.3 million (21.8%) General Fund and $83.8 million (19.1%) total funds less than the 2007-09 legislatively approved budget. The net reduction reflects a large technical adjustment that transfers funding for Developmental Disability Local Field Authority to DD community based care, shifting $49 million General Fund and $111.6 million total funds from this budget to the SPD Programs budget. The essential budget level adds $4.1 million General Fund, $7.6 million total funds, and 31 positions (27.52 FTE) based on projected increases in mandated caseloads in DD programs; this includes two new staff positions for HB 2406's new program to provide home care for medically involved children. The budget also adds $3.1 million General Fund to replace Federal Funds for 43 Adult Protective Services positions, which are not eligible for Medicaid administrative matching funds.

### Issues and Options

Over the past several years, DHS has contracted for staffing studies to review current workload and staffing needs. In SPD, these studies looked at Food Stamps and Medicaid eligibility determination, case management and adult protective services, Presumptive Medicaid Disability Determinations, Medicare Modernization Act Part D work, and in-home care. The studies made recommendations for potential efficiencies and process improvements, but also supported a move from caseload-based staffing models to models that reflect workload standards. Staffing levels for SPD Program Support are still tied to the historic caseload standards. SPD included a policy package in its 2009-11 agency request budget to implement the new workload standards in part at $12.1 million General Fund, $20.3 million total funds, and 77 positions (67.76 FTE).

At the essential budget level, the SPD Program Support and Administration budget is 50% personal services and 45% special payments. The largest part of these expenditures relate to state and local staff that administer the programs for seniors and people with disabilities. The staffing studies done for DHS looked at state staff workload and processes, but did not review the service delivery system as a whole. The Legislature may want to review other states' approaches to delivering these services for possible efficiencies or improvements.

HB 2288 (2003) required DHS to adopt a methodology for determining the budget for Transfer AAAs that is not less than 95% of the budget for a local DHS office to do this work. The 2007-09 budget increased reimbursement for the Transfer AAAs to 90% of the estimated cost of a state office equivalent, up from 83% in the prior budget period. In its 2009-11 agency request budget, SPD requested $3.75 million General Fund and $3.75 million Federal Funds to bring the reimbursement rate to 95% of its estimated cost.

The Governor's 2009-11 budget for SPD Program Support and Administration is $132.7 million General Fund, $340.1 million total funds, and 1,221 positions (1,202.88 FTE). This is $8.5 million (6%) General Fund and $15.6 million (4.4%) total funds below the essential budget level, and $47.8 million (26.5%) General Fund and $99.4 million (22.6%) total funds below the 2007-09 legislatively approved level. Administrative savings of $2.8 million General Fund and $6.3 million total funds are anticipated from reducing personal services by 4% overall, reducing administrative services and supplies expenditures by 2%, and reducing Attorney General expenditures by 10%. Staffing is reduced in this budget based on the proposed program reduction to eliminate In-Home Care Program services for those receiving less than 80 hours of services, reducing the budget by $1.3 million General Fund, $3.6 million total funds, and 12 positions (12.33 FTE). Other proposed reductions would eliminate overpayments to the Homecare Union Benefits Board (HUBB) for health care premiums, and reduce the Home Care Worker training budget by half, based on prior spending patterns. Pass-through funding to the Department of Consumer and Business Services for the Senior Health Insurance Benefits Assistance program would be eliminated, as would pass-through funding to the Retired Senior Volunteer Program. Transfer Area Agencies on Aging would receive a slight funding reduction based on a partial hiring freeze.

The proposed budget would add $267,560 Other Funds, $267,544 Federal Funds, and 4 positions (3.00 FTE) to support long term care provider training and technical assistance, facility licensing and regulatory activities. State civil penalties and increased licensing fees would provide the Other Funds revenue.

## DHS/Administrative Services Division – Program Area Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 144,846,699 | 187,501,194 | 200,343,315 | 240,312,215 |
| Other Funds | 22,787,370 | 51,033,714 | 52,514,996 | 35,792,014 |
| Federal Funds | 202,679,768 | 244,405,819 | 258,745,735 | 239,143,123 |
| **Total Funds** | **$370,313,837** | **$482,940,727** | **$511,604,046** | **$515,247,352** |
| Positions | 1,018 | 1,164 | 1,156 | 1,088 |
| FTE | 974.11 | 1,130.54 | 1,119.92 | 1,056.21 |

### Summary Description

The Administrative Services Division (ASD) budget supports the Department of Human Services' central administrative, information technology, and budgetary functions. (The Division had previously been named Department-Wide Support Services, or DWSS.) ASD is organized into three sections, each with a variety of offices that manage various administrative tasks.

- The *Director's Office* provides overall leadership for the Department. It includes staff that monitor federal and state policies for their impact on the Department's budget and operating requirements, and ensures that DHS complies with all statutory requirements. The Director's Office houses the Office for Oregon Health Policy and Research, which was transferred from the Department of Administrative Services during the interim, as well as the staff supporting the Oregon Health Fund Board created by SB 329 (2007) to develop recommendations for health care reform in Oregon. The Office of Investigations and Training assesses all allegations of abuse and neglect and ensures protective services are offered or provided within all state-operated mental health treatment facilities and contracted 24-hour residential programs for adults and children with developmental disabilities. The Office of Multicultural Health was moved from the Public Health Division and now resides in the Director's Office. Legislative and Intergovernmental Relations advises the director and coordinates the agency's relationships with stakeholder, advocate, and advisory groups. The Governor's Advocacy Office, which provides ombudsman functions for all DHS programs and services, is also part of this budget.
- The *Finance* section includes two offices—the Office of Budget, Planning, and Analysis and the Office of Financial Services. The former provides actuary services and rate setting, budget development and monitoring, and caseload forecasting. The latter provides accounting, payroll, and accounts receivable and payable services.
- The *Administrative Services* section houses the Offices of Communications, Contracts & Procurement, Document Management, Facilities, Human Resources, Information Security, Information Services, and Payment Accuracy and Recovery. Information Services develops new information systems such as the Medicaid Management Information System (MMIS) or the Statewide Automated Child Welfare Information System (SACWIS), and supports the Department's computer software and hardware systems. The Office of Payment Accuracy and Recovery is responsible for billing and collection activities for client resources that help cover costs of institutional 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

The 2009-11 ASD essential budget level is 47% General Fund, 7% Other Funds, and 46% Federal Funds. The Other Funds and Federal Funds reflect both revenues generated directly by ASD activities, such as collection recoveries, and resources that originate in the other programs in the Department. ASD's central administrative costs are allocated to the other program areas. Federal funding is subject to a federally approved cost allocation plan. The current cost allocation plan was adopted when the Department was reorganized in 2003. It replaced multiple cost allocation plans that had been developed piecemeal over the years to validate overhead cost distributions to federal grant managers. ASD experienced some shortfalls in projected revenues as it shifted from a previous prorate process to the more direct cost allocation approach, since it did not have a good historical basis to project the results of the new cost allocation system.

The 2009-11 essential budget level anticipates $4.6 million in Other Funds from certificates of participation (COPs) issued to pay debt service on financing for the Oregon State Hospital replacement project. Other Funds also include collection recoveries of Medicaid and other overpayments. Most of these revenues are used elsewhere in DHS to offset General Fund expenditures for program services, but the ASD budget reflects the General Fund, Other Funds, and Federal Funds revenue to pay costs of the collection staff.

Federal Funds in the ASD 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 IV-E Foster Care and Adoption Assistance, Food Stamps, and other federal program funding sources. Federal public health grants also pay a share of ASD's operating costs.

### Budget Environment

Over the last 10 to 12 years, ASD's budget has been shaped by four main factors that are discussed below.

- *Changes in cost allocation methods* were mentioned above, and sometimes required the infusion of more General Fund in lieu of Federal Funds which had been used liberally to finance administrative costs. The current cost allocation plan was developed when the Department was reorganized in 2003. This comprehensive plan replaced a number of other cost allocation plans that had been developed over the years for specific federal grants and the effects of this plan are still being realized. In the April 2006 special session, for example, the Legislature adjusted the ASD budget to align funding for positions, services and supplies, and capital outlay expenditures more closely with actual cost allocation funding splits. These adjustments added $8.2 million General Fund and $6.5 million Federal Funds to ASD, but reduced Other Funds by $14.7 million.
- *Consolidation and centralization of administrative functions* began in earnest during the 1995-97 biennium. During that time period, many support services positions were transferred from other DHS offices and divisions to the Director's Office in an effort to consolidate administrative services. This initial consolidation included accounting, personnel and payroll, contract administration, budget coordination, building operations, and information systems functions. The agency's major reorganization effort in the 2001-03 biennium moved more than 280 other administrative and support services positions from the program units to Department-Wide Support Services (DWSS)—now called the Administrative Services Division or ASD. Since then, the Department has continued to consolidate administrative functions in ASD, most recently transferring, the Office of Multicultural Health from the Public Health Division to the Director's Office.
- *Funding for specific information system projects* offset budget reductions in ASD. During the 2001-03 biennium, ASD's funding was reduced as part of several DHS budget rebalance plans, in the 2002 special session actions, and by the 2003 Legislature. The General Fund reductions affected staffing, information systems projects, and administrative services and supplies. The 2003 Legislature made more position reductions, and eliminated $1.6 million General Fund in reorganization reinvestment savings that had been earmarked for hardware and software purchases during the 2003-05 biennium. The 2005-07 budget continued to reduce ongoing operating expenditures, although funding for specific information system projects – most notably the replacement MMIS and the Statewide Automated Child Welfare Information System (SACWIS) – increased the budget overall. Both these projects are nearing completion, and the essential budget level for 2009-11 reflects a phasing out of funding for development costs.
- *Improving administrative processes* has been a major activity over the last several years, in particular. During the 2005 legislative session, and during the 2006 special session, the Legislature expressed strong concerns with the Department's financial management. In response, DHS took two major steps. First, DHS created an Operations Review Team, which included professionals from the Department of Administrative Services, the Public Employees Retirement System, the State Treasury, and DHS, to examine the Department's accounting and budget processes, internal controls, banking, and cash flow management. DHS has been working to implement the team's recommendations. It added a Deputy Director for Finance and realigned its financial services and budget staff, begun a number of personnel management improvements, implemented changes in internal financial controls, modified its forecasting procedures, and is working towards a comprehensive plan for the agency's financial and business functions. Second, DHS hired several consultants to train staff about ways to streamline administrative processes. The DHS Transformation Initiative, as it is called, has several goals: to examine and understand DHS current processes; to identify the best practices used by industry leaders; to determine what DHS needs to do to

equal or exceed those best practices; and, to make the changes necessary to become a leading human services agency.

### Essential Budget Level

The 2009-11 essential budget level for the division is $515.2 million total funds ($240.3 million General Fund). This budget level is about $3.6 million total funds (less than 1%) higher than the 2007-09 legislatively approved budget, but $40 million General Fund, or 20% higher than the approved budget. The General Fund increase is largely the result of higher General Fund debt service for the Oregon State Hospital replacement project and information systems projects ($13 million), a Federal Funds shortfall of about $10 million caused by a reinterpretation of Medicaid Targeted Case Management (TCM) and Temporary Assistance for Needy Family (TANF) rules, as well as inflationary costs ($9.6 million General Fund), and a phase-in of MMIS maintenance costs ($3.4 million General Fund) as the system is brought into service. Other Funds and Federal Funds are reduced from 2007-09 levels to reflect the ending of MMIS and SACWIS development projects—funded through COPs (Other Funds) and federal matching funds.

### Issues and Options

The Governor’s budget adds $106.5 million total funds ($22.1 million General Fund) to the ASD essential budget level. Of these total funds, $78 million would support the development and maintenance of information systems. The budget would allow completion and maintenance of SACWIS (now called the Oregon Kids Project), the development of other Children, Adults, and Families (CAF) and Public Health systems, as well as the enhancement of the new Oregon State Hospital Behavioral Health Information Project (BHIP) so that it could also be used by community mental health providers. The Governor’s budget also provides: debt service funding (from the issuance of new certificates of participation) for the next phase of the Oregon State Hospital Replacement Project, financing for Healthy Kids administrative costs, and support for the Oregon Health Fund Board’s proposal to create a Health Fund Authority.

The Governor’s recommended budget includes several reductions as well, including a $1 million General Fund decrease ($2.5 million total funds) to the Office of Budget, Planning, and Analysis; eliminating higher essential budget level funding for caseload increases, training, and higher fuel costs; and a $1.6 million General Fund reduction ($3.1 million total funds) to the payments for the state data center. The budget transfers 3 positions that conduct health system planning from the Public Health Division to ASD.

## DHS/Capital Improvements

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 771,383 | 1,163,318 | 1,163,318 | 1,163,318 |
| **Total Funds** | **$771,383** | **$1,163,318** | **$1,163,318** | **$1,163,318** |

## DHS/Capital Construction

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 2,103,716 | 0 | 929,000 | 0 |
| Other Funds | 1,015,001 | 89,022,165 | 89,022,165 | 0 |
| **Total Funds** | **$3,118,717** | **$89,022,165** | **$89,951,165** | **$0** |

### Program Description

The capital improvements budget sets aside $1.2 million General Fund for emergency repairs for the Oregon State Hospital (OSH) and the Blue Mountain Recovery Center in Pendleton. The campuses include 100 buildings with a total of 1.4 million square feet. There are roads, sidewalks, parking areas, water and sewer systems, and heating and electrical systems.

The capital construction budget reflects efforts during the 2005-07 biennium to upgrade the OSH facility in Portland as well as beginning a major initiative to replace Oregon Hospital facilities in Salem along with several new treatment facilities throughout the state. In January 2006, the Emergency Board allocated $2.1 million General Fund to remodel the 6th floor of the OSH Portland facility to increase capacity by 24 beds so that patients located in Building 44 could be moved to safer locations. Building 44 is part of the "J" building complex and is at risk of collapse in an earthquake. In addition, the Emergency Board transferred $1 million of excess Other Funds expenditure limitation from the Health Services budget to the Capital Construction budget to permit DHS to hire planning staff for new OSH facilities at its September 2006 meeting. This effort was expanded significantly during the 2007-09 biennium.

### Budget Environment

For years, OSH facilities have been deteriorating. The youngest buildings are about 50 years old and the oldest buildings are over 120 years old – some of them now uninhabitable. The Governor and legislative leadership recognized this critical situation in the 2003-05 biennium and funded the first phase of a study to assess the structures on the OSH campus and the estimated future demand for hospital mental-health services in Oregon. The first report was released in May 2005 and concluded that none of the current facilities was conducive to best practices of contemporary mental health treatment.

A second report, the *Framework Master Plan Phase II Report*, was issued in February 2006. It presented three options for the Governor, legislative leadership, and other policymakers to consider in response to expected hospital service demand and the condition of the OSH facilities. The Governor and legislative leaders announced their support for an option that calls for three major facilities to be built to replace existing structures: one 620 bed facility located in the North Willamette Valley region, one 360 bed facility located south of Linn County on the west side of the Cascades, and at least two non-hospital level 16 bed secure residential treatment settings placed strategically east of the Cascades. The project cost was estimated at $324-334 million. This cost did not include new land (if necessary), demolition costs, or most importantly, the cost of developing a more expansive array of community-based mental health treatment services – which the report strongly recommended.

During the 2007 legislative session, the Governor announced that the two primary sites for the new state hospital would be in Salem (at the current OSH site) and a site near Junction City. The Junction City land parcel is owned by the state and was to be used exclusively for a Department of Corrections facility. Plans now call for the Junction City site to be used for both the corrections facility and the 360-bed hospital recommended in the *Master Plan Phase II Report*.

During the 2007-09 biennium, extensive planning work began on the OSH replacement project in Salem. DHS hired a variety of consultants and contractors, did extensive planning, and finally, in September 2008, broke ground for the new Salem facility. At the time this was written in December 2008, demolition work was being conducted, and DHS expected the final construction bids for the new Salem campus to be submitted in March 2009. The budget for both the Salem and Junction City facilities is about $458.1 million. DHS provided regular project updates at most interim Joint Committee on Ways and Means and Emergency Board meetings throughout the 2007-09 biennium.

### Essential Budget Level

The capital improvements essential budget level is $1,163,318. This budget has not been increased for a number of biennia, though quite obviously, the maintenance needs for aging DHS structures have grown over the years.

Although the capital outlay essential budget level is zero, further construction work is expected to continue on the new OSH Salem facility throughout 2009-11. The new Salem facility is scheduled for completion in 2011.

### Issues and Options

The 2009-11 Governor's recommended budget includes $279.2 million of Other Funds expenditure limitation in the capital outlay budget for the Oregon State Hospital replacement project. This amount of limitation would allow DHS to construct the new Salem hospital facility and to continue planning work for, and initial construction of, the Junction City facility.

As noted above, the Governor and legislative leaders announced their support for the recommendation that ultimately included the construction of a new hospital facility near Junction City. Recently, however, some policymakers have questioned that decision, wondering instead, whether both the resources used to finance and operate that facility might be better used to enhance community-based mental health services. In November 2008, DHS provided the interim Joint Committee on Ways and Means an estimate of financing and operating costs for the Salem and Junction City hospitals through the 2013-15 biennium. Those estimates show that Junction City would have an operating cost in the 2013-15 biennium of nearly $213 million—supported, in large part, with General Fund.

Consequently, some have argued that if the state resources needed to operate the Junction City hospital were used instead for community-based services, they could be matched with Medicaid, and the total available funding would exceed $500 million. Moreover, if state funds that would otherwise be used to provide debt service for the construction costs of the Junction City hospital were included, the available community resources—for preventive, housing, or treatment services—would be even larger. If this level of support were actually provided, there would be little need for additional hospital services beyond the Salem campus.

Others point out that the original *Master Plan Phase II Report* recommending an additional hospital facility was based upon the assumption that Oregon would develop a robust community-based mental health system. A robust community mental health system would reduce, or at least constrain, the demand for hospital services. While strides have been made in funding and developing more community-based mental health care, Oregon has not yet developed a strong community-based mental health system. Consequently, the need for a facility in Junction City remains.

The question is whether Oregon could build a stronger community-based mental system quickly enough that it could delay or eliminate the need for the Junction City facility--given the current obstacles: budgetary constraints, community opposition to the siting of new residential treatment facilities, as well as necessary planning and execution time. The Legislature will need to wrestle with this question during the 2009 session.

## Long-Term Care Ombudsman – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 581,337 | 905,857 | 948,604 | 1,184,701 |
| Other Funds | 1,487,945 | 1,759,861 | 1,828,365 | 2,000,527 |
| **Total Funds** | **$2,069,282** | **$2,665,718** | **$2,776,969** | **$3,185,228** |
| Positions | 9 | 11 | 11 | 11 |
| FTE | 8.16 | 10.00 | 10.00 | 10.50 |

*NOTE: Federal Funds transferred from the Department of Human Services are included in the Other Funds category in the LTCO budget.*

### Agency Overview

The Office of the Long-Term Care Ombudsman (LTCO) supports a network of certified volunteers to investigate and resolve complaints for individuals who live in Oregon's long-term care facilities. Long-term care facilities include nursing facilities, residential care facilities, assisted living facilities, and adult foster homes. Agency staff provide on-going training, support, and technical assistance to volunteers, and handle difficult complaints and other complex resident issues. If an investigation reveals reasonable cause to suspect abuse, the agency refers the case to local adult protective services agencies for investigation.

The agency also uses volunteers to operate a friendly visitor program. That program encourages informal citizen interaction with residents in long-term care facilities, as part of the ombudsman continuum of services.

### Revenue Sources and Relationships

The majority of the agency's General Fund is used to match federal Medicaid and Older Americans Act (OAA) funds through the Department of Human Services (DHS). Medicaid requires a 50% state match and OAA requires a 25% state match. Eligibility for Medicaid administrative funds varies based on the time spent working on complaints from Medicaid clients; the budget assumes a Medicaid eligibility rate of 57.39%, based on the percentage of long-term care abuse complaints received by DHS that are found to be Medicaid eligible and the percentage of facility residents who are Medicaid clients. The LTCO sends General Fund to the Department of Human Services to be matched with the federal funds. The Department then transfers the General Fund and the federal matching funds to the LTCO as Other Funds. For 2009-11, the agency expects to send $0.8 million General Fund to the Department of Human Services for match, and to receive a total of $2 million Other Funds in return.

### Budget Environment

The demand for ombudsmen services is directly related to the number of long-term care facilities and clients. Oregon's long-term care system includes about 42,230 beds, in 141 nursing facilities, 228 residential care facilities, 205 assisted living facilities, and 1,590 non-relative adult foster homes. As Oregon's population continues to age, its long-term care system is also expected to grow. The number of certified volunteers providing ombudsman services has not kept pace with the growth in the number of long-term care facilities and clients, because the number of volunteers is constrained by the number of LTCO staff available to provide training and technical assistance and by the challenging recruitment environment. The 2007 Legislature funded two new Deputy Long-Term Care Ombudsman positions to start during the current biennium. Even with this increase, however, Oregon ranks just 50th out of the 52 ombudsman programs in the nation in the number of program staff to facility beds.

### Essential Budget Level

The essential budget level for the LTCO is $236,097 General Fund (24.9%) and $408,259 total funds (14.7%) more than the 2007-09 legislatively approved budget at December 2008. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. It also reflects full funding for the two Deputy Long-Term Care Ombudsman positions phased in during 2007-09.

### Issues and Options

In its 2009-11 agency request budget, the LTCO asked for more resources and staffing to implement a web-based volunteer reporting system, increase data support and technical assistance, improve volunteer recruitment, and add another Deputy Long-Term Care Ombudsman position. The cost for these improvements would be $290,933 General Fund, $234,156 Other Funds, and two positions (2.00 FTE). The agency believes these additions would increase its ability to meet its targets for average initial response time, facility visits, and average time to close non-referred cases, which it has been struggling to improve.

The Governor's recommended budget funds the agency at the calculated essential budget level, which does not include any of the agency request enhancements nor make program reductions.

The LTCO budget is largely committed to personal services and fixed expenses such as rent and state government service charges. General Fund reduction options thus focus on staffing and support for volunteers. Further, over 70% of the agency's General Fund is sent to the Department of Human Services to be matched with federal Medicaid and Older Americans Act funding. Significant General Fund reductions would also result in reductions in Other Funds. One 10% General Fund reduction option would reduce one 1.00 FTE Deputy Long-Term Care Ombudsman position to 0.66 FTE, eliminate the annual statewide training conferences for program volunteers, and reduce or eliminate selected services and supplies expenditures. As an alternative, the agency could eliminate the 1.00 FTE Deputy Long-Term Care Ombudsman position, but maintain one of the two statewide meetings for program volunteers.

## Office of Private Health Partnerships – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 25,075,821 | 25,013,418 | 25,134,324 | 26,326,825 |
| Other Funds | 56,349,908 | 57,236,251 | 57,384,129 | 59,923,264 |
| **Total Funds** | **$81,425,729** | **$82,249,669** | **$82,518,453** | **$86,250,089** |
| Positions | 58 | 53 | 53 | 53 |
| FTE | 56.80 | 52.42 | 52.42 | 52.50 |

### Agency Overview

In 2005, the Legislature abolished the Insurance Pool Governing Board and established the Office of Private Health Partnerships (OPHP) to assume the management of the Information, Education, and Outreach (IEO) program and the Family Health Insurance Assistance Program (FHIAP). The 2009-11 Governor's recommended budget anticipates adding one additional program called the Healthy Kids Plan, funded with proposed health care provider taxes and matching Federal Funds received by OPHP through the Department of Human Services (DHS) as Other Funds. The IEO program serves as a central source for employers and individuals concerning information about health care resources and health insurance. FHIAP provides health insurance premium subsidies to previously uninsured, low-income families and individuals.

Originally, OPHP was created to increase access to health insurance for small businesses and the self-employed. The agency 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 OPHP's responsibility for offering health insurance plans for small employers (HB 3126). The 2003 Legislative Assembly directed OPHP to increase access to health insurance and health care by providing affordable health benefit plans for small employers with at least two, but no more than 50 employees (HB 2537). In response to this directive, OPHP worked with insurance carriers and developed two proposed "certified" plans. While both of these plans were eligible for FHIAP premium subsidies and the agency attempted to market these plans aggressively, response to these products was negligible.

OPHP is managed by an administrator appointed by the Governor. Advisory committees may be established to "aid and advise" the administrator in his or her management of the Office.

### Program Description

The *Information, Education, and Outreach (IEO)* program conducts continuing education training for insurance agents, markets generic health insurance to small employers, and provides referrals to specially trained health insurance agents. The agency 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. The 2009-11 essential budget level for IEO is about $645,248 total funds ($512,765 General Fund).

The *Family Health Insurance Assistance Program (FHIAP)* was created in 1997 as an expansion of the Oregon Health Plan (OHP) and is regulated by federal Medicaid waivers and administrative rules. It provides direct premium subsidies to low-income individuals who may earn too much to qualify for Medicaid, but not enough to completely afford their employer's health benefit coverage or an individual health insurance policy. FHIAP provides subsidies ranging from 50% to 95% of the premium cost, depending on household income. Although the 2003 Legislative Assembly adopted legislation that allows persons in households of incomes up to 200% of the Federal Poverty Level (FPL) to receive FHIAP premium assistance, the current program only subsidizes premiums for households earning up to 185% of the FPL. The 2009-11 essential budget level for FHIAP is about $85.6 million total funds ($25.8 million General Fund).

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 certified by the agency. 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

General Fund comprises about 31% of the OPHP 2009-11 essential budget level. Other Funds expenditure limitation of $59.9 million is 69% of the essential budget level. Most ($58.2 million) is supported with federal Medicaid and Children's Health Insurance Program (CHIP) revenue that is transferred from DHS. The remaining $1.7 million of Other Funds expenditure limitation is funded with about $0.2 million of actual revenue. Thus, the difference represents a revenue shortfall of $1.5 million Other Funds. This excess Other Funds expenditure limitation is eliminated in the Governor's budget.

The OHP 2 waiver which began in November 2002, allowed Oregon to receive both federal CHIP and Medicaid matching funds on FHIAP state expenditures. (The subsequent waiver, which began in November 2007, prohibits the use of CHIP funds for adult premium subsidies.) CHIP revenue requires match of approximately 27% state funds to 73% federal funds and Medicaid funds are matched 39% state funds to 61% federal funds. The 2009-11 Governor's recommended budget for OPHP includes $25.3 million of health insurer taxes along with $12.8 million of federal Medicaid revenue to fund the Healthy Kids plan.

### Budget Environment

Three main factors are influencing the OPHP budget for the 2009-11 biennium. First, health care costs and resultant insurance premiums have risen significantly over the last several years. Nationally, premiums for individual coverage rose 5.4%, 5.6%, and 5% in 2006, 2007, and 2008, respectively. (Although these increases are lower than prior years, they are still higher than general inflation, and they are likely artificially lower because other out-of-pocket costs such as co-pays or coinsurance have been increased.) Higher premium costs require higher FHIAP subsidies and higher subsidies reduce the number of persons who can be served given a fixed or reduced budget.

Second, higher health insurance premiums have, in turn, led to fewer employers offering employer-based coverage. Nationally, 69% of employers offered health insurance to their workers in 2000. By 2008, that percentage had dropped to 63%. As the percentage of firms offering health insurance declined, rates of uninsurance increased. The Office of Health Planning Policy and Research estimated that, in 2000, there were approximately 422,000 people in Oregon (12% of the population) who did not have health insurance. The most recently published estimate, based on the 2006 Oregon Population Survey, is that 15.6% of Oregon's population, or 576,000 persons, are uninsured. The Legislative Fiscal Office (LFO) expects uninsurance rates to increase during the current economic recession.

The third main factor relevant to the OPHP budget for 2009-11 is federal CHIP policy. As noted above, the 2002 OHP waiver allowed FHIAP to use federal CHIP matching funds to finance both child and adult premium subsidies. The 2007-09 FHIAP budget was built on the assumption that the new waiver, which began November 2007, would allow this practice to continue. It did not. As a consequence, federal matching funds were lower than anticipated and the FHIAP budget was $5.6 million General Fund short of the amount required to maintain enrollment. After discussions with the Governor, the Legislature, and the federal Centers for Medicare and Medicaid Services, enrollment in FHIAP was closed in December 2007. In addition, FHIAP enrollees with incomes less than 85% of the FPL were given the option of transferring to the OHP Standard program or continuing commercial insurance enrollment without premium assistance; 3,800 of the 4,217 adults given this option chose to transfer to OHP Standard; 147 chose to continue coverage at their own cost; and 270 dropped coverage or found other alternatives. New FHIAP enrollment remains closed as of December 2008.

By August 2008, these three factors, along with a weakening economy, had led to a waiting list for FHIAP assistance of over 41,000 people.

### Essential Budget Level

The essential budget level for OPHP is $86.3 million total funds ($26.3 million General Fund), about 4.5% higher than the 2007-09 legislatively approved budget of $82.5 million total funds through December 2008. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. In addition, the essential budget level includes $1.2 million total funds ($0.3 million General Fund) for medical inflation of 4.4% for the biennium. As an important aside, this allowed medical inflation rate will probably be lower than the actual increase in health insurance premiums for the 2009-11 biennium.

As noted above, the essential budget level includes a revenue shortfall of $1.5 million of Other Funds. While $1.5 million of miscellaneous Other Funds revenue was used in the 2007-09 biennium in lieu of General Fund to match federal Medicaid revenue from DHS for FHIAP, this revenue is no longer available.

### Issues and Options

Clearly, there is not enough funding for FHIAP health insurance premium assistance to meet the demand. As noted above, enrollment was closed in December 2007 because of a change to federal CHIP policy that resulted in a General Fund shortfall. Moreover, the waiting list for FHIAP enrollment applications in August 2008 had grown to 41,000 people.

Some critics of FHIAP may argue that because the program is relatively small compared with the rest of the Oregon's Medicaid program, it should be eliminated, and the OHP Standard program should be expanded to serve adults with household incomes up to 150% to 200% of the FPL. LFO notes, however, that a number of health reform efforts (e.g., in Massachusetts) rely on a premium assistance and brokerage program to link low-income individuals with commercial insurers. Indeed, the Oregon Health Fund Board recently recommended developing an Oregon Health Insurance Exchange along with expanding premium assistance. Assuming Oregon ultimately follows this recommendation, FHIAP may have significant strategic value. The agency has staff with experience managing premium subsidy programs that are also knowledgeable about the individual and small business insurance markets.

The Governor's recommended budget for OPHP is $105.4 million total funds, $19 million total funds (about 22%) higher than the essential budget level. The difference is the result of three changes listed below.

- The Governor's budget reduces the General Fund in both FHIAP and IEO by 10%. The FHIAP General Fund reduction also results in less federal matching funds that are transferred to FHIAP as Other Funds from DHS and six fewer positions and FTE.
- It eliminates $16.7 million of Other Funds expenditure limitation which is not supported with revenue. This includes the $1.5 million mentioned above along with matching federal funds from DHS, as well as other Federal Funds revenue transferred from DHS that was lost during the 2007-09 biennium when CHIP policy was modified.
- The Governor's budget adds $42.8 million of Other Funds to implement an expansion of health coverage for children, known as the Healthy Kids Plan. The plan is financed using new health care provider or health insurer taxes along with federal Medicaid revenue. OPHP will provide private insurance products through a mini-exchange model (KidsConnect) to children in household with incomes above 200% of the FPL and premium assistance for children in homes with incomes up to 300% of the FPL. The Governor's budget anticipates that federal Medicaid match will be available for children living in households up to 250% of the FPL. Although premium assistance would be offered to households with incomes up to 300%, the costs for those with incomes between 250% and 300% would be entirely state-funded.

## Psychiatric Security Review Board – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 873,358 | 1,033,366 | 1,113,946 | 1,413,015 |
| Other Funds | 0 | 2,000 | 2,000 | 2,056 |
| **Total Funds** | **$873,358** | **$1,035,366** | **$1,115,946** | **$1,415,071** |
| Positions | 5 | 5 | 5 | 5 |
| FTE | 4.75 | 5.00 | 5.00 | 5.00 |

### Agency Overview

The Psychiatric Security Review Board (PSRB) was created in 1978 to assume jurisdiction over persons in Oregon found to be “guilty except for insanity” of a crime. In 2005, the Board’s jurisdiction was expanded, effective July 1, 2007, by SB 232 to include juveniles found “responsible except for insanity” who have a serious mental condition or who present a danger to themselves or others.

The Board’s primary purpose is to protect the public through the on-going review of the progress of those placed under its jurisdiction and a determination of their appropriate placement. The Board has authority to: commit a person to a state hospital designated by the Department of Human Services (DHS); conditionally release a person from a state hospital to a community-based program with close monitoring and supervision; discharge a person from its jurisdiction; and, when appropriate, revoke the conditional release of a person under its jurisdiction and order the person’s return to the state hospital pending a full hearing before the Board.

The ten-member board is appointed by the Governor and consists of two five-member panels. The adult panel is composed of one public member, one psychiatrist, and one psychologist experienced in the criminal justice system, one parole and probation officer, and one attorney with criminal trial experience. The juvenile panel is composed of one public member, one child psychiatrist, and one child psychologist experienced in the juvenile justice system, one juvenile parole and probation officer, and one attorney with juvenile law experience.

### Revenue Sources and Relationships

Agency operations are funded with General Fund. The only other source of funds is the balance of a 1994 award from the American Psychiatric Association dedicated for staff and Board member training.

### Budget Environment

One issue impacting the agency’s budget is work associated with the juvenile panel. SB 232 (2005) and SB 328 (2007) expanded PSRB’s responsibilities to include a juvenile panel with jurisdiction for youth with mental health diagnoses or developmental disabilities who have been accused of significant crimes but plead “Responsible Except for Insanity (REI).” The panel was fully operational as of July 1, 2007. Although fewer cases have come before the panel in its first year than initially expected, the volume is expected to increase as more juveniles successfully assert the REI defense.

The workload associated with the juvenile panel’s cases has been much greater than expected. The juvenile cases have substantially more exhibits, paperwork, and witnesses than the adult cases handled by the agency’s staff. These differences require additional preparation and hearing time, resulting in less time being available for work on PSRB’s adult hearings.

PSRB is also challenged by changes over time to its adult caseload. Adult caseload growth has slowed over the last two years, but the percentage of adults on conditional release to community–based programs continues to increase. Since the 2005-07 biennium, adult caseload has grown by only 2%, while the number of adults on conditional release has grown by 28%. Adults on conditional release require monitoring by agency staff, regular reporting, and frequent contacts with case managers.

### Essential Budget Level

The essential budget level for PSRB is $299,125 total funds, or 28.67%, more than the 2007-09 legislatively approved budget at December 2008. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, state government service charges, and a significant increase in state central computing costs.

### Issues and Options

In its 2009-11 agency request budget, PSRB asked for more resources to reorganize workflow, address workload issues, reclassify the director's position, add juvenile panel hearing days, increase stipends, and increase training opportunities for board members. The budget would increase by $703,671 General Fund and four positions (4.00 FTE) with these changes.

The Governor's recommended budget funds the Board above its essential budget level, adding one limited duration position and $108,326 General Fund to help ease workload. In October 2008, the Department of Administrative Services (DAS) reviewed PSRB's workload issues. DAS determined that three new positions would allow the Board to meet its workload demands. The Legislature may want to take a system-wide look at program budgets and services provided by both PSRB and DHS to individuals under PSRB jurisdiction. There may be opportunities to improve the balance of resources and program support between the two agencies to better serve that population.

No budget reductions were taken in the Governor's recommended budget. With the agency's current workload situation, reductions would very likely compromise either the hearings process or the supervision of clients on conditional release.

# PUBLIC SAFETY

## Department of Corrections (DOC) – Agency Totals

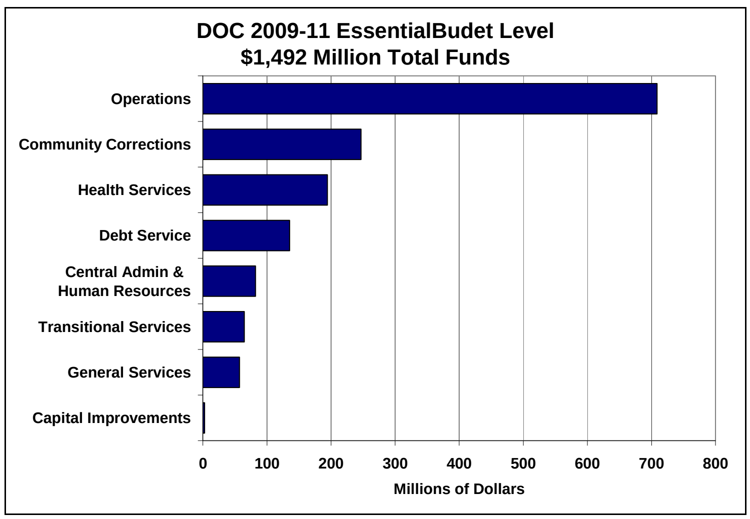
| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 1,060,812,814 | 1,263,842,285 | 1,293,447,718 | 1,455,542,591 |
| Other Funds | 42,217,811 | 69,769,138 | 75,451,123 | 31,838,251 |
| Federal Funds | 3,648,414 | 9,273,659 | 16,379,875 | 4,696,921 |
| Other Funds (NL)* | 11,192,954 | 0 | 0 | 0 |
| **Total Funds** | **$1,117,871,993** | **$1,342,885,082** | **$1,385,278,716** | **$1,492,077,763** |
| Positions | 4,268 | 4,773 | 4,773 | 4,794 |
| FTE | 4,170.25 | 4,647.32 | 4,647.32 | 4,665.29 |

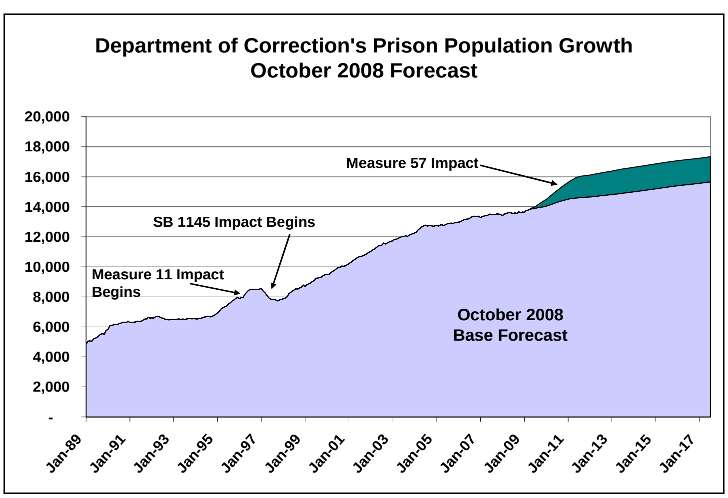
** The Other Funds Nonlimited amounts are the result of refinancing of debt.*

### Agency Overview

The Department of Corrections (DOC) has two primary functions – the operation of prisons and the state responsibility for the community corrections system. The Department operates 14 institutions for the incarceration of adult and certain juvenile felons sentenced to prison for more than twelve months by the courts. The budget is based on an actual prison population of 13,631 as of January 1, 2009 and is projected to grow by 17.2%, or 2,351 inmates, to 15,982 by July 2011 (October 2008 forecast and estimated impact of Ballot Measure 57). The community corrections system is based on SB 1145 (1995) which transferred management of offenders sentenced or sanctioned for incarceration 12 months or less, and all felony offenders under community supervision, to the counties. The Department provides funds to counties to offset the costs of supervising these offenders.

The 2009-11 essential budget level (EBL) is $1,492.1 million total funds, with 47.5% for the operation, housing, and security in the 15 facilities; 13% for health and mental health services; 4.3% for transitional services like substance abuse treatment and education; 16.5% for community corrections programs; 9.1% for the debt service on prison and local jail construction; and 9.3% for general support services and administration. There is $2.6 million total funds (less than 1%) in the EBL for capital improvements. There is no capital construction limitation but the EBL assumes continued construction of the Junction City facility.



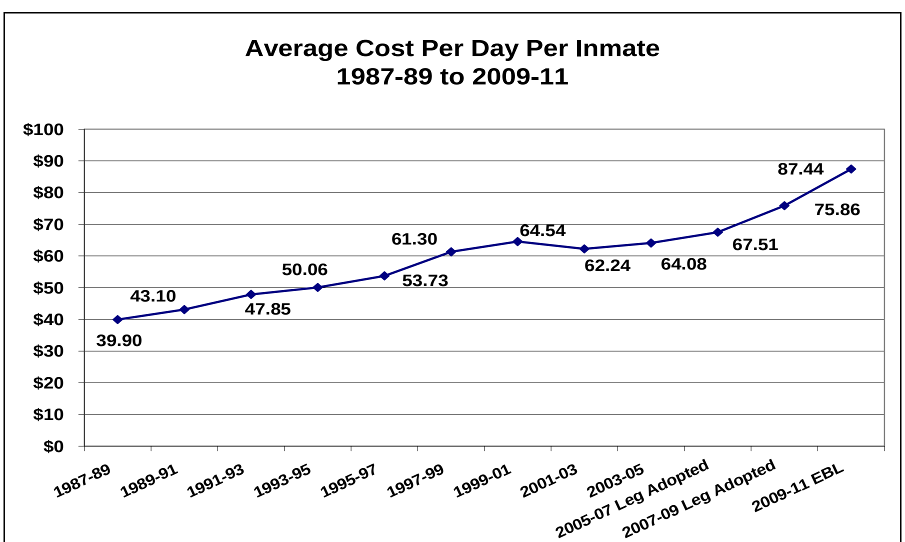

The most significant cost driver for the DOC budget is the number of incarcerated offenders in the prison system. The accompanying graph shows the growth in the actual and projected prison population, increasing from roughly 5,000 in 1989 to over 17,000 in 2017 including the impact of Ballot Measure 57. It also shows two other key points – Ballot Measure 11 and the beginning of the current community corrections system. This expected 255% increase over the period has resulted in a large construction program to expand the number of beds in the system, a growing number of staff to manage the inmate population, and an increased community corrections system to supervise this population after release from a state prison.

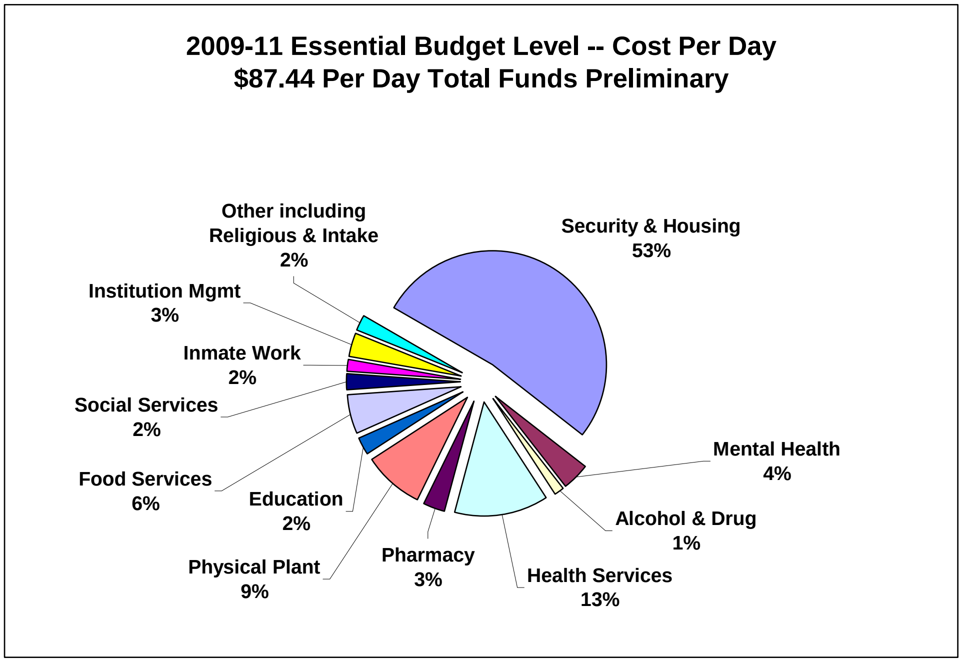
The passage of Ballot Measure 11 (BM 11) created the need to significantly change the corrections systems in Oregon and the need to increase the building program. The increases in the number of inmates due to BM 11 were not so much due to the growth in the number of offenders entering the system but to the length of time BM 11 offenders spend in prison. SB 1145 also affected 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 and later Legislatures that increased the sentences for repeat property offenders. Finally, Ballot Measure 57 passed in November 2008 changing the sentencing of certain property and drug related crimes. It is estimated that initially 30 new inmates per month (starting in April 2009) will be added to the prison population as a result of BM 57 and growing to a total additional population of 1,670 (1,336 men and 334 women) by 2015.

The ability of state policy makers to control 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 the sentencing court to reduce a sentence. The table below demonstrates the impact of these measures, the number of inmates in each group, and the requirements for changing the sentencing. The numbers below do not include the impact of BM 57 passed in November 2008.

| Ballot Measures and Time Frames | Number in Prison as of 6/08 | Steps to Change Release Date |
|---|---|---|
| Non Measures 11 and 4 inmates whose crimes were committed prior to 12/99 | 724 | Simple majority of Legislature |
| Measures 11 and 4 inmates whose crimes were committed prior to 12/99 | 1,184 | Two thirds majority of Legislature |
| Measure 74 offenders whose crimes were committed after 12/99. Includes Measure 11 and 4 inmates after 12/99 | 10,879 | Requires constitutional change |

The average cost-per-day for an inmate in 2001-03 was $62.24, increasing to $77.47 for the 2007-09 legislatively adopted budget. This figure underestimates the total amount for 2007-09 since it does not include the funding distributed to the agencies from the "salary pot." The 2009-11 preliminary cost-per-day for the essential budget level is $87.44 ranging from $67.46 at South Fork Forest Camp to over $92 at Powder River. The estimated cost per day of the new Deer Ridge Facility will be higher ($107), but that is because newly opened facilities are generally higher as the fixed costs are spread among fewer inmates until the full capacity is reached. 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 preliminary cost-per-day for the 2009-11 EBL of $87.44 per day. Staff costs are the primary driver for this figure so staff intensive functions like security and housing make up large shares of the total. Debt service, department-wide administration, business services, and capital construction are not included in these costs.

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 industries 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 Operations Division now has responsibility for oversight of inmate work crews.

### Essential Budget Level

The essential budget level (EBL) for the Department of Corrections of $1,492.1 million total funds represents an increase of $106.8 million, or 7.7%, over the 2007-09 legislatively approved budget. The General Fund EBL of $1,445.5 million is a $162.1 million, or 11.7%, increase over the same period. Most of this net General Fund increase is attributable to: (1) increases in employee compensation including wage and salary increases approved during the 2007-09 biennium, (2) net roll-up costs for debt service of outstanding COPs of $5.2 million, and (3) adjustments for inflation of $32.7 million. There were also reductions for one-time costs made in 2007-09 generally related to opening the new prison in Madras. The 2009-11 EBL includes most of the effect of the October 2008 forecast which added $9.7 million General Fund to the EBL. The Community Corrections program's EBL is underfunded by $3 million General Fund since the Governor only funded half of what should have been included in the EBL. The EBL does not factor in the impact of BM 57.

The decrease in Other Funds revenue is primarily due to elimination of the $33.7 million in capital construction limitation not included in the 2009-11 EBL and one-time start-up costs at the Deer Ridge facility in Madras. The decrease in Federal Funds of almost $12 million is the decrease of federal grant revenues including the State Criminal Alien Assistance Program (SCAAP) which had more than expected revenue in 2007-09.

### Issues and Options

The most significant issue facing the Department of Corrections for the 2009-11 budget is how to absorb the growing inmate population due to BM 57 which was passed by voters in November of 2008. This measure changed sentences for certain drug related and property crimes committed on or after January 1, 2009. This measure also anticipated increased availability and funding for substance abuse treatment for drug-addicted offenders, but no specific amount is set out in the measure for this purpose. While the 2007-09 impact is minimal (less than $1 million for DOC), over time the impact grows significantly. By June 2015, an additional 1,670 offenders are estimated to be added to the DOC prison population as a result of BM 57. While this overall population increase challenges the agency in providing sufficient beds to meet the increasing population, specific characteristics put additional pressure on parts of the DOC system. First, women make up a larger proportion of the BM 57 offenders than the current DOC population. By June 2015, the women's prison population is projected to grow by over 41% after the passage of BM 57 while the men's population is projected to grow by just over 21%. There is only one women's facility in the DOC system at this time, and it is currently near capacity so the options to house the additional women are limited. In addition, the majority of BM 57 offenders are projected to be classified as minimum custody. Because of the nature of the current and projected prison capacity, it is anticipated that DOC will have to place minimum custody inmates in more expensive medium custody facilities.

To implement BM 57, the Governor's budget includes $73.8 million General Fund. To house the additional inmates anticipated during the 2009-11 biennium, the budget includes a net $53.8 million. The remaining $20 million is for substance abuse treatment and increased supervision at the local level with $5 million for treatment in DOC facilities and $15 million provided to the county-based community corrections programs. This amount is roughly half of what the "Price Tag" Committee estimated the cost of the Measure would be. DOC has taken a "least cost" approach to housing the new population utilizing a number of temporary beds in existing space instead of major renovation and opening new units as assumed in the Price Tag Committee estimate. The $20 million included for treatment is half of what had been discussed by many parties during the 2008 legislative session and the election cycle.

The combination of the already growing population, augmented with the impact of BM 57, means DOC will have to find almost 2,000 new beds by the end of 2009-11—694 beds based on the pre-BM 57 growth and another 1,286 beds for the BM 57 impact. The agency plans to use a combination of temporary beds, more beds in existing spaces, and opening new units at the recently opened facility in Madras to meet their needs until late 2012. At that time DOC anticipates opening a new facility at Junction City to meet the growing needs. The agency is not considering using more than a few rental beds to meet their current and future needs.

The Governor's budget for 2009-11 of $1,641.3 million total funds is $149.2 million, or 10%, greater than the essential budget level (EBL). The Governor's General Fund budget of $1,462.7 million is only $7.2 million greater than EBL. Most of the total funds growth is due to the $117.5 million of capital construction limitation (6 year limitation) included by the Governor for construction of the proposed Junction City facility. The small General Fund increase is primarily the net change of two major items – a General Fund increase for BM 57 of $73.8 million (described above) offset by reductions across the entire agency of over $70 million. Major General Fund reductions include:

- Delay the opening of the medium security facility at Deer Ridge (Madras) and delay the opening of new beds at Shutter Creek while fully opening the minimum security facility at Deer Ridge and using temporary beds across the entire system. These actions save an estimated $25.2 million.
- Reduce the amount included in EBL for inflation across the agency by $4.6 million.
- Reduce the grants to counties for Community Corrections by $12.1 million. This is in addition to the $3 million reduction the Governor made in the EBL.
- Rely on $12 million in undesignated vacancy savings in the Operations Division.
- Transfer responsibility for the training of new correctional officers from the Department of Public Safety Standards and Training (DPSST) saving a net $6.9 million.
- Reduce the amount paid for State Government Service Charges (SGSC) and for Attorney General charges by a total of $3.2 million. The agency is not able to directly control the amount of SGSC it pays for.
- Make unspecified staffing reconfigurations (eliminate staff hours) saving an estimated $4.6 million in the Operations Division;
- Reduce Services and Supplies and staff costs across the central agency management units by $2.2 million.
- Recognize anticipated savings in debt service and costs of issuing COPs of $3 million which are usually taken during the biennium when the savings are actually known and realized.

The only significant General Fund enhancements in this budget are the BM 57 costs, the addition of seven permanent transitional services coordinators ($1 million) and $5.7 million in additional debt service resources to pay the 2009-11 costs of new COPs included in the Governor's budget.

## DOC – Operations

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 522,290,734 | 597,481,547 | 615,313,291 | 692,534,163 |
| Other Funds | 10,783,642 | 10,632,842 | 11,500,190 | 11,674,558 |
| Federal Funds | 3,465,784 | 7,973,659 | 15,054,075 | 4,696,921 |
| Total Funds | $536,540,160 | $616,088,048 | $641,867,556 | $708,905,642 |
| Positions | 3,307 | 3,629 | 3,629 | 3,632 |
| FTE | 3,257.73 | 3,548.01 | 3,448.01 | 3,535.32 |

### Program Description

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

### Revenue Sources and Relationships

The Other Funds revenues originate from a variety of sources including: services provided by inmate work crews, meal tickets, witness fees, and canteen sales, ($6.3 million); sale of items produced by inmate work and training programs ($2 million); and Inmate Welfare Fund revenues received from inmates or inmate-related sources such as coin operated telephones, canteen profits, vending machines, and copiers ($1.8 million).

The 2009-11 essential budget level assumes almost $5 million in Federal Funds will be available from the federal State Criminal Alien Assistance Program (SCAAP) to offset General Fund needs for incarceration of illegal aliens. This is significantly less than the amount received during 2007-09 since there was an additional payment made in that biennium. This amount only funds a portion of the total costs of incarcerating illegal aliens.

### Budget Environment

The budget for Operations is driven by the prison population forecast; sentencing laws; custody level requirements; local arrest, prosecution, and sentencing practices; and Ballot Measure 17 (1994) inmate work related requirements. The Department of Administrative Services' Office of Economic Analysis prepares the Prison Population Forecast approximately every six months. The October 2008 forecast when combined with the estimates for BM 57 shows an anticipated increase in the total prison population of 1,980 inmates from 14,002 in July 2009 to 15,982 in July 2011 (14.1% increase). In the past few years, the forecasts have not been showing a growth rate as high as in previous years, delaying the opening of prison beds. The environment has changed since most of the increase projected for 2009-11 is from BM 57 (65% of the growth). Between legislative sessions, DOC rebalances within its budget if forecasts estimate additional changes in the prison population.

**Department of Corrections Facilities**

| Existing Facilities | Location | Primary Security Level | Budgeted Capacity |
|---|---|---|---|
| Coffee Creek Correctional Facility | Wilsonville | Women's/Intake | 1,672 |
| Columbia River Correctional Institution | Portland | Men's Minimum | 553 |
| Eastern Oregon Correctional Institution | Pendleton | Men's Medium | 1,659 |
| Mill Creek Correctional Facility | Salem | Men's Minimum | 240 |
| Powder River Correctional Facility | Baker | Men's Minimum | 286 |
| Oregon State Correctional Institution | Salem | Men's Medium | 895 |
| Oregon State Penitentiary | Salem | Men's Maximum/Minimum | 2,444 |
| Santiam Correctional Institution | Salem | Men's Minimum | 440 |
| Shutter Creek Correctional Institution | North Bend | Men's Minimum | 396 |
| Snake River Correctional Institution | Ontario | Men's Medium | 3,050 |
| South Fork Forest Camp | Tillamook | Men's Minimum | 200 |
| Two Rivers Correctional Institution | Umatilla | Men's Medium | 1,812 |
| Warner Creek | Lakeview | Men's Minimum | 406 |
| Deer Ridge Correctional Institution | Madras | Men's Minimum/Medium | * 969 |

** Deer Ridge has a planned total capacity of 1,885 but only 969 will be required by the end of 2009-11.*

The Department opened one new mixed minimum and medium security level facility – Deer Ridge in Madras – in September 2007. Over the next three biennia, units at this facility will open to meet the anticipated inmate growth. The next facility scheduled to come on line is one in Junction City which is now in the planning/development stage and is scheduled to start receiving inmates at the end of 2012 based on current projections.

DOC has depended on the use of what the agency calls temporary or emergency beds to meet their capacity needs for many years. These beds are generally additional beds in dormitory-like settings in minimum security facilities or additional beds in what had been single bed cells. In a few cases, a new unit has been added in space that had been originally designed for another purpose. DOC states that it has generally reached the limit for double occupancy cells in their system. There still remain the special unit beds where double occupancy cells are not always feasible and some single cells exist for those with special needs. All facilities, except the Oregon State Penitentiary, will have almost all available cells at double occupancy. Structural load issues prevent the double occupancy use of the remaining single occupancy cells at the Oregon State Penitentiary. As of June 2011, DOC plans to have 1,535 temporary beds in the system. Short-term work camp beds may also be added as forest related work becomes available. The term temporary is somewhat subjective since many beds that have been or are classified as temporary have been used for years.

DOC has in the past rented beds from counties that have space in their jails. The agency looks to these county beds as an option and has used them in some cases as transitional beds for offenders that are at the end of their sentences. There always is the chance that counties may need these available beds as their need or financial capacity to house the offenders for which they have responsibility increases. Another alternative is to rent beds out of state, but until now that has been limited to publically owned and operated beds, not those at privately owned and operated prisons.

### Essential Budget Level

The 2009-11 essential budget level for this largest division in DOC of $708.9 million total funds is $67 million, or 10.4%, greater than the 2007-09 legislatively approved budget. The corresponding General Fund increase is $77.2 million, or 12.5%. The increase is due generally to employee compensation increases including those approved during 2007-09, changes in vacancy savings, inflation, and a fund shift recognizing that additional federal SCAAP payments were received in 2007-09 that will likely not be available in 2009-11. Offsetting these costs were two major items. First, the mandated caseload figures actually are reduced by just over $1 million General Fund. Even though the prison population is increasing, the change in the staffing needs from not opening the medium security facility at Deer Ridge saves money in 2009-11. There are also one-time expenditures made in 2007-09 that will not be required in 2009-11.

### Issues and Options

The costs due to BM 57 are estimated at $23.6 million General Fund in 2009-11 for this division in the Governor's budget (132 positions/69.01 FTE). As noted above, this is significantly less than the amount used as an estimate by the "Price Tag" Committee and relies on the use of more temporary beds so new construction or major structural changes do not have to take place. The agency will add temporary beds wherever possible including in spaces currently used for education and work programs. For example, 200 beds will be added to a space currently used for work programs and correctional industries at the medium security facility for women at Coffee Creek. While this will solve the short-term capacity issues for women, long-term this is one of the larger challenges for the agency. Since Coffee Creek is the only women's facility currently in the system and it is near capacity, the agency will need to seek other alternatives in the future. One option may be to move the current intake center at Coffee Creek to another facility so more beds become available for the women's population.

Not only is the prison population growing, the demographics are changing with more of the population with serious health and mental health issues. The current facilities in the agency's system are not necessarily designed to serve these populations effectively. DOC staff is looking at building the new facility at Junction City to meet the mental health and elderly needs of the population but it could add to the cost of the facility. Many states have designed units with these "special needs" population in mind and have specifically designed geriatric units for the older population and other long-term care units.

The 2009-11 Governor's budget for this division of $686.1 million total funds and $669.5 million General Fund is just over 3% less than their respective EBLs. As noted above, this change factors in the $23.6 million General Fund increase to address the needs arising from the passage of BM 57. This increase is offset by over $46.6 million in cuts from EBL including:

- The further delay in opening of the medium security facility at Deer Ridge and 49 new beds at Shutter Creek and relying more on temporary beds across the system generates in $19.4 million General Fund savings.
- The responsibility for training new correctional officers is proposed to be transferred from the Department of Public Safety Standards and Training (DPSST) to DOC saving an estimated $7.9 million. These savings represent the compensation that is paid to the new officers when they attend the five week training at DPSST. Now the assumption is that they will have more on-the-job training at DOC. There is $1 million added to the Human Resources budget for training resources for this action.
- An undefined staffing reconfiguration is proposed to save $4.6 million General Fund. At this time details on how these savings will be generated have not been made but staffing hours will be reduced.
- Additional vacancy savings of $12 million are included – this is an action the Legislature has taken in previous biennia.

Further reductions beyond what the Governor has taken are limited without the closure of institutions. Areas where the agency can further explore include:

- Whether there are options for additional "temporary" beds and further delay the opening of units at the Deer Ridge medium security facility. Given that the agency has used most or all of the "easy" options for temporary beds, additional beds will mean using separate spaces and this require additional security staff. Oregon's prisons are not as physically crowded as in some other states but crowding does not always result in savings.
- Continue to look at rental beds both inside and outside the state. In exploring this option, all costs must be taken into account including transportation, medical services, and legal representation. Without long-term contracts, rental beds are not a good option except as a transition move.
- Further staff reductions may be possible, but employee and inmate safety must be taken into account with these decisions.

The agency has looked at closing some facilities as savings, but this would require finding additional beds at the remaining facilities or gaining authority (legislative changes likely required) to release inmates early. Facilities that would likely be considered for closing include Mill Creek and Santiam (Salem), Columbia River (Portland) and the South Fork Forest Camp (Tillamook). Currently these four facilities house almost 1,500 inmates.

## DOC – Health Services

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 124,609,730 | 151,984,690 | 162,884,399 | 193,831,350 |
| Other Funds | 703,604 | 361,160 | 361,160 | 520,070 |
| **Total Funds** | **$125,313,334** | **$152,345,850** | **$163,245,559** | **$194,351,420** |
| Positions | 419 | 556 | 556 | 536 |
| FTE | 393.85 | 520.4 | 520.4 | 506.84 |

### Program Description

The Health Services program is part of the Operations Division but because of its size has been designated as a separate budget unit. It includes the health services staff which provide services at all of the DOC prisons. The level of service varies significantly with a much more extensive set of services at larger facilities like the Oregon State Penitentiary and Snake River. While most of the health services are provided by DOC employees and contractors inside the prison walls, many services are provided at community hospitals and providers. The agency estimates that over 95% of the services are provided at a DOC facility but the costs of the outside services represent roughly 33% of the total health services spending. This budget unit also includes the mental or behavioral health program which provides a range of services addressing problems dealing with mental illness, developmentally disabled, and co-occurring disorders (mental illness and substance abuse).

| Health Services Budget<br>Total Funds | | | |
|---|---|---|---|
| **Budget Area** | **2003-05 Actual** | **2005-07 Actual** | **2007-09 Legislatively Approved** |
| Physical Health Services | 60,470,011 | 84,369,498 | 110,974,660 |
| Pharmacy Services | 17,136,854 | 21,499,234 | 23,192,897 |
| Mental Health | 12,963,095 | 19,444,602 | 29,078,002 |
| **Total** | **90,569,960** | **125,313,334** | **163,245,559** |

### Revenue Sources and Relationships

This budget unit is mainly supported by the General Fund. The Other Funds revenue is generated from charges to inmates for medical services and from the sale of medical prostheses manufactured by inmates.

### Budget Environment

The federal constitution requires 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. For example, the California prison system's health care system is under the supervision of the federal courts and is now facing significant cost increases as new requirements are placed on the system by the court. Health and Pharmacy costs continue to rise (see table above) since they are under the same pressure that other health care programs are experiencing. DOC has undertaken or plans to undertake a number of actions to reduce, or at least limit, the cost of these programs including a treatment oversight committee to suggest cost effective treatment for non-emergency cases, and establishing a pharmaceutical formulary. Even with these and other cost saving management actions, the cost of health care and pharmacy services continue to grow. The agency also has had trouble filling health-related positions in many areas of the state.

A recent mental health report prepared by DOC stated that up to 50% of the inmates have some form of mental or emotional problems. Not all inmates receive treatment and their needs vary significantly, but as of December 1, 2008, roughly 6,100 inmates were assessed as either benefiting from or needing some level of treatment. Of those 6,100, 4,053 received some kind of mental health service; about 3,000 were severely and persistently mentally ill; and over 300 were developmentally disabled. The percentage of inmates who are severely mentally ill has increased from 12% of the total prison population in 2000 to 19% in 2005, to 22% in 2008. Many times an inmate who causes a disturbance or is disciplined has a mental health issue. There are often insufficient facilities and services available so that inmates may end up in the Disciplinary Segregation Unit instead of a special mental health unit which is a more appropriate setting. Long-term plans include studying the feasibility of identifying or building a facility specifically for those inmates who require higher levels of mental health services.

### Essential Budget Level

The 2009-11 essential budget level (EBL) for Health Services of $193.8 million General Fund is over $30 million, or 19%, greater than the 2007-09 legislatively approved budget. Two factors drive most of this increase. Employee compensation issues including increases approved during 2007-09 and changes in the vacancy savings assumptions account for a large share of the increase. Inflation is the other major factor accounting for $20 million including over $17 million granted for exceptional inflation. This represents inflationary increases of almost 40% for medical related services and over 18% for pharmacy related costs. Some of this increase reflects the rise in medical costs generally across the economy and some is attributable for DOC to catch up for past biennia when inflation adjustments have not kept up with the actual increases in costs. Over the past two biennia DOC has had to internally rebalance resources within its budget to cover health related costs.

### Issues and Options

The agency has had a contract with ODS to assist in managing its outside health spending including a provider network system, reimbursement of providers and data to analyze health care spending. The services received from ODS has not always met with the agency's expectations and the anticipated savings have not materialized. DOC is exploring its options for the future in terms of these services. Agency staff has also discussed bringing in more outside consultants to assist the agency in its health care management, mostly with outside providers. The agency does participate in a multi-state bulk pharmacy purchasing group for savings.

Health Services spending has generally exceeded budgeted amount for the past two biennia reflecting the increasing costs. The rebalance plan approved by the Emergency Board in September 2008 had to move over $15 million from other parts of the budget to fill the gap in funding for health services, primarily for services provided in the community. With the exceptional inflation increase provided in EBL, it is hoped that some of this has been corrected.

Long-term, DOC faces a growing challenge in health care. The inmate population is aging and the health care costs grow significantly as an inmate ages. In addition, the average inmate's "health age" is significantly higher than his or her chronologic age. In other words, the health needs of a 50 year old inmate are much greater than for a 50 year old average citizen who is not incarcerated. As the number and proportion of older inmates grows within the DOC population, health care costs are expected to outpace the growth of other DOC expenditures. Five years ago, "high cost" inmates accounted for 50% of the outside visit costs while today they represent 60%.

The 2009-11 Governor's budget for Health Services of $204.6 million General Fund is $10.8 million, or 5.6%, greater than EBL. Most of this increase is explained by the $14.6 million (113 positions/70.73 FTE) added to the budget for BM 57. This increase is offset by $4.3 million in reductions including the delay in opening the medium security units at Deer Ridge ($2.3 million) and an unspecified reduction in the amount added in EBL for inflation ($1.8 million).

Options to further reduce health care costs are limited by the constitutional (and resulting case law) requirements. Incremental cost reductions would likely not push the legal envelope but larger reductions could put Oregon in the same place that California is now facing where the federal court is requiring large increases in their budget. Since a relatively small number of inmates generate a significant amount of the costs, the Legislature could explore early release options for elderly offenders and those who are in the last months of their lives. This would reduce some of the higher cost inmates from the system, but their cost of care would have to be supported by family members or other publicly paid programs in the community.

## DOC – Community Corrections

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level* |
|---|---|---|---|---|
| General Fund | 190,148,480 | 225,276,256 | 225,243,554 | 244,965,620 |
| Other Funds | 464,755 | 1,867,434 | 1,867,434 | 1,919,722 |
| **Total Funds** | **$190,613,235** | **$227,143,690** | **$227,110,988** | **$246,885,342** |
| Positions | 48 | 47 | 47 | 47 |
| FTE | 48.00 | 47.33 | 47.33 | 47.33 |

** The 2009-11 Essential Budget Level (EBL) listed above is $2,987,702 General Fund less than the true EBL amount based on the October 2008 forecast.*

### Program Description

The community corrections program provides funding to counties and for the two counties where DOC has assumed responsibility for community corrections. Under SB 1145 (1995), the community corrections program was restructured to establish state/local partnerships, and shift resources and control for community corrections to the counties. The Grant-in-Aid is based on the number and risk levels of offenders to be managed. Three groups are funded through this program:

- ***Felony Probation*** – those individuals sentenced for a felony to probationary supervision instead of incarceration in a local or state correctional facility.
- ***Parole and Post-Prison Supervision*** – those individuals that were incarcerated in a state correctional facility, but have been released, and are now supervised in the community corrections system. Individuals who committed their crime prior to November 1989 are placed on parole; post-prison supervision applies to individuals that were sentenced under the sentencing guidelines.
- ***Local control*** – three classes of offenders; (1) those that are convicted for a felony and sentenced to incarceration of 12 months or less, (2) revoked from felony community supervision and sentenced to 12

months or less incarceration, or (3) sanctioned to less than 30 days for violating the terms of community supervision.

The program is under the administration of the Transitional Services Division and the central administrative staff for the program is part of that Division. The positions included in this program unit provide community corrections supervision for two counties (Douglas and Linn) where DOC has assumed responsibility for community corrections.

### Revenue Sources and Relationships

This budget unit is mainly supported by the General Fund. The Other Funds revenue is from supervision fees and other revenues collected by the two county programs. For 2009-11, it is anticipated that 32% of the amount distributed to counties will be used for felony probation with the remaining 68% being used for parole and post-prison supervision and for the local control population. This is based on the October 2008 local offender population forecast and the band rate structure, but counties may spend it differently based on local decisions.

Counties also contribute varying amounts to the community corrections system. Based on information collected in 2004 by the association representing community corrections directors, twelve counties provided little or no local general fund/special levy contributions during 2003-05. Other counties such as Multnomah and Marion contributed over $40 per capita in county general funds. All counties charge offenders fees for supervision or services which provided an estimated $13.3 million to the system for 2003-05. Statewide, local contributions are estimated to have represented roughly 40% of the total funding in 2003-05 for the community corrections system, while the state grants represented 60% of the spending. At this time no updated information is available.

### Budget Environment

The Community Corrections Grants budget is primarily driven by the local offender population forecast issued by the Department of Administrative Services' Office of Economic Analysis, which forecasts the number of offenders on probation, parole, post-prison supervision, local control, and Level 3 sanctions (see table below). The number of community corrections cases continues to grow and generally outpaced the forecasted caseloads for the past few years. The table does not include the impact of BM 57 which will lower community corrections caseloads in the short-term because those who may have been sentenced to probation or local control may now have longer sentence and sent to prison. Long-term, the caseloads will increase again as those offenders are released from prison and return to the community.

**Community Corrections Forecast**
**October 2008 Forecast**
***Does not include impact of Ballot Measure 57***

| | Felony Probation | Parole & Post Prison Supervision | Local Control & Level 3 Sanctions | Total |
|---|---|---|---|---|
| July 2008 | 21,733 | 14,681 | 1,503 | 37,917 |
| July 2009 | 22,110 | 14,556 | 1,576 | 38,242 |
| July 2010 | 22,530 | 14,575 | 1,658 | 38,763 |
| July 2011 | 22,826 | 14,657 | 1,733 | 39,216 |
| July 2012 | 23,049 | 14,742 | 1,809 | 39,600 |

In the past, funding for Community Corrections Grants generally increased from one biennium to another based on inflation and the projected number of offenders supervised or incarcerated at the county level. The rates were based on cost studies completed in the early 1990s. During the 2005-07 interim, the community corrections directors, sheriffs, counties and DOC undertook a project to "rebase" the rates based on cost studies for both jail operations (local control population) and supervision operations (all other). These funds were to be allocated to individual counties through a capitation model, based on the number and risk levels of offenders in each county. The 2007-09 legislatively approved budget was based on the cost study for supervision and a cost for incarcerating a DOC inmate for the jail portion of the model. The new "rebased" system was implemented on July 1, 2008.

State law provides for counties to "opt out" from the community corrections system and return responsibilities to DOC. This may happen only when funding for community corrections does not keep pace with caseload growth, and/or the amount provided does not include an inflation increase equal to or more than the increase included in the legislatively adopted budget for the rest of the DOC budget. Counties must give notice to DOC at least 180 days prior to opting out. Two counties (Douglas and Linn) formally opted out and transferred responsibility for their community corrections programs to DOC during 2003-05.

### Essential Budget Level

The 2009-11 essential budget level (EBL) for the Community Corrections program in the Governor's printed budget of $245 million General Fund is $19.7 million, or 8.8%, greater than the 2007-09 legislatively approved budget. The true EBL is actually $248 million General Fund, $3 million more because the Governor arbitrarily reduced the EBL in preparing his budget. The growth in the EBL is due to the roll-up of the rate change that became effective July 1, 2008 to reflect 24 months of spending ($12.5 million), inflationary increases ($6.1 million), and for growth in the mandated caseload as projected in the October 2008 forecast.

### Issues and Options

Funding in other state agency budgets has 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 58% experiencing serious issues. Reductions in previous biennia to these treatment programs did reduce the available resources for the community corrections caseload. The Governor's budget for 2009-11 does include significant reductions to alcohol and drug treatment programs in the Department of Human Services (DHS) budget which will likely have an impact on community corrections programs unless his increases to the standard population under the Oregon Health Plan offset these reductions. Regardless, the viability of the provider network for substance abuse treatment depends not only on funding coming from the public safety system but also from DHS, counties, and the private systems.

The 2009-11 Governor's budget for Community Corrections programs of $229.9 million General Fund is 7.2% less than the actual or true EBL. This reduction is the combination of the $3 million not included in the Governor's budget EBL, a negative $2.9 million adjustment for the implementation of BM 57, and a $12.1 million further reduction taken in Governor's budget. The $2.9 million adjustment for BM 57 could be argued to be an adjustment to the EBL since the offender population is reduced as a result of the change in law. Future forecasts will include this adjustment as part of EBL.

The amount in the Governor's budget for Community Corrections likely is below the funding threshold so local programs can choose to opt-out of the program and turn their county programs over to DOC to operate. There may be changes in supervision expectations implemented by rule that may prevent counties from opting out, but that has yet been fully discussed and developed. Further reductions to this program would only increase the potential for further counties to opt-out.

## DOC –Transitional Services

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 35,574,089 | 46,675,516 | 45,954,528 | 55,575,451 |
| Other Funds | 8,314,878 | 8,494,687 | 8,498,951 | 9,029,250 |
| Federal Funds | 29,201 | 395,000 | 420,800 | 0 |
| **Total Funds** | $43,918,168 | $55,565,203 | $54,874,279 | $64,604,701 |
| Positions | 121 | 136 | 136 | 154 |
| FTE | 118.5 | 131.38 | 131.38 | 152 |

### Program Description

The primary goal of the Transitional Services Division is to reduce the risk of future criminal conduct by offenders under the supervision of DOC and counties. Through programs including workforce development (e.g., education and cognitive/life skills) and substance abuse treatment, DOC works toward preparing the incarcerated offender for a transition back into the community when released and to reduce recidivism. This division is also responsible for administering the community corrections program (grants and local DOC staff are in the Community Corrections program unit description), the interstate compact, jail inspections, religious services, sentence computation, inmate classification, victim services, and offender records. The table below shows the resources allocated to the various programs.

**Transitional Services Division Budget**
**Total Funds**

| Budget Area | 2003-05 Actual | 2005-07 Actual | 2007-09 Legislatively Approved |
|---|---|---|---|
| Workforce Development | 16,229,279 | 17,919,387 | 20,375,420 |
| Alcohol & Drug Treatment | 6,470,802 | 6,569,326 | 12,089,089 |
| Religious Services | 4,400,274 | 5,726,643 | 6,256,197 |
| Offender Info & Sentence Comp. | 6,990,052 | 8,054,719 | 9,322,569 |
| Other Division Costs | 4,573,594 | 5,648,093 | 6,831,004 |
| **Total** | **38,664,001** | **43,918,168** | **54,874,279** |

### Revenue Sources and Relationships

Transitional Services are expected to receive $8.4 million in Other Funds for 2009-11 from a variety of sources including:

- Revenue from services provided or products produced by inmates in educational programs such as automotive and computer repair ($0.7 million).
- Inmate welfare funds for the alcohol and drug programs and the education program is derived from coin operated telephones, canteen profits, vending machines, meal ticket sales, and inmate room and board reimbursements ($6.5 million). Inmate welfare funds are used to pay for transportation, housing, and other costs when an individual is released from prison.
- Grant resources transferred in for alcohol and drug programs ($221,498).
- Resources transferred in for education programs from the Department of Education and the Department of Community Colleges and Workforce Development ($377,613).

### Budget Environment

The Transitional Services budget is driven by the number of inmates, 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 (education, social skills, cognitive skills, sex offender assessment, alcohol and drug treatment, religious services), thus requiring more staff and General Fund support. In the past, these are often some of the first programs cut during budget shortfalls.

The programs included in this division 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, 47% have no high school diploma or GED, over 20% function below the literacy level, 53% have never worked in a legitimate job, 21% are mentally ill, and 3% are developmentally disabled. The DOC population generally matches the profile for these issues nationwide.

Many of the services provided in Transitional Services must be provided at some level based on federal and/or state constitutional requirements. The amount of funding required to meet these federal or state requirements is not a clear cut amount. Education, training, and alcohol/drug services are also used to meet the requirements of the 1994 Ballot Measure 17 (Article I, section 41 of the Oregon Constitution). Regardless of their constitutionally-required provisions, these programs are designed to assist offenders, when released, to have the skills to overcome significant barriers so they are able to function in the general community.

### Essential Budget Level

The 2009-11 essential budget level (EBL) for Transitional Services of $64.6 million total funds ($55.6 million General Fund) represents a 17.7 % (20.9%) increase over the 2007-09 legislatively approved budget. This increase is primarily due to the employee compensation increases including those approved in 2007-09, inflation adjustments ($1.1 million), roll-up costs to account for a full 24 months of spending for items added part way through the 2007-09 biennium ($1.1 million), and mandated caseload growth for increased costs based on the October 2008 forecast ($1.8 million).

**Issues and Options**

The passage of BM 57 assumes that funding will be allocated for substance abuse treatment for those offenders incarcerated in a DOC facility as well as for offenders that are part of the Community Corrections program. While no amount was specifically stated in the Ballot Measure, there was substantial discussion regarding $40 million being added as part of the BM 57 costs during the 2009 legislative session and during the period leading up to the November 2008 vote on the Measure. The Governor's budget includes $20 million – $5 million for treatment in DOC facilities and $15 million for treatment in the community. No specific distribution formula or plan has been brought forth for the distribution of the $15 million.

The 2009-11 Governor's budget for Transitional Services of $90.8 million total funds represents a 40.6% increase over EBL and the General Fund increase is $25.5 million, or 45.9%, over EBL. This increase is due to:

- BM 57 costs of $26.5 million General Fund including the $20 million for treatment and the remainder for increases in staff (12 positions/11.15 FTE) in other areas of this budget including religious services and the Offender Information Sentencing Computation unit due to the increasing number of inmates.
- Seven new permanent transitional services coordinators to assist inmates to return to the community when released. Four are for the continuation of existing limited duration positions in 2007-09 and the other three are new positions for 2009-11.

Offsetting these increases are $2 million in General Fund reductions from the delay of fully opening the medium security facility at Deer Ridge, increased vacancy savings across the division, and eliminating the inflation related adjustment for most units included in EBL.

Reductions to educational, work, cognitive, and substance abuse programs are possible but the risk is that long-term costs would likely increase. These programs are designed to assist inmates in reducing their likelihood of recommitting crimes in the future. If they are reduced the recidivism rate could increase as more released inmates return to the system.

## DOC – General Services

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 40,386,089 | 44,966,338 | 44,885,682 | 50,695,493 |
| Other Funds | 5,589,035 | 12,096,877 | 13,159,486 | 6,367,065 |
| **Total Funds** | **$45,975,124** | **$57,063,215** | **$58,045,168** | **$57,062,558** |
| Positions | 232 | 256 | 244 | 263 |
| FTE | 219.23 | 252.07 | 241.32 | 261.8 |

**Program Description**

The General Services Division includes the following units:

- ***Fiscal Services*** provides central accounting, inmate trust accounting, and contract-related services for the entire agency. While most of its staff is located in Salem, staff is also located in eastern Oregon to oversee business operations at those facilities.
- ***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.
- ***Distribution services*** provide the various goods and services necessary to operate facilities across the state including food and canteen supplies. It has a central warehouse in Salem and transports supplies to facilities around the state. It is also responsible for the statewide inventory system for the agency.
- ***Facilities services*** is responsible for the repair and maintenance program for all of the DOC owned facilities. It also manages leased facilities, wireless communications, and energy conservation.

### Revenue Sources and Relationships

Fiscal Services and Facility Services rely on $3.2 million Other Funds derived from the sale of certificates of participation (COPs) for activities related to construction. The Distribution Services unit receives over $6.1 million Other Funds from charging for services.

### Budget Environment

Information Systems and Services has responsibility to keep existing automated systems running efficiently for over 5,300 users in prisons and other DOC sites across the state, and in the 36 county or state operated 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. In the past four years, there have been reductions in this technical support staff, reducing the level of service to both DOC and county programs. During 2007-09, DOC began the rewrite of one of its major information systems – the Corrections Information System – from a COBOL-based system to an internet-based system. This was funded out of the existing budget.

### Essential Budget Level

The essential budget level (EBL) for the General Services Division of $57.1 million total funds represents a 1.6% decrease from the 2007-09 legislatively approved budget and the 2009-07 General Fund budget of $50.7 million iss a 12.9% increase from the legislatively approved budget. The primary reason for the total funds reduction was the $8.9 million phase-out of one-time spending in 2007-09, mostly for the new Deer Ridge prison. The General Fund increases are due to employee compensation increases including those approved during 2007-09, inflation adjustments, and increased staffing and other costs due to mandated caseload growth.

### Issues and Options

The agency request budget included a number of policy packages relating to information systems including additional core staffing and establishing a timelier computer lifecycle replacement schedule. There was also a request to fund the initial requirements and design phase of an acquisition approach to replacing the aging and obsolete Corrections Information System. While this project was not approved for the Governor's budget, the agency will still explore this replacement in its existing budget.

The 2009-11 Governor's budget of $60.4 million total funds and $52.8 million General Fund represents an increase of 5.8% and 4.1%, respectively. The enhancements to this budget include:

- $4.5 million General Fund (21 positions/11.11 FTE) for services and support resulting from the increased population generated from the passage of BM 57;
- $500,000 Other Funds for empty limitation in anticipation of receiving unidentified revenues from leases, energy related payments, or other sources; and
- $572,727 Other Funds for new commissary staff to be paid through the commissary sales to inmates.

Offsetting these increases are General Fund reductions including savings resulting from the delayed opening of the medium security facility at Deer Ridge ($1.7 million), unspecified reductions in Services and Supplies ($259,743), and elimination of inflation adjustments included in EBL ($230,071).

Staff reductions are possible in this division but the result would mean slower payment of bills, increased audit findings, and less support and development of information systems across the agency.

## DOC – Central Administration, Human Resources and Public Services

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 46,798,497 | 64,697,530 | 69,955,343 | 79,879,486 |
| Other Funds | 4,023,389 | 2,735,179 | 2,828,270 | 2,327,586 |
| Federal Funds | 153,429 | 905,000 | 905,000 | 0 |
| Other Funds (NL) | 92,954 | 0 | 0 | 0 |
| **Total Funds** | **$51,068,269** | **$68,337,709** | **$73,688,613** | **$82,207,072** |
| Positions | 141 | 149 | 162 | 162 |
| FTE | 132.94 | 148.13 | 159.88 | 162 |

### Program Description

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

- ***Central administration*** includes the Office of the Director, the Internal Audits Office, and the Planning and Budget Office. In addition, this unit includes the new Population Management Office created in 2006 which is responsible for the development and implementation of population management strategies. These include the day-to-day management of assigning inmates in the existing system, and the long-term planning to insure the right type of beds are built in the future. This section also includes the budgets for much of the Attorney General spending and all of the central state government service charges.
- The ***Public Services Division*** includes the function relating to investigations of inmates, hearings, rules coordination, research and evaluation, and public information.
- ***Human Resources*** staff provides agency wide services including labor management, recruitment, employee development, training, employee safety, and risk management.

### Revenue Sources and Relationships

These units almost entirely rely on the General Fund. Central Administration relies on $1.6 million from the proceeds of the sale of COPs for funding construction-related activities mainly in the Population Management Office. Proceeds also fund the issuance costs of the COPs. A small amount of rent revenue is received by the Population and Management Office from property easements and rental income.

### Budget Environment

As inmate population grows, there is an increase in the need for investigations, searches, work site monitoring, drug testing, internal audits, and hearings. Opportunities for contraband in institutions also increase since more non-DOC staff will have contact with inmates through work crews, prison industries, public/private partnerships, and contract services.

From July 1, 2007 to June 30, 2008, DOC hired approximately 1,600 employees, continuing a trend since 1995 as DOC has opened or expanded facilities. Recruitment strategies are in place to assist with the increased workload of recruiting and performing background checks. Recruitment resources are being directed toward those types of positions that are hard to fill, including Correctional Officers and various medical positions.

### Essential Budget Level

The 2009-11 essential budget level for these combined units of $82.2 million total funds and $79.9 million General Fund represent increases over the 2007-09 legislatively approved budget of 11.5% and 14.2% respectively. Most of the growth is attributable to employee compensation increases including those approved during 2007-09; increases in central state government service charges, Attorney General charges and inflation adjustments which total $10.1 million General Fund; and $0.5 million in General Fund increases due to the rise in mandated caseload costs. Offsetting these increases are $1.2 million General Fund in phase-out costs for one-time spending in 2007-09, resources for rental beds no longer needed, and resources that had been paying for now paid-off small scale energy loans.

### Issues and Options

The 2009-11 Governor's proposed budget of $85.2 million total funds and $80 million General Fund represent increases over EBL of 3.6% and less than 1%, respectively. Increases for BM 57 make up most of the increases adding $3.9 million General Fund and 19 positions for increased staffing across many of the administrative areas. There is also a $2.9 million Other Funds increase for the estimated issuance costs for the COPs included in this budget. Offsetting these increases are $1.8 million in General Fund cuts including:

- Almost $900,000 in unspecified Services and Supplies reductions across the three units;
- Elimination of three positions in the Public Services Division including two inspector positions ($565,839);
- Reduction of $2.7 million, or 20%, in the amount of the increase in EBL allocated for central state government service charges. It is unclear whether this reduction is possible since there seems not to be a reduction of this size anywhere in those agencies which make assessments through the central state government service charges. This will likely end up being a reduction the agency must make in other areas of its budget.
- Reduction of roughly 20% of the resources allocated to pay for Attorney General services by the agency. DOC is hoping to find management actions within the agency to meet this reduction.

As part of the BM 57 package for these three units, there are a number of new positions which should be reviewed in the legislative budget process to assess whether they should be established or not. Some appear to be adding staff beyond the need exclusive to BM 57.

Some staff reductions are possible in these divisions, but the result would include slower and potentially less in-depth investigations of inmate violations, less management oversight of employees, less training, and slower recruitment for a system that is growing.

## DOC – Debt Service

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 99,926,196 | 130,202,602 | 126,653,115 | 135,431,603 |
| Other Funds | 12,135,818 | 0 | 3,549,487 | 0 |
| Other Funds (NL)* | 11,100,810 | 0 | 0 | 0 |
| **Total Funds** | **$123,162,824** | **$130,202,602** | **$130,202,602** | **$135,431,603** |

** The Other Funds Nonlimited amounts are the result of refinancing of debt.*

### Program Description

Debt service is the obligation to repay the principle and interest costs of COPs issued to finance the costs of construction and improvement of correctional facilities. Beginning with the construction of the Snake River Correctional Facility in Ontario in the early 1990s, DOC has used COPs to finance the major expansion of the prison system. The proceeds from COPs are also used for the construction of local jail capacity related to the SB 1145 population, purchase of property, design costs, siting costs, major improvements or upgrades of existing facilities, and the staff costs associated with the construction and improvement of facilities.

### Revenue Sources and Relationships

For 2009-11, this budget unit is funded with General Fund for the debt service on existing and proposed COPs. In 2005-07, the Other Funds (limited) expenditures were capitalized interest payments where debt service was paid with COP proceeds. The Nonlimited Other Funds in 2005-07 represented refinancing of existing COPs.

### Budget Environment

The amount of debt service is generally tied to the number of inmates and the decisions on how to “house” them. The use of temporary and rental beds have delayed the construction of further facilities to some degree, but construction of the Junction City and other facilities, will lead to increases in debt service costs in future biennia.

A portion of the debt service is for the local facilities (SB 1145) financed in part by the state to incarcerate/treat offenders. Through 2006, 1,669 beds had been built with state funding or transferred from DOC use to local use (Clackamas County). This capacity is equal to or close to the amount required to incarcerate 100% of the local control population, which is currently estimated at approximately 1,500 but projected to increase over the 2009-11 biennium. Overall, there is presently excess local jail capacity primarily due to local funding constraints.

### Essential Budget Level

The 2009-11 essential budget level (EBL) for DOC’s debt service of $135.4 million General Fund represents an increase of $8.8 million, or 6.9%. The increase represents the net impact of the roll-up of costs for paying a full 24 months of a biennium for those COPs issued in 2007-09 minus any amounts that had been allocated for COPs issued years ago and now are fully paid.

### Issues and Options

The 2009-11 Governor’s budget for debt service of $138.4 million General Fund is 2.2% greater than the EBL. This increase reflects the additional debt service required to pay the 2009-11 costs of COPs issued during the biennium for the Junction City prison and construction related project staff. The amount would have been more but the Governor offsets $2.9 million of General Fund need with anticipated other resources described below. Without these Other Funds the increase in General Fund would have been 4.4%.

Once the COPs or other debt instruments are sold there is very little flexibility in reducing the amount of debt service that must be made. In the past, General Fund debt service costs have been offset by using resources no longer required and identified in various capital financing accounts. Usually these become known during the biennium after the legislatively adopted budget has passed and are used to rebalance resources in the budget. In this Governor's budget he has gone ahead and estimated that $2.9 million of these unused balances will exist and uses them to reduce General Fund debt service. If these unused balances do not materialize, other areas of the budget will have to be reduced to cover the required debt service costs.

## DOC – Capital Improvements

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 1,078,999 | 2,557,806 | 2,557,806 | 2,629,425 |
| Other Funds | 201,880 | 0 | 0 | 0 |
| **Total Funds** | **$1,280,879** | **$2,557,806** | **$2,557,806** | **$2,629,425** |

### 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 the past, General Fund resources have funded a limited amount of capital improvements. In the 2005-07 budget, other funding resources were identified for an underground tank clean-up.

### Budget Environment

The Department owns approximately 275 buildings with over 5.1 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 a large portion remains to be addressed. DOC received $19.3 million to address priority issues in 2007-09, and at lest $33.5 million still remain. The agency is also aware of more than $20 million in projects that have yet to be fully evaluated for the amount of work that must be performed. The ten year plan for these projects requires $11.6 million per biennium, significantly more than what has been budgeted in the past.

### Essential Budget Level

The 2009-11 essential budget level (EBL) for capital improvements of $2.6 million General Fund is 2.8% greater than the amount for the 2007-09 legislatively approved budget. The only adjustment is the one for standard inflation.

### Issues and Options

The Governor's 2009-11 budget of $6.5 million General Fund is over 145% greater than the EBL. This increase is due to projects required to provide for the temporary and other beds for the new inmates expected due to the passage of BM 57.

After discussion of the deferred maintenance needs for DOC, a budget note in 2007-09 was approved instructing the Department of Administrative Services (DAS) and the Legislative Fiscal Office (LFO) to convene a workgroup to develop a proposal for a long-term maintenance funding plan and mechanism for those agencies that currently do not have a plan. The findings of the work group concluded that: (1) there is no one consistent method used by agencies to collect, categorize, and prioritize deferred maintenance needs; (2) preventative and deferred maintenance needs are not stand alone issues, but are critical components of a long-range capital planning program, which the state does not have in place; (3) the one effective funding model currently being used – the DAS uniform rent model – is not easily or inexpensively adopted by other agencies; and (4) that for new capital projects, the resources needed to cover preventative maintenance should be included in the upfront cost estimate.

## DOC – Capital Construction

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 0 | 33,580,959 | 33,686,145 | 0 |
| **Total Funds** | **$0** | **$33,580,959** | **$33,686,145** | **$0** |

### 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. The expenditure limitation for each project is in effect for six years. Most or almost all of capital construction funding for DOC in the past has been financed with COPs and the resources to pay the biennial costs of paying off those COPs are found in the debt service budget unit described above.

### Budget Environment

The $33.7 million Other Funds of capital construction for 2007-09 represents $23 million for larger deferred maintenance projects and $10.6 million for the initial planning and development funding for the proposed Junction City prison.

The amount of capital construction is based on the Long-Range Construction Plan as modified by the Prison Population Forecasts. Currently, a new facility in Madras (Deer Ridge) opened in September 2007 and planning for the next facility is underway to be built in Junction City. The plan now calls for opening this new prison in the second half of 2012, sharing the site and infrastructure costs with a new state hospital. To meet the projected opening date, the 2009 Legislature must approve further financing for the project.

### Essential Budget Level

The 2009-11 essential budget level (EBL) for DOC does not include any resources for capital construction spending. Spending authority granted to the agency during 2007-09 still remains in effect for 2009-11 and 2011-13.

### Issues and Options

The Governor's 2009-11 budget for capital construction is $133.9 million Other Funds and includes $117.5 million for the next stages of the Junction City prison scheduled to open later in 2012. This amount represents the current estimate of what will be required for this project during 2009-11. The remaining $16.4 million in this budget overestimates the amount required and includes items already approved in 2007-09, included in other parts of this budget, or was mistakenly included in this amount. The true amount required is $1.4 million for further deferred maintenance spending.

Agency staff currently estimates the total cost of the Junction City prison is approximately $450 million. This is $260 million more the cost of a similar sized prison (Deer Ridge) which opened its first units in 2007. DOC has identified four primary reasons for the significant cost increase over the Deer Ridge facility:

- $28.5 million for cost increases to date. In other words, if the Deer Ridge facility was built today based on construction cost increases, the facility would cost $28.5 million more than it did a few years ago.
- $64.9 million more than what was spent at Deer Ridge (today's dollars) for greater costs relating to site preparation (grading and fill), wetlands mitigation, road improvements, electrical supply and water/sewer improvement. These costs are higher because of the site conditions, access options, or capacity of the city water or sewer systems. Some of these costs also represent costs for both the prison and the psychiatric hospital being built on the same site.
- $86.6 million for changes in the design and programming at the new prison. The agency is proposing that this facility be more directed at meeting the needs of inmates with health care and/or mental health issues. In addition, a commercial laundry is proposed at this site for inmate work crews.
- $80 million for estimated increases in construction costs between now and when the facility is completed in 2012. This is the item with the greatest uncertainty.

The 2009 Legislature will need to take a close look at the costs for this prison prior to any further approval as well as the staffing cost differences associated with the increased health care or mental health focus.

## Criminal Justice Commission – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 3,278,770 | 7,388,215 | 6,879,283 | 7,203,683 |
| Other Funds | 78,503 | 1,034,949 | 1,148,677 | 33,158 |
| Federal Funds | 100,650 | 99,856 | 201,954 | 126,993 |
| **Total Funds** | **$3,457,923** | **$8,523,020** | **$8,229,914** | **$7,363,834** |
| Positions | 6 | 6 | 6 | 6 |
| FTE | 5.25 | 6.00 | 6.00 | 6.00 |

*Note: The significant increase in the budget from 2005-07 to 2007-09 is due to the expansion of the drug court grant program.*

### Agency Overview

The Criminal Justice Commission (CJC) was created in 1995, replacing the Criminal Justice Council. The Commission and its staff focus their activities on developing and analyzing state criminal justice policies. Specifically, CJC staff:

- supports the Commission in its functions relating to the state criminal justice policy and administering the sentencing guidelines;
- administers a drug court start-up or expansion grant program begun in 2006;
- provides 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;
- administers criminal justice grant programs transferred from the State Police in 2008;
- provides technical assistance to local public safety coordinating councils;
- staffs the Asset Forfeiture Oversight Advisory Committee; and
- coordinates calculation of the fiscal impact of crime-related legislation/ballot measures among state and local public safety agencies.

### Revenue Sources and Relationships

The Commission's Other Funds revenue is derived from forfeiture proceeds, which fund the activities of the Asset Forfeiture Oversight Advisory Committee (AFOAC). Oregon voters passed Ballot Measure 53 in May 2008 which will again make civil forfeitures a viable tool to provide resources for law enforcement and other activities. The 2009 Legislature may have to pass legislation similar to HB 3457 (2005) to insure that civil forfeiture revenues become available to local and state jurisdictions. The law requires that a portion of the proceeds from civil forfeitures be provided to the Commission for the AFOAC oversight and for drug courts. The agency will likely start with approximately $55,000 of asset forfeiture resources. It is very difficult at this time to determine what revenues will be with the changes in the law. Other Funds revenues for 2007-09 also includes just over $1 million as a fund transfer from the State Police originating from federal grants for the drug court grant program. The Federal Funds in the agency's budget are from a $50,000 annual federal grant, through the federal Bureau of Justice Statistics, for support of the Statistical Analysis Center.

### Budget Environment

The primary role of the Commission is to develop and provide information and analysis to assist in coordinating criminal justice policy in the state. In the past, the Commission has struggled in meeting this role due to resource constraints and other required functions (e.g., administration of the sentencing guidelines and asset forfeiture oversight). During 2005-07, the Commission strove to upgrade the skills of its staff so it can provide a higher level of research about the public safety system. This focus enabled the Commission staff to present an analysis of the costs/savings resulting from current incarceration policy, and the ability to compare that analysis to the crime reduction the state can expect from programs designed to reduce or prevent crime. With the passage of Ballot Measure 57 (November 2008), it is anticipated that the Commission will be asked in the future to evaluate the effectiveness of state investments in substance abuse treatment for the criminal justice system.

The 2005 Legislature passed legislation creating a program to expand the capacity of drug courts, and instructed the Commission to take the lead in developing the program and evaluating drug courts. The 2005 Legislature provided one staff position and $2.5 million for the funding of the grants for 12 months. The 2007 Legislature continued the program with sufficient funding for the entire 24 months of the biennium. In addition, a combination of General Fund and other resources were provided to continue drug court grants that had been funded with one-time federal funding during 2005-07. Currently the number of grants total 22; fifteen expansion grants and seven new drug court programs. The grants were awarded to a variety of models including adult, juvenile, and family drug courts.

### Essential Budget Level

The 2009-11 essential budget level (EBL) for the Criminal Justice Commission of $7.2 million General Fund is 4.7% greater than the 2007-09 legislatively approved budget while the total funds EBL of $7.4 million represents a 10.5% decrease for the same period. This total funds reduction is due to a one-time $1 million transfer of federal funds from the State Police in 2007-09 for a coordinated awarding of drug court grants. General Fund growth is due to the roll-up of compensation increases for staff and inflation.

### Issues and Options

The Commission continues to be a focus for coordinating activities for the criminal justice system. During the 2007-09 biennium it was instructed by either the Governor's office or the Legislature to coordinate efforts around evaluating drug courts, public safety data sharing efforts, and evaluating the potential impact of Ballot Measures 57 and 61.

A budget note included as part of the 2007-09 budget instructed the Commission, Oregon Judicial Department (OJD) and Department of Human Services (DHS) to develop a long-term plan for the administration of drug courts. Currently drug court funding comes from a mixture of on-going program funds in OJD, grants from the Commission, substance abuse funding from DHS via the counties, and from local sources. Since the Commission is not an agency that generally administers ongoing programs, it is not likely the appropriate long-term host of drug court funding. The three agencies did report to the Interim Joint Committee on Ways and Means in late 2008 but had not developed a long term plan at that point. They were instructed to return with recommendations during the 2009 session.

The Governor's recommended 2007-09 General Fund budget of $7.2 million is slightly greater ($40,318) than the essential budget level (EBL). The Governor's total funds budget of $15.1 million is 105% larger than the EBL because of the transfer of responsibility for the administration of federal criminal justice grants (Bryne/JAG grants) from the Department of State Police. Two positions and $7.6 million in Federal Funds expenditure limitation is transferred. The actual amount of grant funds available for distribution will be updated during the biennium as the federal government allocates the funding. The number of Commission staff proposed in the Governor's budget grows by five positions – two grant related staff transferred from State Police, two financial staff to assist in the administration of the grant programs and the financial administration of the agency, and a Research Analyst position for evaluating the effectiveness of grant funded programs, drug courts and other programs. Two existing positions are also reclassed upward in part to increase the analytical skills of the staff.

Options to reduce General Fund expenditures for this agency are limited to cutting funds available for drug court grants (total of $5.8 million General Fund in Essential Budget Level) or staffing reductions for those positions funded entirely or in part with General Fund.

## District Attorneys and Their Deputies – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 9,161,601 | 9,839,642 | 10,481,366 | 10,818,348 |
| **Total Funds** | **$9,161,601** | **$9,839,642** | **$10,481,366** | **$10,818,348** |
| Positions | 36 | 36 | 36 | 36 |
| FTE | 36.00 | 36.00 | 36.00 | 36.00 |

### Agency Overview

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, representing interests in child dependency cases, assisting juvenile courts, and advising and representing county officers. District attorneys and their deputies are also active in local public safety coordinating councils, child abuse prevention teams, and community outreach activities. There are or recently have been three basic functions where state funds have been used for this agency:

- ***District attorneys (DAs)*** are state employees who are locally elected. Before 2005-07 there had been four pay groups based on the population of each county. This was compressed to three groups in 2005-07 and to two groups for 2007-09. Counties have the option to pay an additional salary supplement and provide other benefits (e.g., automobile and additional insurance).
- The state has provided limited support in the past for ***deputy district attorneys.*** There are approximately 370 deputy DAs in the state, ranging from no deputies in some smaller counties to approximately 90 in Multnomah County. The 2005-07 legislatively approved budget did not include any funding for deputy district attorneys and this funding was initiated again for 2007-09.
- The budget also includes funding for ***administrative costs*** for mandated central services costs (e.g., tort liability). The Department of Justice (DOJ) provides, at no charge, administrative and financial services on behalf of DAs. A position (General Fund) is included as part of the DOJ budget to provide support to the District Attorneys Association.

In the past, the state has assisted counties for a portion of the statutorily mandated ***witness fee costs*** for trials and grand jury hearings in criminal cases.

**Budget by Program Area**

| | DA Compensation | Deputy Supplements | Witness Fees | Administration | Total |
|---|---|---|---|---|---|
| 1999-2001 Actual | $ 6,528,458 | $ 1,857,311 | $ 569,888 | $ 581,233 | $ 9,536,890 |
| 2001-03 Actual | $ 6,874,347 | $ 2,003,844 | 0 | $ 394,700 | $ 9,272,891 |
| 2003-05 Actual | $ 7,156,346 | $ 1,018,776 | 0 | $ 1,152,582 | $ 9,327,704 |
| 2005-07 Actual | $ 8,130,215 | 0 | 0 | $ 1,031,386 | $ 9,161,601 |
| 2007-09 Legislatively Approved | $9,085,193 | $ 444,392 | 0 | $ 951,781 | $10,481,366 |
| 2009-11 Essential Budget Level | $9,038,911 | $ 456,835 | 0 | $ 1,322,602 | $10,818,348 |

### Revenue Sources and Relationships

This is entirely a General Fund budget at the state level. The state's portion of the total budgets for District Attorney Offices across the state is small. A county DA office survey compiled in 2000 showed that state funds covered between 2% (Multnomah) and 70% (Wheeler) of county prosecution budgets.

### Budget Environment

The state's share of funding for 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% of the total expenses of $34 million statewide, and by 2000 the state share was 9% of the $57 million total statewide expenses. While there has been no update of this information, there is no reason to believe that the state's share has significantly changed since 2000. 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 and growing demands in other county budget areas have led counties to limit the growth in DA resources.

In 2008 a majority of counties (24 out of 36) provided their DA an annual monetary supplement ranging from $7,552 to $43,920 to the salary paid by the state. Some counties also have provided additional benefits such as cars, contributions to deferred compensation, payment of Bar Association 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. When factoring in the county share of salaries, DAs' annual salaries during 2008 range from $88,356 to over $148,000. In comparison for the same period, the annual salary for circuit court judges was $114,468, for the Chief Justice it was $128,556, for the Attorney General it was $77,200, and the top range of the Senior Assistant Attorney General classification at DOJ was $108,756. It should be noted that not every county provides a supplemental amount for their DA, and county boards can decide to rescind the payment of a supplement. Judges salaries were also increased by the 2007 Legislature.

There are a number of measures of workload for DAs and their offices. Overall, the total number of arrests for person, property, and behavior crimes peaked in 1997 at almost 179,000 statewide and was just over 166,000 in 2006. DA workloads are determined in large part by the number, complexity, and type of criminal arrests that occur. The number of case filings is another measure. For 2007, the number of filings where a felony was the most serious charge was just over 70,000, slightly below the number reported for 2006. The number of filings where a misdemeanor was the most serious crime was 58,546 for 2007, again slightly less than the number in 2006. For the first half of 2008, this downward trend continues for both misdemeanors and felonies.

While the number of criminal filings and the 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 more on plea bargaining negotiations and alternative dispositions (deferred sentencing and reduction of certain felonies and misdemeanors to violations) to reduce the number of trials; and (3) limit the amount of time spent in preparation and prosecution of each case.

One of the major issues facing DAs currently addressed by the 2007 Legislature was the roles of the DAs, the Department of Justice (DOJ), Department of Human Services (DHS), and other actors in the areas of child welfare representation and juvenile dependency. The DAs play a major role in this area, often representing the same interests as the state. Given individual county financial pressures and decisions, DA offices have provided varying levels of "service" in this area. The 2007 Legislature responded to some of the issues brought forward by an Attorney General's workgroup on the issue including providing $2 million General Fund to the DOJ for payments to the DA offices for their role in juvenile dependency issues. These funds were distributed based on a county's proportion of the total number of children under age 18 and the proportion of the total number of children under the age of 18 who are living in poverty. At least 24 counties have agreed to meet criteria set by DOJ in providing consistent services while some counties have decided not to enter in the intergovernmental agreement and not receive any of the $2 million.

### Essential Budget Level

The essential budget level (EBL) for 2009-11 represents a 3.2% increase over the 2007-09 legislatively approved budget. Most of this budget is for the compensation of the 36 District Attorneys so much of the increase in the EBL for 2009-11 is the roll-up costs of the salary increases granted during 2007-09 and for the estimated increase in health insurance costs. Since this budget is based on an average increase in health insurance costs for all state employees, it may underestimate the true costs of this item for this budget. District Attorneys are located in all areas of the state including small counties where health insurance costs are greater than the state average. Another significant increase in this budget is the assessment by the Department of Administrative Services for general liability coverage. This agency's 2009-11 budget includes roughly $1.2 million for this item, an amount that is exceeded only by seven other much larger state agencies. These assessments are based on past experience in liability cases and this agency has had some large employment related cases in recent years. The amount in the EBL for grants to counties to assist in Deputy District Attorneys salaries and other prosecution related expenses is only adjusted for the standard inflation amount.

### Issues and Options

District Attorneys across the state are one of a few "control" points for the criminal justice system. Given their ability to decide in large part who is to be charged with a crime or not, the resources available to their offices affect many other parts of the system. While this may not affect high profile and other serious crimes, it can affect the amount of cases moving through the courts, jails, and state corrections system.

The Governor's budget for 2009-11 is equal to the essential budget level for the period. In the agency request budget, the District Attorneys requested an executive director position, similar to the request made for 2007-09. The plan was to make this agency more like other state agencies by having an executive director along with the transfer of a position in the Department of Justice who currently provides information and support to the Oregon District Attorneys Association. The agency request budget also included development of a case management system to replace a number of systems used by the DAs. This request may be somewhat premature since the development of the eCourt project within the Oregon Judicial Department is just getting underway and would be a good base for the system the DAs desire. Both of these requests were not included in the Governor's recommended budget.

Since the majority of the budget is for the compensation of the 36 District Attorneys, other than actually reducing their salaries, the ability to cut this budget is limited. One possibility is to eliminate the payments to counties for assisting in the payment of Deputy District Attorneys ($456,835 General Fund in the 2009-11 Essential Budget Level).

## Department of Justice (DOJ) – Agency Totals

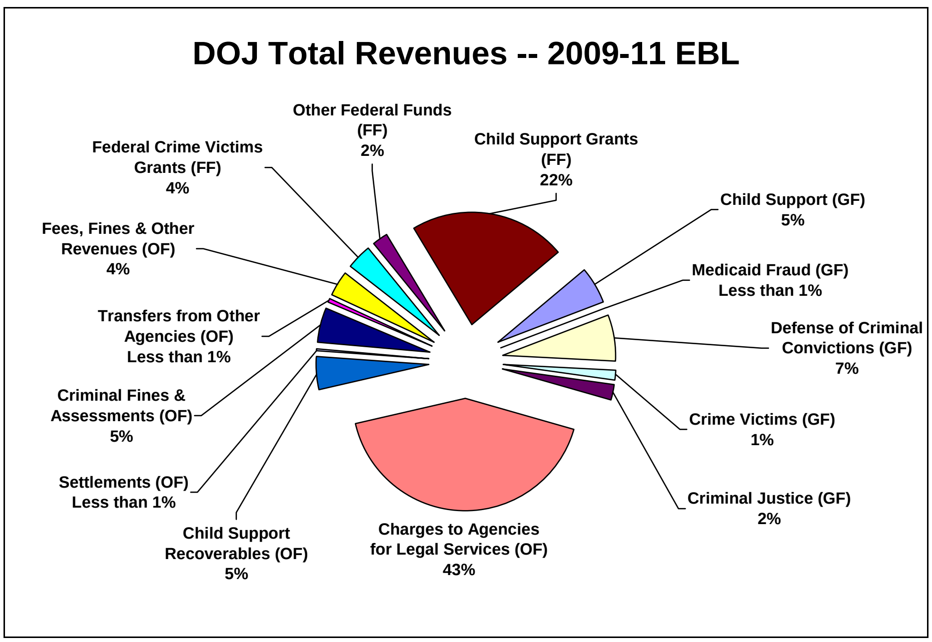
| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 34,463,132 | 53,343,693 | 54,305,136 | 64,884,333 |
| Other Funds | 150,997,317 | 206,713,074 | 215,016,905 | 227,810,768 |
| Federal Funds | 77,909,995 | 96,811,739 | 100,277,305 | 104,152,120 |
| Other Funds (NL) | 5,215,356 | 7,794,005 | 7,944,005 | 7,988,839 |
| Federal Funds (NL) | 17,144,814 | 14,851,812 | 14,851,812 | 15,035,429 |
| **Total Funds** | **$285,730,614** | **$379,514,323** | **$392,395,163** | **$419,871,489** |
| Positions | 1,226 | 1,323 | 1,334 | 1,314 |
| FTE | 1,210.81 | 1,299.95 | 1,306.71 | 1,305.68 |

### Agency Overview

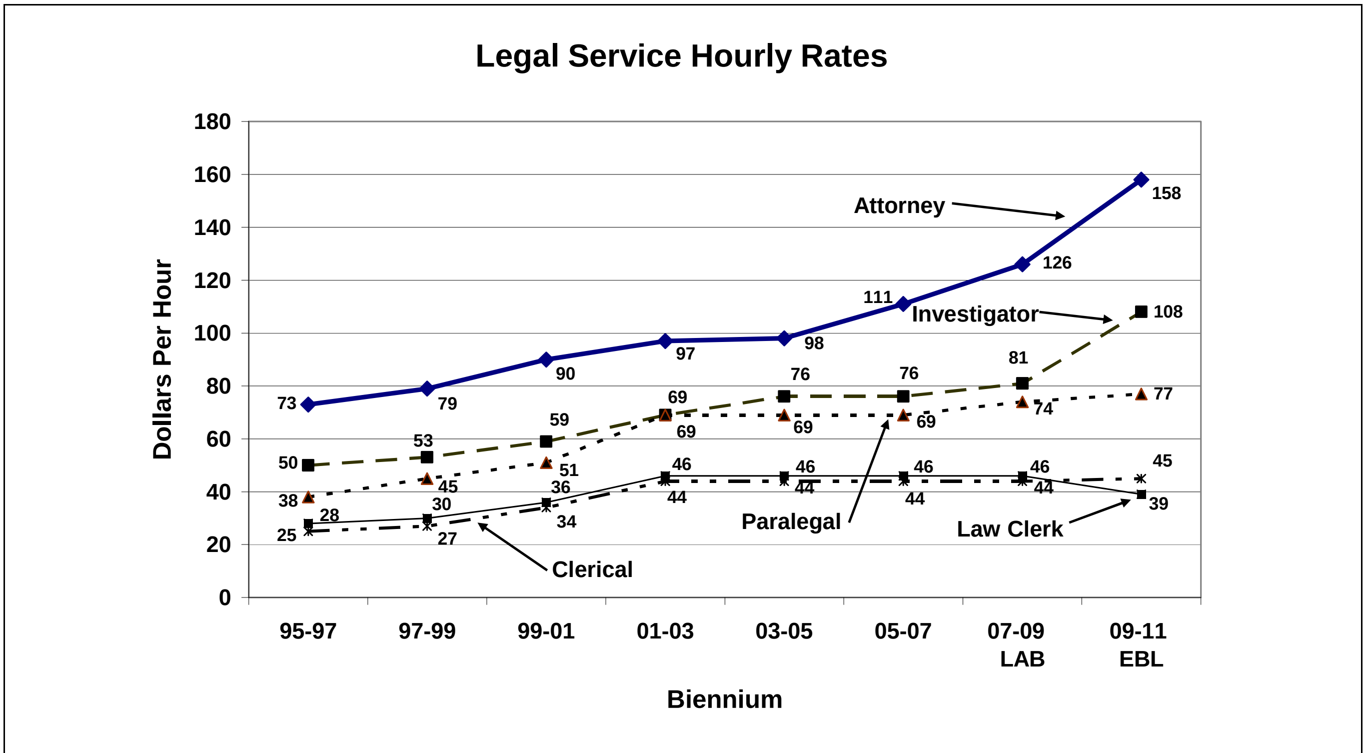
The Department of Justice (DOJ) is responsible for general legal counsel and supervision of all civil actions and legal proceedings in which the state is a party or has an interest. State statute places responsibility with DOJ for all the state's legal business that requires an attorney or legal counsel. DOJ is also responsible for a number of programs, including child support, district attorney assistance, crime victims' compensation, charitable activity enforcement, organized crime-related law enforcement, and consumer protection and education services.

### Revenue Sources and Relationships

The Department of Justice relies on a variety of funding sources. For the 2009-11 biennium, the General Fund accounts for 15.5% of the essential budget level (EBL) and is used primarily for the Child Support Program, Defense of Criminal Convictions, crime victims' programs, legal work for which no state agency can be billed directly (e.g. ballot measure related), and the law enforcement activities of the Criminal Justice Division. Expenditures funded with Other Fund sources of revenue make up 56.1% of the EBL (including Nonlimited) and include charges to agencies for legal services, settlements, license and other fees, charges, and fines. Federal Funds make up 28.4% of the budget and include the federal share of the Child Support and Medicaid Fraud programs, and crime victims' grants.




More than 40% of the revenue is derived from the hourly charges to state agencies for legal advice, litigation, and other legal services. DOJ operates similar to a law firm in that its legal services are billed not only to state agencies, but also internally. For example, the Trial and Appellate Divisions bill the Defense of Criminal Convictions Fund to cover costs of defending challenges to criminal convictions which are not billable to other state agencies. Although the agency has the statutory authority to determine the various hourly rates, they have historically been reviewed through the legislative budget process. The rate also covers indirect costs of providing administrative services tied to services funded by charges to state agencies. Employee compensation is the major factor which drives the changes in the rate. The hourly rates for attorneys (which represents roughly 87% of the revenue) and other staff are shown in the graph below. The 2009-11 EBL assumes an attorney rate of $158 per hour, a 25.4% increase from the 2007-09 rate of $126 per hour.




## Essential Budget Level

The 2009-11 essential budget level (EBL) of $419.9 million total funds for the Department of Justice represents a 7% increase from the 2007-09 legislatively approved budget. The General Fund EBL for the same period of $64.9 million is $10.6 million, or 19.5%, greater than the 2007-09 legislatively approved budget. The General Fund growth is largely attributable to growth in the (1) Defense of Criminal Convictions (DCC) budget unit ($8.6 million) for caseload growth and increases in the hourly rate for attorneys, and (2) the need to backfill lost revenue in the Child Support program ($1.5 million). The growth in the total funds EBL is generally due to employee compensation increases, inflation, and the caseload growth in DCC.

The rates charged for attorney and other services (e.g., paralegal, investigator) to state agencies and internally for DOJ overall increase 23% (attorney rate is increased by 25.4%) in EBL from 2007-09 levels. These greater rates represent increases in the 2009-11 EBL of roughly $13 million General Fund and $26 million total funds across all state agencies. The ability to reduce these rates is limited since they are based on compensation rates already established and, in many cases, bargained. In past biennia, the Legislature has been able to reduce the rate by a few dollars.

## Issues and Options

Several issues are present in this budget and these are described in more detail in the appropriate division sections below. These issues include:

- There is no funding provided in EBL or the Governor's recommended budget to continue the defense of the state's position in legal actions challenging the Master Settlement Agreement (MSA) with tobacco companies. The State receives over $150 million per biennium as a result of the MSA.
- Federal actions in the child support programs continue to require additional state funds. Unless these are addressed, the state is at risk of losing federal funding for the Temporary Assistance to Needy Families program.

- The costs for the Defense of Criminal Convictions (DCC) continue to grow. Funding for this program has increased dramatically in recent biennia, up from $12 million General Fund in 2005-07 to over $28 million in the 2009-11 EBL.

The 2009-11 Governor's recommended budget for this agency of $65.2 million General Fund and $422 million total funds represents increases over EBL of less than 1%. The Governor funds the DCC and Child Support programs at roughly the EBL levels including over $3.3 million to backfill lost federal and other revenues. Other major changes include:

- Crime Victims' programs, including those relating to domestic and sexual violence and the Child Abuse Multidisciplinary Intervention (CAMI), are reduced by $0.5 million General Fund and $1.6 million in Criminal Fines and Assessment revenues;
- General Fund programs in the Criminal Division, including those that assist District Attorney offices and fight organized crime, are reduced by 10% or almost $1 million;
- Eleven positions are added in the Appellate and Trial Divisions to keep pace with the increased DCC workload;
- Eight positions are added to the Financial Fraud and Consumer Protection and Education unit; and
- The agency's role in the Tobacco Tax Compliance Task Force is discontinued with the elimination of six positions.

## DOJ – Administration

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 11,746,884 | 22,735,912 | 23,571,668 | 24,952,660 |
| **Total Funds** | **$11,746,884** | **$22,735,912** | **$23,571,668** | **$24,952,660** |
| Positions | 112 | 115 | 115 | 115 |
| FTE | 110.38 | 113.26 | 113.26 | 113.50 |

### 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 that charges the other divisions and programs in the Department for services such as fiscal, personnel, facilities management, and information systems. The distribution of these costs is based on the amount of time or service each section of Administration provides to other divisions or programs. 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: (1) fiscal services staff to manage legal billings and to collect amounts due the agency in a timely manner; (2) information services staff to provide full technology support to over 1,345 employees; (3) operations staff providing facilities, purchasing, moving, and mail services at 23 locations around the state; and (4) human resource staff that provide recruitment, classification, performance management, and training services. Significant growth over the last five biennia has increased the need for business and other services provided by Administrative Services.

### Essential Budget Level

The 2000-11 essential budget level (EBL) for this unit of $25 million total funds is 5.9% greater than the 2007-09 legislatively approved budget. This increase is primarily due to employee compensation approved in 2007-09 and inflation.

### Issues and Options

In past biennia, a number of transfers of both staff and responsibilities have been made into this unit. As a result, a number of positions have been double-filled to keep pace with the demand for administrative services from program units across the agency.

The 2009-11 Governor's recommended budget for this unit of $26.3 million Other Funds is 5.3% greater than the 2009-11 EBL. Increases include:

- Seven new positions are established to eliminate double-fills including support staff, an accountant, facilities manager, and a position in the Attorney General's office for coordinating workgroups and legislative relationships. A portion of the new positions are financed within the existing budget.
- A number of positions are reclassified which also add to the budget.
- An Information Systems Specialists position is established to provide for electronic filing and storage of information relating to the Civil Enforcement Division's Charities program. Two positions are also added in the Civil Enforcement Division for this purpose.
- Most of these increases are funded by assessments paid by the program units including those with General Fund programs. The Governor's budget did not include any General Fund as requested by the agency for these enhancements, so the funding mix for these increased costs are out of balance.

## DOJ – Appellate Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 9,707,138 | 16,161,771 | 16,814,863 | 20,472,428 |
| **Total Funds** | **$9,707,138** | **$16,161,771** | **$16,814,863** | **$20,472,428** |
| Positions | 47 | 67 | 67 | 73 |
| FTE | 46.88 | 65.63 | 65.63 | 72.71 |

### 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 or agency results. In most of these cases, attorneys appear before the Oregon Court of Appeals, the Oregon Supreme Court, and the federal Ninth Circuit Court of Appeals. Attorneys occasionally appear in other federal appellate courts and the U.S. Supreme Court. Attorneys in this Division also must prepare and defend ballot titles, a significant 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 Defense of Criminal Convictions (see later section). Revenue for civil or administrative appeals is Other Funds generated from the hourly fees billed to the state agencies.

### Budget Environment

Since the Department is usually responding to appeals filed by others, it has little or no control over its workload. The Division handles roughly 4,000 cases (approximately 800 civil and 3,200 criminal) per biennium and is involved in about 80% of the Oregon Court of Appeals cases and about half of the Oregon Supreme Court cases. The number of direct criminal appeals and post-conviction appeals has increased in the 2007-09 biennium (up from 2,300 in the prior biennium) due to an increase in the overall workload and efforts to reduce the amount of delay in responding to the cases. These numbers are expected to continue increasing, and are driven by projected increases in the prison population (longer mandatory sentences imposed under Ballot Measure 11 and repeat property offender convictions), greater funding for the Public Defense Services Commission, and further reduction in the amount of delay for responding to appeals in the Oregon Court of Appeals pursuant to an order by the chief judge. The number of civil appeal cases worked during 2007-09 has fallen as a result of the need to shift resources to the criminal caseload. The Division anticipates an increase in the civil caseload during 2009-11.

While the Department receives few death penalty appeals during each biennium, these cases are very complex and time consuming. As the agency has successfully litigated more of the death penalty appeals through the system, the cases are moving into the later stages of legal review. Two death penalty cases are expected to begin active litigation in the federal courts by the end of 2007-09. Because these cases represent the first opportunity for the federal courts to review the state's death penalty system, they are expected to be very costly to defend and take a lengthy period of time to complete. Another two cases will likely start soon after the beginning of the 2009-11 biennium. Another factor increasing the costs of the federal review of these cases is that the federal public defenders are much better funded than their state colleagues.

This Division also experiences greater workload demands because of the number of ballot measures. More ballot initiatives generate more titles the Division must prepare, and more complaints about the ballot titles that the agency must defend. The Division's workload in this area has doubled since 1997 but may decrease in the 2009-11 biennium as a result of legislative changes.

### Essential Budget Level

The 2000-11 essential budget level (EBL) for this unit of $20.5 million total funds is 21.7% greater than the 2007-09 legislatively approved budget. One major reason for this increase is the additional staff to deal with the growing Defense of Criminal Conviction (DCC) mandated caseload. Six positions, including four attorneys, are added. Other factors in this increase include employee compensation increases approved in 2007-09 and inflation.

### Issues and Options

There should be updated information on the Defense of Criminal Convictions caseloads available during the legislative session for review.

The 2009-11 Governor's recommended budget for this unit of $20.5 million Other Funds is just under $50,000 more than the 2009-11 EBL. The net increase is due to this Division's share of the enhancements found in the Administrative Services unit.

## DOJ – Civil Enforcement Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 1,924,806 | 1,439,547 | 1,960,442 | 484,325 |
| Other Funds | 26,221,981 | 32,016,832 | 32,936,458 | 48,215,128 |
| Federal Funds | 1,929,090 | 2,227,541 | 2,298,176 | 2,443,423 |
| **Total Funds** | **$30,075,877** | **$35,683,920** | **$37,195,076** | **$51,142,876** |
| Positions | 134 | 138 | 138 | 172 |
| FTE | 132.66 | 135.84 | 135.84 | 170.66 |

### Program Description

The Civil Enforcement Division represents the state in civil cases and also enforces certain criminal laws. This Division includes five sections:

- The ***Child Advocacy*** section represents the Division of Child Support (DCS) in judicial proceedings to establish paternity and enforce child support orders. This section also represents the Department of Human Services (DHS) in juvenile dependency and termination of parental rights cases and mental health commitments.
- 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 Control Unit*** investigates and prosecutes fraudulent billings by Medicaid-funded providers; instances of patient abuse or neglect committed by Long-Term Care Facilities or their employees; and fraud in the administration of the Medicaid program. Federal Medicaid law requires each state have a fraud unit separate from its Medicaid designated agency (DHS).

- The ***Financial Fraud/Consumer Protection*** section educates consumers to better protect themselves against marketplace fraud and abuse. It also prosecutes violations of these and antitrust laws, seeking restitution, attorney fees, and penalties for injured consumers and state agencies to deter future wrongdoing.
- 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.

This Division also enforces the tobacco Non Participating Manufacturer (NPM) law, a statute relating to the Master Settlement Agreement (MSA) entered into by tobacco companies and the states. Enforcement of the NPM law is necessary to protect the over $150 million received in MSA payments in each biennium.

### Revenue Sources and Relationships

Revenue to support the Child Advocacy and Civil Recovery sections comes from billings to state agencies. Federal Funds provide 75% of the resources for the Medicaid Fraud Control Unit, while the state must contribute a 25% match to receive the federal funds. The federal government allows DOJ to use Medicaid recoveries for the state match in some cases as long as the Medicaid program and other victims are first made whole. Financial Fraud/Consumer Protection section services are funded by 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 for the program was eliminated for the 2003-05 biennium and no further General Fund was added for 2005-07 or 2007-09. Fees charged to charitable and non-profit organizations for registration, filing financial reports, and gaming activities provides funding for the Charitable Activities section.

### Budget Environment

Oregon's Medicaid Fraud unit is relatively small when compared to other states with comparable Medicaid budgets. 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. Over the last three years, case referrals to the unit have increased over 500%. In 2006, the unit was able to formally investigate less than one of every 3 referred cases; so far in 2008, the unit was able to formally investigate less than one of every 15 referred cases. The unit must decline to investigate and prosecute cases not only involving billing fraud allegations, but cases involving alleged abuse and neglect of the elderly and disabled persons.

The Financial Fraud/Consumer Protection section anticipates a continued flow of consumer complaints, including that of Internet fraud. Consumer hotline calls totaled 86,690 for the two year period ending June 2008 down a bit from previous years. The written and electronically submitted complaints totaled almost 20,751 for the same period. Restitution to consumers between July 2006 and June 2008 totaled $2.9 million. Before 2003-05, General Fund resources represented roughly one third of the funding for this program, but now it relies on recoveries from enforcement actions.

The number of registered charitable organizations has increased from about 3,000 in the early 1990s to 15,061 in 2008. This unit must monitor performance and proposed actions of charitable organizations. Prior to modifying or terminating a charitable trust, the trust's proposed actions must be reviewed by this unit. Over the past three years, there has been an average of 37 such reviews performed. Nonprofit gaming organizations, numbering 595, are also monitored including screening applicants for licenses and insuring compliance with rules.

### Essential Budget Level

The 2000-11 essential budget level (EBL) for this Division of $51.1 million total funds is 37.5% greater than the 2007-09 legislatively approved budget. The major reason for this increase is the transfer of 37 positions and funding (roughly $14 million) from the General Counsel Division for the Juvenile Dependency program. This includes $2.9 million in funding for payments to District Attorney offices for their responsibilities around child dependency. The General Fund for the Division fell by over 75% due to funding being included in 2007-09 for the defense of the state's position with the Master Settlement Agreement with tobacco companies. Other factors in the total funds increase include employee compensation increases approved in 2007-09 and inflation.

### Issues and Options

As noted above, the essential budget level (EBL) does not include any funding for defending the state position regarding the Master Settlement Agreement. Since this hopefully is not an ongoing demand for state funding in the future, it is not included in EBL, but the 2009-11 budget will have to have some level of funding to pay for DOJ staff working on the issue and for the services of outside counsel given the unique and complex nature of the legal actions with the tobacco companies. Roughly $1.5 million will likely be spent for this purpose during 2007-09 but it is difficult to predict the amount required for 2009-11. The movement of the case through the courts as well as arbitration proceedings will drive the funding required. In the past, the Legislature has provided base funding for this defense, and established a special purpose appropriation if costs are above that amount.

The 2009-11 Governor's recommended budget for this unit of $51.6 million total funds is just over $400,000 more (less than 1%) than the 2009-11 EBL. The Governor's General Fund budget is 10% under the EBL as a position and other funding is reduced in the Medicaid Fraud Control Unit. The agency had requested $4.6 million General Fund for the defense of the state's position in the MSA, but the Governor did not provide any resources for this purpose. As noted above, it is very likely the Legislature will have to address this lack of funding. Without some level of resource, unknown at this time, the state risks losing up to $150 million of revenue each biennia.

Beyond the increases for the Administrative Services unit enhancement, the Governor's budget includes new funding and positions to address workload in the child welfare section (2 positions/$269,440 Other Funds), and the Civil Recovery Section (1 position/$151,433). Eight positions ($1.5 million Other Funds) are proposed for investigating unlawful marketplace conduct in the Consumer Protection and Education (CPE) unit. These new employees will accelerate the drawdown on the CPE fund so the Legislature will need to review up-to-date cashflow information prior to deciding whether to approve this package in whole or in part.

The Governor's budget mistakenly reduced $1.6 million and 6 positions from this Division's budget for the elimination of DOJ's participation in the Tobacco Tax Compliance task force. The reduction should have been from the Criminal Justice Division and a technical change will have to be made in the legislatively adopted budget.

## DOJ – Criminal Justice Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 6,746,882 | 8,481,598 | 8,592,157 | 9,473,255 |
| Other Funds | 9,850,122 | 10,243,351 | 11,343,641 | 11,136,940 |
| Federal Funds | 1,709,413 | 6,862,097 | 6,968,386 | 7,061,969 |
| Other Funds (NL) | 143,535 | 229,379 | 379,379 | 282,136 |
| **Total Funds** | **$18,449,952** | **$25,816,425** | **$27,283,563** | **$27,954,300** |
| Positions | 73 | 78 | 85 | 71 |
| FTE | 71.36 | 73.13 | 76.14 | 70.12 |

### Program Description

The Division is organized into two 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 county District Attorney.
- 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 operates the Criminal Intelligence Unit (CIU), which provides analytical services to Oregon law enforcement and also maintains the Oregon State Intelligence Network, the primary intelligence sharing network for Oregon law enforcement. This section also hosts the Western States Information Network for Oregon which shares intelligence information among five western states; manages the Oregon TITAN

Fusion Center which provides intelligence services to law enforcement to combat terrorism in Oregon, participates as part of the Cooperative Disabilities Investigation Unit; and participates as part of the federal/state/local High Intensity Drug Trafficking Areas (HIDTA) initiative. In the past this unit has also been part of the Tobacco Tax Compliance Task Force with the Department of State Police and Department of Revenue.

### Revenue Sources and Relationships

The District Attorneys' Assistance section is funded primarily by the General Fund. The Criminal Intelligence section is funded with a mixture of funding including General Fund for the methamphetamine initiative. The section receives federal funding for the federally designated High Intensity Drug Trafficking Area program ($6.3 million Federal Funds), federal asset forfeiture ($108,530 Federal Funds), Marijuana Eradication ($936,855 Federal Funds). Most of these federal funds are passed along to local law enforcement agencies. The Division also receives funds from a contract with the California Department of Justice, which administers the federal grant supporting the Western States Information Network ($1.6 million Other Funds). A grant from the Department of Transportation ($296,882 Other Funds) supports the DUII program, and funds from the Department of Human Services provide for the operation of the Cooperative Disability Investigations Unit ($980,292 Other Funds). Federal grant funds passing through the Oregon Military Department support the Fusion Center ($988,582 Other Funds).

### Budget Environment

The Organized Crime section and the Criminal Intelligence Unit have seen an increasing workload due to a significant demand from law enforcement agencies across the state. As of December 2008, the Division had 211 open intelligence cases, 109 organized crime cases (not including tobacco and DPSST-related cases), 25 open DA Assistance cases (including 7 homicide cases), and 25 open election violation investigations. The Division closed over 183 cases in fiscal year 2008.

With the decreases in state financial assistance to District Attorney offices, the demand for the District Attorney Assistance (DAA) program has increased. The Division provides emergency legal advice to District Attorney Offices and law enforcement personnel; 657 cases in 2006 and 1,381 so far in 2008 (before the end of December) In the past, the program had to take responsibility for the operation of DA offices in a number of counties as vacancies occurred.

### Essential Budget Level

The 2000-11 essential budget level (EBL) for this Division of $28 million total funds is 3% greater than the 2007-09 legislatively approved budget. The General Fund EBL for the same period increases by 10.2 %. The growth in both General Fund and total fund resources is primarily due to employee compensation increases approved during 2007-09 and inflation. General Fund growth is higher since it supports proportionately more staff than other funding sources.

### Issues and Options

The 2009-11 Governor's recommended budget for this Division of $29.1 million total funds is $1.1 million greater (4. 1%) than the 2009-11 EBL. The Governor's General Fund budget is 10% under the EBL. The Governor proposes cutting $950,000 from programs which assist district attorney offices, perform criminal and drug related investigations and prosecutions, and provide intelligence information on criminal activity and terrorism to law enforcement agencies. The Governor's budget does not provide information on where remaining funding be prioritized and directed. In addition, only one position is eliminated but a reduction of almost $1 million should mean more than one position. Any further General Fund reductions would have to be made to the same programs as was the case for this 10% reduction.

Beyond the increases for the Administrative Services unit enhancements, the Governor's budget recognizes continued funding for:

- the statewide DUII attorney position funded by ODOT to provide advice and training to local law enforcement ($296,882 Other Funds),
- the Fusion Center program which provides terrorism related intelligence ($899,558 Other Funds/5 positions). Funding is not guaranteed for the full biennium for this program; and
- the Regional Automated Information Network which is a database of police reports which law enforcement agencies can share ($400,505 Other Funds/2 positions).

In the past staff from this Division has also been part of the Tobacco Tax Compliance Task Force with the Department of State Police and Department of Revenue. The Governor proposes eliminating both DOJ's and the State Police's participation in this task force. This is a $1.6 million Other Funds (-6 positions/-6.00 FTE) reduction for DOJ. It is unclear what the impact of this curtailment of the task force will mean to tobacco tax revenues. This reduction was mistakenly taken from the budget of the Civil Enforcement Division, so a technical adjustment will need to be made in the legislatively adopted budget.

## DOJ – Crime Victims' Services Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 2,562,976 | 4,696,229 | 4,709,018 | 4,862,677 |
| Other Funds | 19,721,559 | 24,028,800 | 24,155,442 | 24,723,462 |
| Federal Funds | 11,120,890 | 13,619,497 | 15,342,142 | 15,718,324 |
| Other Funds (NL) | 1,245,701 | 3,069,311 | 3,069,311 | 3,155,252 |
| **Total Funds** | **$34,651,126** | **$45,413,837** | **$47,275,913** | **$48,459,715** |
| Positions | 29 | 32 | 32 | 30 |
| FTE | 27.53 | 29.34 | 29.34 | 28.92 |

### Program Description

The Crime Victims' Services Division, formally a section of the Criminal Justice Division, is responsible for administering the following programs on behalf of innocent crime victims:

- The ***Crime Victims' 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 organizations for victims' assistance.
- The ***Prosecutor-based Victim/Witness Assistance*** program is a grant program to certified prosecutors' offices across the state who maintain a local crime victims' assistance 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 (CAMI) grant program*** provides state funds to 36 county teams for a multidisciplinary approach to assessment, investigation, and prosecution of child abuse cases.
- The ***Regional Child Abuse Services grant program*** provides funding to five regional service providers to support and provide technical assistance to CAMI teams and others.
- The ***Child Abuse Medical Assessment program*** pays for child abuse medical assessments in certain 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.
- The ***Sexual Assault Victims' Emergency Medical Response Fund*** provides assistance to victims of sexual assault to ensure they have access to an immediate medical exam and forensic evidence collection.
- The ***Address Confidentiality Program*** provides a substitute address for forwarding mail for victims of domestic violence, sexual assault, and stalking.
- The ***Federal Violence Against Women Act formula grant program*** provides funding for prosecution, advocacy, law enforcement, and court activities dedicated to stopping violence against women.

### Revenue Sources and Relationships

The Crime Victims' Compensation program, Regional Child Assessment Centers grants, child abuse medical assessments and the CAMI program are supported all or in part by the Criminal Fine and Assessment Account or CFAA ($18.9 million Other Funds). Crime victims programs also receive funding from punitive damages and restitution ($2.1 million Other Funds), and federal grant funds ($15.7 million Federal Funds). These federal grants are derived from penalty assessments levied against offenders in federal courts. The General Fund provides resources for the Address Confidentiality Program and the Domestic and Sexual Violence Program.

### Budget Environment

The number of applications received by the Crime Victims' Compensation program continues to increase, averaging 370 per month in 2001-03, 428 in 2003-05, and 478 in 2005-07. For 2007-09, the monthly claim average is estimated at 522, a 9% increase over 2005-07 and a 41% increase over 2001-03.

### Essential Budget Level

The 2000-11 essential budget level (EBL) for this Division of $48.5 million total funds is 2.5% greater than the 2007-09 legislatively approved budget. The General Fund EBL for the same period increases by 3.3 %. The growth in both General Fund and total fund resources is primarily due to employee compensation increases approved during 2007-09 and inflation.

### Issues and Options

The 2009-11 Governor's recommended budget for this Division of $47.2 million total funds is $1.4 million less (-2.6%) than the 2009-11 EBL. The Governor's General Fund budget is 10% under the EBL. This across-the-board reduction in the Division's General Fund programs affects Domestic and Sexual Violence grants to local organizations for hotlines and emergency shelters for children and women who are victims of abuse. In addition, the Address Confidentiality program may also be reduced. There are no positions proposed to be eliminated because of this reduction, but a 0.15 reduction in FTE on a position is proposed.

The largest reduction for this Division proposed by the Governor is a $1.6 million reduction in the amount of Criminal Fines and Assessment (CFAA) allocated for crime victims programs. In the Governor's budget, all of this 10% reduction in CFAA funded programs is made to the Child Abuse Multidisciplinary Intervention or CAMI program but the agency states that all four programs receiving CFAA resources will be reduced proportionately. Besides CAMI, the other programs are the Crime Victims' Compensation program, Regional Assessment Centers, and child abuse medical assessments.

The Crime Victims Rights program will be continued under the Governor's budget funded along with three positions. This program in the past has been funded with federal grants, but is proposed to be continued using revenues from punitive damages. These revenues have been used by programs across the division to fill gaps where other funding sources have been insufficient.

Further General Fund or CFAA revenue reductions will affect those programs reduced already in the Governor's budget.

## DOJ – General Counsel Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 35,335,741 | 51,852,173 | 54,847,022 | 47,081,577 |
| **Total Funds** | **$35,335,741** | **$51,852,173** | **$54,847,022** | **$47,081,577** |
| Positions | 178 | 199 | 202 | 157 |
| FTE | 172.75 | 191.38 | 195.13 | 156.75 |

### 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 eight sections: Business Activities, Government Services, Human Services and Education, Labor and Employment, Natural Resources, Regulated Utility and Business, Tax and Finance, and Business Transactions. State agencies generally must use the legal services of DOJ, and not contract with outside counsel or hire 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 shows increases in some areas and decreases in others, but overall workload has stabilized over the past several biennia following a period of substantial growth. Actual demand for General Counsel services depends on the needs of state agencies. The DOJ asserts the legal work performed by this Division is becoming more complex. Areas where workload has increased include Ballot Measure 37 and 49 claims, siting of renewable energy projects and liquefied natural gas terminal facilities, innovative business transactions involving information technology and intellectual property, and water quality work related to the Portland riverfront and cleanup of the Portland harbor. Areas of decreased work include legal advice for the Oregon University System and some divisions of the Department of Consumer and Business Services. Advice to agencies on employment related issues also has decreased some, but if layoffs do occur in the future this may change. In July 2000, the number of pending matters was 19,591, in July 2007 it was 24,622, and in July 2008 it was 24,763.

### Essential Budget Level

The 2000-11 essential budget level (EBL) for this Division of $47.1 million Other Funds is 14.2% less than the 2007-09 legislatively approved budget. The primary reason for this significant reduction is the transfer of 37 positions and roughly $9 million in personal services costs to the Civil Enforcement Division relating to juvenile dependency functions. In addition, another $2.2 million is transferred to the Civil Enforcement Division for the services and supplies associated with this program and positions as well $2.9 million for grants to county based District Attorney offices. Partially offsetting this reduction are significant increases in employee compensation costs approved during 2007-09 since many of the staff in this Division are attorneys.

### Issues and Options

The 2009-11 Governor's recommended budget for this Division of $47.9 million Other Funds is $0.8 million greater (1.7%) than the 2009-11 EBL. An attorney position is added for projected increases in workload in the Business Transactions section. The Division also contributes resources to pay for the increased costs of the Administrative Services unit.

There are indications that some major agencies (e.g., Human Services and Corrections) have had their spending for Attorney General services reduced as part of the Governor's budget for 2009-11. If these reductions remain, the General Counsel may have to look at the need for filling all of the attorney positions currently in the budget.

## DOJ – Trial Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 15,993,136 | 21,186,265 | 22,448,551 | 24,644,191 |
| **Total Funds** | **$15,993,136** | **$21,186,265** | **$22,448,551** | **$24,644,191** |
| Positions | 91 | 97 | 98 | 100 |
| FTE | 87.67 | 96.59 | 96.59 | 99.24 |

### 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 constitutional 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 are filed by or on behalf of incarcerated persons and are charged against the General Fund appropriation for the Defense of Criminal Convictions.

### Budget Environment

In 2007, the Criminal and Collateral Remedies Litigation unit opened 739 state post-conviction and habeas corpus cases. For 2008 (through December 15th), the unit opened 654 cases and had 968 cases pending. This unit also handles mandamus cases and hearings before the Psychiatric Security Review Board. 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. Post-conviction cases drastically increased in 2005 due in large part to federal court decisions, but returned to historically expected levels in 2006 through 2008. As expected, federal *habeas corpus* cases increased in 2006 and 2007 since they lag the state cases but they are returning to lower levels also. Additionally, the case complexity has increased over the last several years due to increased active participation by the petitioners and counsel.

Special litigation issues continue to increase in number and complexity. Many issues place the state at risk of losing a substantial amount of money. Ballot initiatives prompt challenges to the language of the measures, appropriateness for the ballot, the validity of the supporting signatures, the counting of the votes, and the sufficiency of measures, if passed. Significant human service-related cases have added workload to the unit. Civil rights, the American with Disabilities Act (ADA), and entitlement to service are all issues the Division must face.

The Torts Section has experienced an increase in financial exposure of cases based on the nature of claims and the decreased effectiveness of the Oregon Tort Claims Act damage caps following *Clarke v. OHSU.* Additionally, there has been an increase in exposure from the claims of former state wards because of a rise in sex abuse and neglect cases and a growing reluctance of courts to apply statute of limitations defenses. The Torts Section also handles inmate civil rights claims, including civil rights actions claiming that Department of Corrections' personnel violated inmates' civil rights. There has been a natural increase in these claims with the rise in inmate prison population and the opening of new prisons. Over a five year period of time, the medical malpractice claims by inmates have increased roughly 200%.

The Department has seen a rise in employment litigation. From December 2000 through May 2008, there was a 74% increase in employment cases. There has been a substantial increase in the need for discovery support in employment litigation as a result of electronic discovery and the threat of judicial sanctions when agencies do not adequately comply with their discovery obligations.

The number of condemnation and inverse condemnation cases in the Commercial Condemnation and Environmental (CC&E) Litigation Section has remained steady from 2007 through 2008, at 32 and 30 cases respectively. Although this is approximately half the high number of such cases filed in 2005 – 2006 (approximately 70 cases per year, up from approximately 31 cases in 2003), it is expected that there will again be a substantial increase in the number of these cases due to the passage of Measure 39 and a recent Oregon Supreme Court decision that makes it advantageous for condemnation defendants to go to trial. The CC&E Section also handles Measure 37 and 49 cases. During 2006 and 2007, there were hundreds of Measure 37 cases in the Department of Justice. With the passage of Measure 49 in November 2007 and the issuance of a number of favorable state court decisions applying Measure 49 in place of Measure 37, many of the existing lawsuits were dismissed and fewer new cases were filed. However, a recent federal court decision, which grants constitutional protection to Measure 37 waivers, will likely lead to a new wave of case filings under Measure 37. It will likely take several years for the state and federal courts to work through the complex legal issues concerning the relationship of Measure 49 to Measure 37, resulting in increased litigation in state and federal courts.

### Essential Budget Level

The 2000-11 essential budget level (EBL) for this Division of $24.6 million Other Funds is 9.8% greater than the 2007-09 legislatively approved budget. Beyond inflation and compensation increases approved during 2007-09, the increase is due to the mandated caseload increase of $1.1 million and five positions for Defense of Criminal Convictions (DCC). The agency projects almost 4,800 new DCC cases which are worked in both this Division and the Appellate Division. It is expected that more up-to-date information will be available during the 2009 legislative session so this increase will be revisited. This DCC increase is the only one approved as part of a mandated caseload, but there has been growth in other case types for this Division which are addressed in policy packages and not through the EBL process.

### Issues and Options

The 2009-11 Governor's recommended budget for this Division of $26 million Other Funds is $1.3 million greater (5.3%) than the 2009-11 EBL. Three positions ($587,732 Other Funds) are added to address the projected tort related workload including actions resulting from the *Clarke v. OHSU* case, increased sex abuse and neglect cases, changes in privacy rights, and other tort related cases. The Governor also proposes adding an investigator position ($166,868 Other Funds) to assist the attorneys in the Division. Almost $500,000 represents this Division's share of the increased costs in the Administrative Services unit.

## DOJ – Child Support Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 11,469,761 | 18,941,786 | 19,258,986 | 21,653,803 |
| Other Funds | 22,420,756 | 28,487,970 | 28,899,260 | 26,584,382 |
| Federal Funds | 63,150,602 | 74,102,604 | 75,668,601 | 78,928,404 |
| Other Funds (NL) | 3,826,120 | 4,495,315 | 4,495,315 | 4,551,461 |
| Federal Funds (NL) | 17,144,814 | 14,851,812 | 14,851,812 | 15,035,429 |
| **Total Funds** | **$118,012,053** | **$140,879,487** | **$143,173,974** | **$146,753,469** |
| Positions | 562 | 597 | 597 | 596 |
| FTE | 561.58 | 594.78 | 594.78 | 593.78 |

### Program Description

This Division locates parents, establishes paternity, enforces and modifies child support obligations, and receives and distributes support payments from absent parents. The Child Support program provides these services automatically for families that are requesting, are receiving, or have received, public assistance from the Department of Human Services (DHS); if the child is in the care of DHS's child welfare program or the Oregon Youth Authority (OYA); or if the case has been referred by another state. The program also provides these services to other families if they request the service. In addition, the Douglas, Gilliam, Hood River, Lake, Curry, Linn, Sherman, Deschutes, Jefferson, and Wheeler County District Attorneys have chosen not to provide their own programs and contract with DOJ to handle all their child support cases.

### Revenue Sources and Relationships

Federal Funds (at EBL) generally support 64% of the program costs (includes Nonlimited expenditures); General Fund covers 14.8%, and local funds and recoverables pay the remaining 21.2% based on 2009-11 essential budget level (EBL). The Deficit Reduction Act of 2005 (DRA) discontinued the Child Support Program's ability to federally match incentive award funds. This effectively changed the funding mix necessary to keep the program at the same level as in the past, thereby increasing the amount of General Fund required. The DRA also affects the programs operated by the District Attorneys (DA) in a similar manner.

### Budget Environment

The program serves roughly 226,534 families per year and is expected to grow slightly in 2009-11. This is slightly down from the level in previous biennia. In the past, the DA programs have provided services to approximately 19% of these families. The other 81% represents closed public assistance cases and private cases. Approximately 15% of the DOJ caseload is receiving, or has recently received, a DHS or OYA payment or service. Collections continue to grow, in part, due to economic factors like inflation. The total collections to the Division's cost ratio is as follows; for every dollar spent, $5.93 was collected in 2003-05, $5.57 for 2006, and $5.67 in 2007. The estimated amount for 2008 is $5.58. Compared to surrounding states, Oregon's performance in child support is relatively good. In federal fiscal year 2007, the amount of support collected per FTE in Oregon exceeded the amount collected in California and Washington. The average number of cases handled during the same time period per FTE in Oregon is 324, with California averaging 169 and Washington at 217.

Oregon uses recoveries to assist in funding the state's share of the program costs. Over time, the amount of recoveries has fallen relative to the costs of the program. This is due to changes in federal policies such as the federal distribution rules to support the National Strategic Plan. The 2007 Legislature passed HB 2469 which re-established the pass-through payment which makes more money available to families receiving child support. Under this bill, each child receives up to $50 each month (up to $200 per family) which reduces the amount available to the Child Support program for operating the program. Falling Temporary Assistance to Needy Families (TANF) caseloads have also contributed to the decrease in recoveries in previous years but TANF caseloads are expected to increase given the current economic conditions.

Federal law sets out performance measures for states to meet. If any state fails to meet these standards, the federal government has the authority to penalize that 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 any state fails to meet the requirements of its state plan for child support (e.g., information systems requirements), the federal government may reduce its share of support for operating the program.

### Essential Budget Level

The 2000-11 essential budget level (EBL) for this Division of $146.8 million total funds is 2.6% greater than the 2007-09 legislatively approved budget. The General Fund EBL of $21.7 million for the same period increases by $2.4 million, or 12.4 %. The growth in the General Fund is due to a $1.5 million fund shift from Other Funds to General Fund resulting from passage of HB 2469 (2007). This bill provided for families on public assistance receiving child support to retain part of the child support payment for up to $200 per month per family. The Division had relied on these funds as resources for the Division's costs of operation. The EBL also removed $1.9 million in one-time excess limitation and General Fund for replacing lost federal and local revenue in 2007-09. Other increases in the EBL are due to employee compensation increases approved during 2007-09 and inflation.

### Issues and Options

The 2009-11 Governor's recommended budget for this Division of $145.1 million total funds is $1.6 million less (-1.1%) than the 2009-11 EBL. The Governor's General Fund budget is $1.8 million, or 8.5%, greater than the EBL. This increase in the Division's General Fund is due to two changes in federal law. The first is a change in the calculation of the federal incentive payments estimated to reduce federal funds by $2.5 million. The second change eliminates the Division's authority to conditionally assign certain arrears to the state for collection which is estimated to reduce $1 million in Other Funds revenue and $1.9 million in Federal Funds revenue. Without this package the agency asserts that 28 positions (27.95 FTE) would have to be eliminated. Adjustments will have to be made during the Ways and Means process to insure the right funding mix is in place based on more up-to-date information.

The agency had requested $306,781 General Fund to continue to collect child support for those children in close custody in Oregon Youth Authority (OYA) facilities. The federal government will not allow federal funds to be used for these collections, so the proposed package eliminated a corresponding amount of Federal Funds limitation. Without these collections, OYA is at risk of losing an estimated $2.2 million in revenue for the OYA budget. The Governor's budget did not provide the General Fund backfill but did reduce the federal limitation as well as one child support case management position and reduced funding for two other positions for a total reduction of 1.49 FTE. The Governor did not include any additional funding in the OYA budget to address this issue.

Generally it has been assumed that any reductions to General Fund will result in the loss of federal funds for the operation of the program and the potential for not meeting federal performance requirements. Child support collections paid to families are also assumed to be reduced from resource reductions.

## DOJ – Defense of Criminal Convictions

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 11,758,707 | 19,784,533 | 19,784,533 | 28,410,273 |
| **Total Funds** | **$11,758,707** | **$19,784,533** | **$19,784,533** | **$28,410,273** |

### Program Description

Defense of Criminal Convictions (DCC), formally referred to as 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. Three types of cases are funded from these funds: (1) direct criminal appeals where the offender's challenge is on alleged legal or factual errors of the trial; (2) post-conviction challenges where the offender challenges the effectiveness of their counsel; or (3) federal *habeas corpus* where the offender challenges violations of the constitutional rights in the federal courts. Personnel and resources connected to this work are part of the Trial and Appellate Divisions who bill this budget unit for the work on the individual cases. Work on ballot measure titles is also billed to this fund.

### Revenue Sources and Relationships

Criminal and capital appeals work is primarily financed by the General Fund. In 1997-99 and 1999-2001, this program was "subsidized" by adding a "surcharge" to the fee charged to agencies for legal services. In 2001-03, the subsidy was terminated when General Fund was added to this budget unit.

### Budget Environment

Funding for this program has increased dramatically in recent biennia. In 2005-07, the budget for this program was just less than $12 million General Fund while the 2009-11 EBL is now estimated at $28.4 million General Fund, a 141% increase over the period.

The backlog of DCC cases per attorney climbed significantly from 2004 through the 2005-07 biennium. Resources added during the past two biennia have led to a decrease in the backlog. A number of factors drive the workload and costs of the Trial and Appellate Divisions in working these DCC cases. These include:

- The number of contested criminal convictions, which is primarily 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 pursue all available avenues of appeal including post-conviction and federal *habeas corpus* challenges. The passage of Ballot Measure 57 dealing with property crime sentences will likely also drive up the number of contested convictions.
- Resources available to other parts of the criminal justice system have an impact on the demand for these funds. If the amount of resources available for the Public Defense Services Commission (PDSC) programs change, this can affect the number of appeals at the state level. Courts still may require parties in the case to file in a timely manner even if their resources are constrained and the nature of the cases will change. The agency asserts that an increase in the resources for the PDSC programs has led to growth in the number of appeals.
- If there are delays in the state appeals process, some offenders may appeal directly through the federal *habeas corpus* process where DOJ also defends the state's interest. Since public defender resources are 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.
- The courts limit the amount of time that cases can be delayed. Timelines set by the Court of Appeals in the past few years has limited the ability of the agency to delay these cases which is a primary reason for the request for additional funding for 2007-09. The chief judge of the Court of Appeals has indicated that he may order further reductions in the delay of appeals in 2009-11.
- The U.S. Supreme Court recently made changes in two significant areas of criminal law, often referred to as the *Blakely* and *Crawford* cases. As a result, hundreds of state criminal convictions have been reversed and remanded to the trial courts. In addition, the opinions have left unanswered critical questions about how to implement the decisions. While many of the issues have been resolved, a number of unanswered questions remain which the state appellate courts and, potentially, the U.S. Supreme Court must address.

The agency took a number of actions to manage the growing caseload during 2005-07 budget including: (1) instructing DOJ attorneys to concentrate their work on the core or important issues of each case to limit the time spent on individual cases; (2) using boiler-plate or "abbreviated briefing" for cases with similar legal issues; (3) requiring managers to better monitor the performance of DOJ attorneys; (4) coordinating with PDSC staff and Oregon Court of Appeals to identify lead cases to present legal arguments, and apply the Court's findings to similar cases; and (5) delaying hearings on cases to the limit allowed by the courts. Over 1,200 cases were delayed into the 2007-09 biennium which the agency is dealing with at this time

### Essential Budget Level

The 2000-11 essential budget level (EBL) for the Defense of Criminal Convictions program unit of $28.4 million General Fund is $8.6 million, or 43.6%, greater than the 2007-09 legislatively approved budget. There are two primary reasons for this increase. As noted above, the rate for attorney services increases by over 25% in the EBL affecting this program since attorneys in the Appellate and Trial Divisions charge this fund for their services.  The overall impact of this in the 2009-11 EBL is $4.5 million General Fund.  Mandated caseload growth represents the other $4.1 million of the increase based on the agency's projections.  The agency anticipates that 769 cases will be carried forward from the 2009-11 period while another 4,023 new cases will be recorded.  At this time, the agency estimates that 593 cases will need to be carried forward into the 2011-13 biennium.  More up-to-date information will be available during the 2009 legislative session.

### Issues and Options

One of the few alternatives remaining is for the agency to waive appearance on behalf of the state on certain cases.  Without DOJ representing or advocating the state's position on the appeal, the court could not choose to rely solely on the Public Defender's advocacy of the defendant.  The courts would likely invest resources to "work" the case resulting in a cost shift from DOJ to the courts.  Further delay of cases has been explored, but, as noted above, the courts are limiting the amount of time a case can be delayed.  The Court of Appeals is looking at further restrictions during 2009-11.

The Governor's proposed budget for this program for 2009-11 is at the EBL level.

## Military Department (OMD) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 18,237,338 | 24,149,315 | 25,645,400 | 28,323,692 |
| Other Funds | 11,084,025 | 103,252,585 | 111,678,070 | 84,111,080 |
| Federal Funds | 70,018,953 | 184,106,487 | 306,495,601 | 237,131,727 |
| Other Funds (NL) | 649,012 | 0 | 0 | 0 |
| **Total Funds** | **$99,989,328** | **$311,508,387** | **$443,819,071** | **$349,566,499** |
| Positions | 479 | 518 | 518 | 511 |
| FTE | 437.37 | 476.23 | 476.23 | 470.93 |

### Agency Overview

The Oregon Military Department (OMD) is responsible for administration of the Oregon Army National Guard, the Oregon Air National Guard, the Oregon State Defense Force, and, beginning with the 2007 biennium, the Office of Emergency Management.

The National Guard is a federal-state partnership with a dual mission: (a) provide combat-ready units and equipment in support of national defense, and (b) provide units and equipment to protect life and property during natural disasters and civil unrest, as well as to provide backup support to law enforcement. The National Guard serves on a day-to-day basis under the command of the Governor, but is available to the federal government upon order of the President of the United States. The Department is overseen by an Adjutant General, appointed by the Governor to a four-year term of office. The Adjutant General also services as the homeland security advisor to the Governor and chief of staff of the Governor's Military Council.

Although chartered as a state agency, the Department is functionally and administratively bifurcated into a state and a federal "agency," both of which are overseen by the Adjutant General. The federal government directly funds federal employees, guard member salaries and wages, and all equipment and equipment maintenance. For the state, its responsibility primarily centers on providing facilities and facility maintenance for the Oregon Guard. The federal government, however, also is a major source of funds for new construction and some facility operating funds.

Due to a variety of factors, the most significant being that the Department's primary source of funding is from the federal government, the state's National Guard is a partnership of unequal partners. The Department's ability to successfully do either a state or a federal mission(s), or both missions concurrently, is highly dependant upon the actions of the President of the United States, the actions of federal agencies such as the National Guard Bureau and/or the U.S. Department of Homeland Security, and U.S. Congressional appropriations to the National Guard Bureau.

Beginning with the War on Terror, and since the 2005 biennium, the Department has provided assistance to National Guard Veterans and their families. This is another example of federal-state partnership funding with Oregon providing supplemental funding for programs the state considers important to Oregon guardspersons, but for which federal funding is either limited or not available. These include the state's reintegration program, emergency financial assistance for guardspersons and their families, tuition assistance, and hunting and angling license reimbursements.

A responsibility unrelated to the Department's primary mission is youth education. For example, the Youth Challenge Program provides 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. Other youth educational opportunities also exist at Oregon's two airbases.

The 2007 Legislature (HB 2370) further expanded the Department's statutory mission to include the responsibility of state emergency management. This measure moved the state's Office of Emergency Management (OEM), and a portion of the Criminal Justice Services Division (CJSD) related to homeland security, from the Department of State Police (OSP) to the Military Department. The legislative intent of combining the state's emergency management and National Guard responsibilities under one agency is to better prepare the state for a catastrophic event. This structure is similar to a number of other states, including Washington.

### Revenue Sources and Relationships

Revenue for the Department, at the essential budget level, comes from a combination of General Fund (8%), Other Funds (24%), and Federal Funds (68%). Beginning in the 1977-79 biennium, the Department's primary source of funding has shifted dramatically from General Fund to Federal Funds, and to a lesser extent, Other Funds.

The federal government provides two types of funding for the Department:

- State Budgeted Federal Funds ($237 million): These funds are used to finance each of the Department's six major program areas and are based on federal/state cooperative agreements and federal grants. Also included are Federal Funds for major construction projects; and
- Federally budgeted and expended Federal Funds (approximately $755 million for 2,255 FTE per biennium): Outside of the state budget, the Department receives direct federal support. These are funds the U.S. Congress allocates to the National Guard Bureau to support the Oregon National Guard and are used to fund federal employees, guard member salaries and wages, and equipment.

If combined, the federal and state expenditures for the Department total approximately $1.1 billion over the course of a biennium.

The level of federal support in the state budget varies by program, type of facility, and type of construction project. For example, troop training costs are entirely supported by Federal Funds as are base security, fire fighters, and Science and Technology Academy Reinforcing Basic Aviation and Space Exploration (STARBASE). Approximately 75% of the costs associated with logistical sites are federally funded. Between 75% and 85% of utility, maintenance, and supply expenditures of the Air National Guard are federally funded. Sixty percent of the Oregon Youth Challenge Program costs come from the federal government. Federal Funds converted to Other Funds support almost entirely the Other Funds expenditures related to the Department's administrative costs. Lastly, OEM and the CJSD receive Federal Funds for emergency management and disaster recovery, homeland security, and Chemical Stockpile Emergency Preparedness Program grant funds. In 2009-11, Federal Funds revenue is expected to increase for all programs, including Operations and Major Capital Construction.

General Fund support is used to pay for wages and salaries of state employees, debt service, OEM, and as state matching funds for various federal/state agreements.

Other Funds revenue received by the Department totals $123.3 million. Historically, the source of Other Funds for the Department has been facility rental fees and some miscellaneous sales revenue. Rental revenues earned from federally supported facilities are required by the federal government to be used in support of the facility that earned it. The Department's facility rental revenue is $2.8 million before a $106,885 debt service transfer. Rental revenue is somewhat uncertain given current economic conditions. Miscellaneous sales revenues are derived from vending machine profit, coin operated telephones, and recycling programs. Other Funds revenue includes approximately $155,076 in Oregon individual tax check-off deduction revenue that began with the 2006 tax year and is associated with the Emergency Financial Assistance Program. Lastly, OEM is funded with 9-1-1 emergency telecommunications surcharge revenues, and a variety of grant funding for emergency management.

The Department's overall ending balance, excluding its Capital Construction Account balance of approximately $1.1 million, is $38.1 million. Of this amount, $37.3 million is in the OEM area and is related to the 9-1-1 surcharge. As noted under the Community Support Program, the Other Funds balance for the Oregon Youth Challenge Program is $36,497, which is of concern. It represents less than 2% of essential budget Other Funds expenditures for the Program. A typical ending balance reserve for the Program should be three months of revenue or $276,583 at $92,194 per month.

### Budget Environment

The Department has many competing priorities for which it must deal. In the larger picture, the critical issues are: (a) addressing the state's emergency preparedness and response issues; (b) addressing the state's homeland security issues; (c) management of the increasing number and duration of federal and state deployments; and (d) continuing the integration of the Office of Emergency Management function into the Department.

The Department also must address: (a) the variety of needs of guardspersons and their families, both during deployment and post-deployment; (b) ongoing recruit, training, and retention of guardsperson; and (c) the maintenance and construction of new and existing installations.

### Essential Budget Level

The essential budget level (EBL) for the Department is $349.6 million, of which $28.3 million is General Fund, $84.1 million is Other Funds, and $237.1 million Federal Funds. The EBL total is $94.3, or 21%, less than the current biennium's legislatively approved budget (LAB) of $443.8 million. The two primary factors that explain this reduction are one-time Emergency Board actions and Capital Construction projects that, according to standard budget procedure, are not budgeted at the EBL for the new biennium. The EBL also includes standard adjustments for personal service costs, inflation, and the elimination of one-time expenditures.

### Issues and Options

In a challenging budget environment, the Military's budget presents many dilemmas not least of which is balancing the state's need for the National Guard and emergency management, with what resources can be provided the Department. Some of the major issues this biennium include:

- Funding for the Reintegration and the Emergency Financial Assistance Programs;
- State matching funds for federally approved Capital Construction projects, federal economic stimulus package-related or otherwise;
- Deciding on the funding of the Seismic Rehabilitation Program;
- Reevaluation of the 9-1-1 program revenues and expenditures;
- Providing for ongoing operation and maintenance and deferred maintenance needs at many of the Department's installations;
- Deciding on the funding of the Oregon Youth Challenge Program; and
- Evaluating the number and types of installations/armories statewide.

Unlike many other agency budgets in the Governor's recommended budget (GRB), the Military Department budget includes an increase of General Fund above the EBL. The Governor's 2009-11 recommended budget totals $452.8 million, of which $32.8 million is General Fund, $151.4 million is Other Funds, and $268.7 million Federal Funds. The GRB is $9 million, or 2%, more than the current biennium's legislative approved budget (LAB) of $443.8 million. Policy enhancements for the Administration, Operations, Emergency Management, Capital Construction, and Debt Service programs total $103.3 million, of which $4.5 million is General Fund, $67.3 million is Other Funds, and $31.5 million is Federal Funds.

The GRB also includes reductions totaling $1.7 million General Fund, of which $1.5 million is a reduction in deferred maintenance expenditures with the remainder being services and supplies reductions. In addition to expenditure reductions, the GRB transfers $8.1 million Other Funds revenue (9-1-1 Emergency Communications Tax Revenue) to the state's General Fund for general purpose use.

Other reductions up to 20% of the 2009-11 EBL, that were requested by the Legislature and then put forth by the Department, include: eliminating the seismic rehabilitation and the Oregon Youth Challenge programs; closing armories and the Kingsley Field Air National Guard base; reducing deferred maintenance; and reducing services and supplies.

## OMD – Administration

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 5,697,753 | 5,387,339 | 5,481,103 | 4,612,234 |
| Other Funds | 1,875,256 | 1,880,490 | 1,931,734 | 2,066,822 |
| **Total Funds** | **$7,573,009** | **$7,267,829** | **$7,412,837** | **$6,679,056** |
| Positions | 28 | 28 | 28 | 26 |
| FTE | 26.66 | 26.75 | 26.75 | 25.00 |

### Program Description

The Administration program consists of the office of the Adjutant General, Command Group, Financial Administration, Personnel, and Public Affairs. These functions support, administratively, the command of over 8,500 soldiers and airmen, approximately 2,600 state and federal employees, and the oversight for over $2.9 billion in facilities and equipment.

Beginning with the 2005 biennium, the program became responsible for assisting National Guard members and their families through the following four programs:

- ***Reintegration and Veterans' Assistance Program –*** This program provides post-mobilization assistance to National Guard members and their families after soldiers and airmen return from federal deployments.
- ***Emergency Financial Assistance Program –*** This program provides hardship grants and loans to members and immediate family of members of the Oregon National Guard on active duty. According to the Department, the majority of grants from the fund have been to support families during guard member deployments. During the 2007-09 biennium the program provided over 370 participants with assistance packages averaging $1,745 each.
- ***Tuition Waiver Program –*** This program provides tuition assistance under certain circumstances, based on available funding. Tuition funding is passed through the Oregon Student Assistance Commission (OSAC), to Army National Guard soldiers and Air National Guard airmen. The Air National Guard does not have a federal tuition assistance program and relies exclusively on the state program. Army National Guard funds tuition assistance up to 100% of certain costs. Eligible Oregon Army National Guard participants may require assistance when the federal program, whose funding is on a first come, first serve basis, is insufficient to cover all cost.
- ***Hunting and Angling License Reimbursement Program –*** This program reimburses veterans up to $43.75 of the costs of a residential annual combination hunting and angling license obtained from the Oregon Department of Fish and Wildlife. Eligible recipients must have served in any of the Armed Forces, and have been on active duty, the reserves, or have retired within 12 months from one of the services. The program would provide funding for approximately 1,381 license reimbursements.

### Revenue Sources and Relationships

The Program is funded with a combination of General Fund (69%) and Federal as Other Funds (31%).

### Budget Environment

The budget environment for the Administration Program is one of increasing managerial and financial complexity as the Department's responsibilities, at both the state and federal level, continue to expand.

### Essential Budget Level

The essential budget level (EBL) for the program is $6.7 million, of which $4.6 million is General Fund and $2.1 million is Other Funds. The EBL total is $733,781, or 9.9%, less than the current biennium's legislatively Aaproved budget (LAB) of $7.4 million. This reduction is attributable to the elimination of one-time General Fund appropriations for the following: a $500,000 General Fund for the Emergency Assistance Program and $500,000 Other Funds; $60,000 General Fund for hunting and angling license reimbursements; and $30,829 General Fund for the Reintegration Program. The EBL includes a technical adjustment increase of $448,546 Other Funds for personal income tax charitable check-off revenues related to the Emergency Assistance Fund. The EBL also includes standard adjustments for personal service costs and inflation and includes a $410,941 reduction in state government service charges.

### Issues and Options

The significant budget challenges for the Administration Program will be how to meet the demand for reintegration services of guardsperson, and their families. While achieving recruitment and retention goals for new and existing soldiers may be somewhat hindered by the state's investment in armories, the deteriorating economy may ease recruiting and retention pressure as National Guard jobs become an employment option.

The Governor's 2009-11 recommended budget (GRB) totals $7.3 million, of which $5.1 million is General Fund and $2.2 million is Other Funds. The GRB is $.6 million more than the EBL, of which $.5 million is General Fund and $.1 million is Other Funds. GRB is comprised of the following policy enhancements:

- Reintegration Program ($266,920 General Fund; 2 position/2.00 FTE) – This policy package continues the veteran Reintegration Program that has been in existence for the last two biennia;
- Military Policy Advisor ($262,440 General Fund; 1 position/1.00 FTE) – This policy package continues the Governor's military policy advisor position, which is located in the Governor's Office; and
- Accounting Position ($96,142 Other Funds; 1 position/1.00 FTE) – This policy package establishes a new permanent full-time Accounting Technician 2 position.

The GRB includes reducing a portion of the program's services and supplies by $33,291 General Fund. Other reductions up to 10% of the 2009-11 EBL that were requested by the Legislature and then put forth by the Department, include a $32,557 services and supplies General Fund reduction. Of note, is that the Adjutant General and the Deputy Director both receive pay-line exceptions off-budget. In order to pay for these exceptions that total $87,864 General Fund, the Program must achieve savings in other portions of its budget.

The difference between the Department's agency request budget and the Governor's recommended budget is noteworthy for this program. As noted previously, the Legislature has had as its priority a policy of providing assistance to guardspersons and their families in the form of the Emergency Financial Assistance Program, whose estimated cost is $435,520 General Fund and $435,520 Other Funds. When these funds were not budgeted by the Governor during the 2007-09 biennium, the Legislature provided $500,000 General Fund to continue the program (HB 5549). The Tuition Waiver Program and the Hunting and Angling License Reimbursement Program, whose costs are $500,000 and $50,000 General Fund respectively, are also not funded in the GRB. These again will likely be issues that the Legislature will need to address.

## OMD – Operations

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 10,657,287 | 11,583,279 | 11,795,254 | 12,704,001 |
| Other Funds | 2,439,673 | 3,518,024 | 3,858,024 | 3,650,627 |
| Federal Funds | 57,460,117 | 64,354,170 | 86,212,370 | 69,727,454 |
| **Total Funds** | **$70,557,077** | **$79,455,473** | **$101,865,648** | **$86,082,082** |
| Positions | 405 | 398 | 398 | 394 |
| FTE | 365.45 | 359.33 | 359.33 | 355.33 |

### 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 three major areas of responsibility, Army National Guard, Air National Guard, and other. These three programs oversee the National Guard's 15 subprograms.

There are three Army National Guard subprograms:

- ***Army National Guard Facilities Operations and Maintenance*** – 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 Operation*** – 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 with General Fund and Federal Funds.
- ***Army National Guard Environmental Program*** – This program is responsible for overseeing compliance with federal and state environmental regulations for Oregon Army National Guard facilities. The program is 98% federally funded and 2% General Fund.

There are seven Air National Guard subprograms:
- ***Air National Guard Administration Program*** – 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*** – 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*** – 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 trespassing. This program is 100% federally funded.
- ***Air National Guard Fire Protection Program*** – 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. Some of the structural resources have been used on Conflagration Act fires as recently as the 2006 fire season. This program is 100% federally funded.
- ***Air National Guard Environmental Program*** – 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*** – 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.
- ***Air National Guard Family Support Services*** – 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.

The other five subprograms include:
- ***Equipment Refurbishment Program*** – 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.
- ***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.
- ***Electronic Security System Program*** – 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.
- ***Telecommunications Program*** – This program provides procurement, operation, and maintenance of the Oregon Army National Guard telecommunications system and is 100% federally funded.
- ***Distance Learning Program*** – This program provides soldiers and their communities access to video teleconferencing, video programming, computer based training, web-based training, interactive audio and video, and electronic mail and network systems. There are seven classroom sites at OMD facilities throughout Oregon. The program is 100% federally funded.

### Revenue Sources and Relationships

The Program is funded with a combination of General Fund (15%), Other Funds (4%), and Federal Funds (81%). The source of the Other Funds is primarily facility rental fees ($2.8 million).

### Budget Environment

The Oregon National Guard currently has 596 buildings totaling 3.9 million square feet spread across the state in 27 counties. The largest of these facilities are fifteen training/logistical sites, two air bases, and 40 armories. The age of a majority of the Army National Guard facilities, especially armories, makes them inefficient and expensive to operate and maintain. The average age of all Army National Guard facilities is 38 years. The Department reports that 23% of its facilities “meets” the National Guard Bureau/Department of Army standards and are in the best condition, 18% are classified in “adequate” condition, 51% are categorized as being “below the standard” condition, and the remaining 8% are classified as being in “unacceptable” condition. The worsening 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, not to mention the retention of such units by the state.

### Essential Budget Level

The essential budget level (EBL) for the program is $86.1 million, of which $12.7 million is General Fund, $3.7 million is Other Funds, and $69.7 million Federal Funds. The EBL total is $15.8, or 15.5%, less than the current biennium’s legislatively approved budget (LAB) of $101.9 million. The EBL also includes standard adjustments for personal service costs and inflation.

### Issues and Options

The Operations Program is the largest General Fund program in the Department followed closely by the Debt Service Program. The General Fund in this program is primarily directed to facilities operations and maintenance, including positions supporting this function. Budget discussion may need to focus on mothballing, closing (i.e., selling), and/or consolidating installations around the state, especially armories.

What is not funded at the EBL (or in the Governor’s recommended budget) is a variety of policy enhancement packages related to operation and maintenance funding at the following installations: Salem Flight Operations ($62,499 General Fund and $187,496 Federal Funds); Lane County Armed Forces Reserve Center ($299,591 General Fund and $299,591 Federal Funds); Ontario Readiness Center ($116,711 General Fund and $116,771 Federal Funds); Medford Armory ($10,750 General Fund and $10,750 Federal Funds); and Gresham/St. Helens/Woodburn armories ($85,987 General Fund and $85,987 Federal Funds). The combined General Fund cost is $575,538, with a federal match equal to $700,595. Most, if not all, of these installations are presently under construction.

Facility rental fee revenues may be adversely impacted by the state’s current economic situation and if General Fund reduction translates to having fewer facilities available for rent.

The Governor’s 2009-11 recommended budget (GRB) totals $103.3 million, of which $12.8 million is General Fund, $4 million is Other Funds, and $86.6 million is Federal Funds. The GRB is $17.2 million more than the EBL, of which $60,000 is General Fund, $.3 million is Other Funds, and $16.8 million is Federal Funds. The GRB is comprised of the following policy enhancements:

- Fund Shift ($133 Federal Funds) – This policy package shifts a portion of an existing Accountant 3’s position funding from $26,305 Federal Funds to $26,192 Other Funds.
- New Operations Positions for custodial and administrative work ($165,242 Other Funds and $99,192 Federal Funds; 3 positons/3.00 FTE).
- Upward reclassification of six positions across program functions ($12,674 Other Funds and $13,545 Federal Funds).
- Lane County Field Maintenance Shop, Operations and Maintenance ($74,969 Federal Funds).
- Limited Duration Positions to Permanent Full-Time for a Food Services Manager 2 and a Natural Resources Specialist 1 ($129,834 Other Funds and $126,258 Federal Funds; 2 positions/2.00 FTE).
- Portland/Kingsley Airbases Facilities Maintenance and Operations ($294,944 General Fund and $1,119,592 Federal Funds).
- Equipment Refurbishment Program Change in Federal Procurement Practice ($13,495,000 Federal Funds).

- New Equipment Refurbishment Program Positions ($1,459,818 Federal Funds; 13 positions/13.00 FTE).
- Portland Airbase Fire Protective Services ($438,665 Federal Funds).

The GRB includes reducing a portion of the program's services and supplies by $230,911 General Fund.

Other reductions up to 5% and 10% levels of the 2009-11 EBL that were requested by the Legislature and then put forth by the Department, include eliminating $232,036 services and supplies General Fund. At the 15% reduction level is the elimination of $811,333 General Fund identified as armories. At the 20% reduction level is the closing of armories and the Kingsley Field Air National Guard base ($1 million General Fund) as well as another $446,835 reduction to armories. In total, and through the 20% reduction level, $2.5 million General Fund would be reduced out of an EBL General Fund of $12.7 million.

## OMD – Office of Emergency Management

| | 2005-07 Actual* | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 0 | 2,578,445 | 3,094,196 | 2,846,135 |
| Other Funds | 0 | 76,658,362 | 83,956,897 | 76,074,080 |
| Federal Funds | 0 | 58,723,421 | 156,489,335 | 161,737,827 |
| **Total Funds** | **0** | **$137,960,228** | **$243,540,428** | **$240,658,042** |
| Positions | 0 | 46 | 46 | 45 |
| FTE | 0 | 44.15 | 44.15 | 44.60 |

** For 2005-07 Actuals, see the analysis of the Department of State Police.*

### Program Description

The Legislature moved the state's Office of Emergency Management (OEM), and a portion of the Criminal Justice Services Division related to homeland security, from OSP to the Military Department beginning with the 2007-09 biennium (HB 2370). With this action OEM and homeland security functions became a separate program within the Military Department.

OEM takes the lead in responding to emergencies across the state and coordinate 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 as well as the development and implementation of mitigation strategies. The program has nine major areas of responsibility:

- ***Oregon Emergency Response System (OERS)*** – Maintain OERS 24 hours/seven days a week and act as a single point for reporting and coordinating emergencies that might require state and/or federal assistance.
- ***Statewide 9-1-1 System*** – Administer the 9-1-1 system which provides funding to local systems and takes the lead in developing and implementing new technology.
- ***Grant Administration*** – Administer grants used to respond to emergencies, hazard mitigation planning, and project implementation throughout the state.
- ***Chemical Stockpile Emergency Preparedness Program (CSEPP)*** – Administer CSEPP in Eastern Oregon. CSEPP is the offsite program that prepares communities to ensure that local and state plans are in place to respond to issues surrounding the demilitarization of chemicals at the Umatilla Army Depot.
- ***Search and Rescue Program*** – Work with sheriffs in relation to the ground, marine, and air search rescue program.
- ***Domestic Preparedness*** – Provide the central point of planning, training, and exercising for the state's domestic preparedness efforts and offer guidance to local governments that receive grant funds through the program.
- ***Terrorism*** – This subprogram serves as the administrative "agency" for federal homeland security grants. It would be responsible for seeking and obtaining homeland security grants, and then distributing grant proceeds to sub-grantees as well as monitoring grant outcomes.
- ***Seismic Rehabilitation*** – In response to public concerns about seismic safety after the 1989 Loma Prieta earthquake in California, the Oregon Legislature, and Oregon voters, passed a series of measures centered on reducing the exposure to Oregonians from earthquakes. Some of these measures included: the

establishment of a Seismic Safety Policy Advisory Commission (1991); voter approval amending the State's Constitution to authorize the use of general obligation bonds for the purposes of seismic rehabilitation of public education facilities (Article XI-M bonds) and emergency services facilities (Article XI-N bonds) (2002); the creation of a seismic rehabilitation grant program within the Office of Emergency Management (2005); and the funding of a statewide seismic needs assessment of education and public safety facilities by the Department of Geology and Mineral Services (2005). In 2007, the Legislature passed SB 1. This measure provided OEM with four permanent positions to staff and administer the Seismic Rehabilitation Grant Program (SRGP).

- ***Oregon Local Disaster Assistance Loan Account –***This Account was established during the 2008 special session to provide loans to local governments and school districts to match moneys from federal programs for federally declared disasters that are subject to state matching funds provisions. A Local Disaster Assistance Review Board was also established to review and approve any loans from the Account. The Legislature appropriated $500,000 General Fund to the Account. To-date, the Department has yet to make any loans from the Account.

### Revenue Sources and Relationships

The major funding source is Federal Funds received for state homeland security, Federal Funds for CESPP, Federal Emergency Management Agency (FEMA) disaster recovery, FEMA CESPP pass-through grants, and Non-Disaster Emergency Management Performance grants. These funding sources are used for general OEM operations, development and administration of the emergency response infrastructure, training, and grants passed through to local governments for their emergency management programs. Some of the funds require a 50% state or local match. OEM also receives funding for the planning, training, and coordination in the state's Domestic Preparedness/Weapons of Mass Destruction program. This funding has decreased recently, as Congress appropriates funding for homeland security-related training activities to cities rather than states.

Funding for responding to Presidentially-declared disasters and pre-disaster mitigation is available from the Federal Emergency Management Agency (FEMA) and requires a 25% state or local match. There is also funding dedicated for the CSEPP program (no match required) to pay for OEM and local grants. Umatilla and Morrow counties receive funding through the state for CSEPP-related activities.

Oregon's 9-1-1 toll-free emergency number to access safety services is a state and local partnership. Approximately 73% of the cost of running the state's 9-1-1 service is paid by local government. The remaining 27% is funded by the state through an Emergency Communications Tax of $0.75. This is a per month tax for any phone line capable of accessing 9-1-1 services, with the exception that federal, state, and local governments are tax exempt. The 9-1-1 program's statutory sunset was extended to January 1, 2014 (HB 2369).

Telecommunication providers collect the Emergency Communications Tax from their customers and remit the tax revenue to the Department of Revenue (DOR) on a quarterly basis. DOR transfers the revenue to the Emergency Communications Account, net of up to 1% of the revenue amount it retains for administration.

The Emergency Communications Account is an interest-bearing account. The entire balance in the Account is to be distributed quarterly according to statute for the following purposes: (1) up to 4% of the balance may be used by the Military Department's Office of Emergency Management for program administration costs; (2) less than 0.5% is transferred to the Department of Public Safety Standards and Training (DPSST) for training of 9-1-1 telecommunicator and emergency medical dispatchers; (3) 35% is transferred into the Enhanced 9-1-1 subaccount; (4) 2.5% is transferred into the Enhanced 9-1-1 Equipment Replacement subaccount, if the balance is less than $500,000; and (5) the remaining balance, comprising approximately 58% of available revenue, is distributed to cities and counties.

Local governments use the revenue to partially fund the expense of approximately 50 Public Safety Answering Points (PSAP) or dispatch centers across city and county governments in Oregon. Revenue in the Enhanced 9-1-1 subaccount is primarily used by the Department to make direct payments to vendors for PSAP circuit charges and software upgrades. The subaccount may reimburse cities and counties on an actual cost reimbursement basis for some costs.

### Budget Environment

The expectation of OEM is to coordinate, facilitate, organize, resource, and manage, pre-event and post-event disaster activities for the state. This is a tall order for a program that has less staff (45 positions including seven positions related to 9-1-1 and four for the Seismic Rehabilitation Program) than that of the Department's Oregon Youth Challenge Program (46 positions), which runs an alternative high school.

All of Oregon's population is served by Enhanced 9-1-1 services that are provided from 50 Primary PSAPs.

The Department continues to support the Chemical Stockpile Emergency Preparedness Program (CSEPP), which is responsible for the incineration of chemicals at the Umatilla Army Depot. To date, over $108 million has been provided to Oregon in support of building an "adequate" emergency preparedness program in Morrow and Umatilla counties. Chemical incineration, which began in August of 2004, is expected to last until 2010 or 2012, after which the incinerator will be decommissioned.

### Essential Budget Level

The essential budget level (EBL) for the program is $240.7 million, of which $2.9 million is General Fund, $76.1 million is Other Funds, and $161.7 million Federal Funds. The EBL total is $2.9 million, or 1.2%, less than the current biennium's legislatively approved budget (LAB) of $243.5 million. The EBL also includes standard adjustments for personal service costs and inflation.

### Issues and Options

The General Fund revenue shortfall faced by the state will placed renewed focus on available fund sources other than General Fund. For the Emergency Management Program, this may include an evaluation of the 9-1-1 Program. For example, the Legislature may consider, as did the Governor's recommended budget, alternative uses of 9-1-1 revenue. There could also be an impetus to reduce 9-1-1 expenditures, both administratively, and those at the local level. This could raise again the discussion of consolidating local PSAPs. Past legislative actions have promoted consolidation of PSAPs where appropriate and have been partially successful. A consultant's report from a few years ago concluded that one PSAP per county achieves the maximum practical benefits of consolidation, while preserving local control.

The interim Joint Committee on Ways and Means (December 2008) received a report from the Department on the Seismic Rehabilitation Program. The Committee expressed concern about the Department's slow progress on implementing the Program and hiring legislatively authorized positions. Whether the Program is now prepared to move forward, administratively and statutorily, will need to be decided by the Legislature.

The Governor's 2009-11 recommended budget (GRB) totals $276.6 million, of which $2.8 million is General Fund, $111.2 million is Other Funds, and $162.6 million is Federal Funds. The GRB is $36 million more than the EBL, of which $35 million is Other Funds and $0.9 million is Federal Funds. The GRB is comprised of the following policy enhancements:

- Seismic Rehabilitation Bonds ($29.5 million Other Funds) – Requests Articles XI-M and XI-N bonding authority for the Seismic Rehabilitation Program, which would be distributed in equal amounts to School Districts and Public Safety entities. Debt Service support for these bonds is a separate policy package detailed under the Debt Service Program.
- Technology and Response ($5.6 million Other Funds; 2 positons/2.00 FTE) – This policy package requests the establishment of two permanent, full-time positions (a Program Analyst 2 and a Information Systems Specialist 3), increases payment to Public Safety Answering Points for 9-1-1 activities, and increases the Department's payment to the Department of Public Safety Standards and Training.
- Titan Fusion ($899,457 Federal Funds) – This package is pass-though funding for a U.S. Department of Justice grant related to limiting criminal and terrorist activities in states.
- Fund Shift ($133 Federal Funds) – This policy package shifts a portion of an existing Accountant 3's position funding from $26,305 Federal Funds to $26,192 Other Funds.

In addition to expenditure reductions, the GRB transfers $8.1 million Other Funds revenue (9-1-1 Emergency Communications Tax Revenue) to the state's General Fund for general purpose use. This reduction would reduce the amount of funds available for distribution, especially for local governments which receive the majority of the revenue. At the close of the 2007 session, the Governor vetoed a $9 million transfer from the

Emergency Communications Account to the state's General Fund based on his concern that "…funds collected from telecommunications customers for enhancements to the 9-1-1 emergency response system be used for the purposes established in the applicable statutes." There is also a reduction to the program's services and supplies by $17,698 General Fund.

Other reductions up to 10% of the 2009-11 EBL that were requested by the Legislature and then put forth by the Department include eliminating the seismic rehabilitation program and services and supplies reduction of $17,307 General Fund. This is at odds with the Governor's budget and its proposal to issue Articles XI-M and XI-N bonds. There is also an issue of whether the Seismic Program itself will have in place the framework to receive, distribute, and account for bond proceeds, especially given what has been limited progress in hiring positions approved by the 2007 Legislature and in actually developing a framework and rules for the program.

## OMD – Community Support

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 990,653 | 1,126,310 | 1,800,905 | 1,175,754 |
| Other Funds | 4,748,022 | 2,034,774 | 2,447,268 | 2,212,666 |
| Federal Funds | 4,673,836 | 5,351,213 | 6,257,213 | 5,666,446 |
| **Total Funds** | **$10,412,511** | **$8,512,297** | **$10,505,386** | **$9,054,866** |
| Positions | 46 | 46 | 46 | 46 |
| FTE | 45.26 | 46.00 | 46.00 | 46.00 |

### Program Description

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

- ***Oregon Youth Challenge Program (OYCP)*** – Since 1994, the Oregon National Guard has operated the OYCP through a federal/state agreement with the National Guard Bureau. OYCP is Oregon's only statewide alternative high school and only public military school for at-risk students. It 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. The school is an accredited program. OYCP graduates approximately 234 students per year.
- ***Science and Technology Academy Reinforcing Basic Aviation and Space Exploration (STARBASE)*** – 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.
- ***Emergency Operations*** – In times of state emergency, the Governor can call upon the National Guard to provide personnel and equipment to assist agencies with the state's response to such emergencies. For example, the Governor has ordered the National Guard to assist the Oregon Department of Forestry and the State Fire Marshal's Office with their wildland fire suppression efforts. The Department's own Office of Emergency Management is the coordinating entity for state resources. The National Guard typically provides four types of assets with associated support personnel: (a) helicopters; (b) ground transportation including fuel trucks; (c) field support equipment such as generators; and (d) firefighting apparatus from Kingsley Field and the Portland Airbase fire stations for Conflagration Act fires. Soldiers and airmen called into active duty are paid a State Active Duty (SAD) rate, which is a uniform daily rate of pay based upon a soldier or airman's rank. National Guard equipment, as assets of the U.S. Department of Defense, are invoiced separately to the federal government. The Department's legislatively adopted budget does not contain Other Funds expenditure limitation for what it categorizes as Emergency Operation expenses since such expenses are unpredictable. Therefore, the Department has historically requested an increase in expenditure limitation from the Legislature or the Emergency Board for amounts it is unable to absorb within its normal operating budget and it has requested General Fund reimbursement of expenditures.

### Revenue Sources and Relationships

The Program is funded with a combination of General Fund (15%), Other Funds (28%), and Federal Funds (57%). The OYCP is 60% federally funded up to $3.5 million, requiring 40% state matching funds. The state's matching funds portion is comprised of two sources: (a) Average Daily Membership (ADM) revenue through the Bend-LaPine School District and received by the Department as Other Funds; and (b) General Fund.

The Other Funds ending balance for the OYCP is $36,497, which is of concern. It represents less than 2% of essential budget Other Funds expenditures for the Program. A typical ending balance reserve is three months of cash or $276,583 ($92,194 per month).

The STARBASE program is 100% federally funded through the National Guard Bureau. There is not an anticipated Federal Funds increase for the program beyond a 3.1% inflation adjustment. The revenue for Emergency Operations comes from the state agencies that the National Guard is supporting or the General Fund.

### Budget Environment

The budget environment centers around supporting at-risk youth and the Department's response to an emergency declaration by the Governor.

### Essential Budget Level

The essential budget level (EBL) for the program is $9.1 million, of which $1.2 million is General Fund, $2.2 million is Other Funds, and $5.7 million Federal Funds. The EBL total is $802,413, or 8.14%, less than the current biennium's legislatively approved budget (LAB) of $9.9 million. The EBL is $1.5 million, or 14%, less than the current biennium's Legislative Approved budget (LAB) of $10.5 million due to the elimination of one-time expenditures for the Department's emergency-related activities. The EBL also includes standard adjustments for personal service costs and inflation.

### Issues and Options

The unfortunate challenge related to the Community Support Program centers around the OYCP, where the entire Program's General Fund is located. The dilemma is that the OYCP, which has been repeatedly recognized by the National Guard Bureau as either the top, or one of the top, Youth Challenge Programs in the country, does not relate to the Department's core mission. Yet, the demand student placement in such a successful alternative high school may increase as a byproduct of a deteriorating economy.

The Community Support Program is budgeted the same at the EBL as the GRB and therefore does not include any Governor's proposed reductions. The Department proposes eliminating the Oregon Youth Challenge program as part of its 10% reduction options presented to the Legislature.

## OMD – Debt Service

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 891,645 | 2,060,991 | 2,060,991 | 5,533,055 |
| Other Funds | 109,074 | 593,468 | 593,468 | 106,885 |
| Other Funds (NL) | 649,012 | 0 | 0 | 0 |
| **Total Funds** | **$1,649,731** | **$2,654,459** | **$2,654,459** | **$5,639,940** |

### Program Description

The Debt Service Program provides the funding to make payments on principal, interest, and financing costs associated with the issuance of certificates of participation (COPs). COPs are tax exempt government securities. Prior to the 2007-09 biennia, the Department's debt service was budgeted under the Operations Program.

### Budget Environment

The Department relies, although not entirely, on the issuance of COPs to match National Guard Bureau Federal Funds when constructing, altering, or repairing National Guard installations. The percentage of state matching funds required varies by the type of installation. COPs provide financing for federally non-allowable project costs, which for example include the cost of real property. COPs also fund certain armory additions/alterations that are a 100% state responsibility.

The Department's Capital Construction Account, the revenue source of which comes from the sale of real surplus property, generally has an insufficient balance to meet matching fund requirements on major construction projects.

### Revenue Sources and Relationships

The Department's debt service is funded with a combination of General Fund (98%) and Other Funds (2%). For the 2009-11 biennium, only the Department's 2004-A COP issued for the Baker City Readiness Center is paid from Other Funds. The source of Other Funds is statewide facility rental income.

### Essential Budget Level

The essential budget level (EBL) for the program is $5.6 million, of which $5.5 million is General Fund and $0.1 million is Other Funds. The EBL total is $3 million, or 113%, more than the current biennium's legislatively approved budget (LAB) of $2.7 million. The EBL was adjusted to reflect current debt service payment schedules.

### Issues and Options

The Debt Service Program is the second largest General Fund program in the Department after the Operations Program. In other words, the Department spends more General Fund on Debt Service than either the Emergency Management, the Youth Challenge, or the Administration Programs.

The Governor's recommended budget (GRB) for the Debt Service Program totals $12 million, of which $11 million is General Fund and approximately $1 million is Other Funds. The GRB is $6.4 million more than the EBL, of which $5.4 million is General Fund. GRB Debt Service is comprised of the following policy enhancements, which correlate to policy package enhancements for Capital Construction and Seismic Rehabilitation bonding:

- Seismic Rehabilitation ($1.2 million General Fund and $459,100 Other Funds for cost of issuance)
- Emergency Preparedness ($1.9 million General Fund and $246,800 Other Funds for cost of issuance)
- The Dalles Readiness Center ($548,347 General Fund and $68,440 Other Funds for cost of issuance)
- Milton Freewater Armory ($450,617 General Fund and $62,000 Other Funds for cost of issuance)
- Salem USAR Reserve Center property purchase ($406,710 General Fund and $55,000 Other Funds for cost of issuance)
- Grants Pass Armory ($349,783 General Fund and $48,000 Other Funds for cost of issuance)
- Albany Armory ($257,987 General Fund and $37,936 Other Funds for cost of issuance)
- Hood River ($216,335 General Fund and $38,238 Other Funds for cost of issuance)

## OMD – Capital Improvement

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 0 | 1,412,951 | 1,412,951 | 1,452,513 |
| Federal Funds | 0 | 0 | 200,000 | 0 |
| **Total Funds** | **$0** | **$1,412,951** | **$1,612,951** | **$1,452,513** |

### Program Description

This program provides for capital improvements to existing facilities. Capital Improvement projects are those with a total cost of $500,000 or less. As discussed below, Major Construction projects total more then $500,000. The Department's Operations Program budget also includes funding for deferred maintenance/Capital Improvement. Maintenance/custodial positions in the Operations Program play a key role in facility maintenance.

### Revenue Sources and Relationships

The revenues associated with the Department's capital improvement projects are General Fund and some matching Federal Funds. As noted, however, the Operations Program also has expenditures for capital improvement, which are General, Other, and Federal Funds.

### Budget Environment

Capital improvement expenditures are used to address the Department's backlog of deferred maintenance, which is estimated at $110 million and is increasing at an estimated 5% per year. Capital improvement expenditures delay, where possible, installation replacement. This is critically important for certain installations, especially armories, whose replacement schedule is dependant upon the National Guard Bureau's Long-Range Construction Plan and Congressional funding of that plan.

### Essential Budget Level

The essential budget level (EBL) for the program is $1.5 million General Fund. The EBL total is $39,562, or 2.8%, more than the current biennium's legislatively approved budget (LAB) of $1.4 million. The EBL includes the standard adjustment for inflation.

### Issues and Options

The 2007 Legislature, recognizing the importance of deferred maintenance, provided a $1.4 million General Fund appropriation. The Department was then able to leverage these funds by acquiring federal matching funds for some of the projects. General Fund was provided, not on a one-time basis, but as an ongoing source of funding for the Department due to its significant backlog of deferred maintenance projects.

The Governor's recommended budget eliminates in its entirety funding for the Capital Improvement Program. What deferred maintenance funds remain within the Department would be located within the Operations Program. The elimination of the Capital Improvement/deferred maintenance budget is also a proposal that the Department submitted to the Legislature as part of its proposed 20% EBL General Fund reductions.

A major deferred maintenance bill providing certificate of participation funding for select agency projects is anticipated early in the 2009 session and may include some Department Capital Improvement projects that otherwise would have been funded with base budget General Fund.

## OMD – Major Construction

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 1,912,000 | 18,567,467 | 18,890,679 | 0 |
| Federal Funds | 7,885,000 | 55,677,683 | 57,336,683 | 0 |
| **Total Funds** | **$9,797,000** | **$74,245,150** | **$76,227,362** | **$0** |

### Program Description

This program provides for new construction, remodeling, or improvements to facilities to carry out the agency's mission. Oregon faces the loss of National Guard units to other states if the readiness of facilities is not adequately maintained. Since 1986, the Department has undertaken 41 major construction projects totaling over $203.5 million with a state/federal funding ratio of 8:1. Federal planning and design funds for other projects add an additional $15 million.

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

### Revenue Sources and Relationships

Federal Funds comprise the majority of construction funding. In general, Other Funds, and at times General Fund, are required matching funds for projects. Such state funds pay for certain costs ineligible for federal match (e.g., real property, local permitting, etc.). The sources of Other Funds are either certificates of participation and/or the Department's Capital Construction Account, which is discussed below.

Depending on the type of facility constructed, the federal government pays between 67% and 100% of the approved construction cost. By emphasizing construction of Armed Forces Reserve Centers (AFRC) wherever possible, the Department can access Federal Funds for approximately 97% of the design and construction costs, requiring 3% state matching funds. Site improvements and multi-purpose accommodations outside the federal guidelines are 100% state obligations. Where possible, the Department partners with other federal, state, or county agencies to co-locate functions. This reduces the Department's design and construction cost obligations, and reduces the long-term operations and maintenance burden of each agency. The Department is also cognizant of the need to build facilities with multi-purpose features that enhance a facility's rental income.

The Military Department Construction Account (CCA) is a statutory, interest-bearing account in which is deposited any proceeds from the sale of Military Department real property. The Department requires legislative approval to dispose of surplus property. Moneys in the CCA can only be used for Capital Construction expenditures on legislatively approved projects, which include: (a) paying for construction costs that are outside federal guidelines and that are a state obligation; (b) state matching requirements on federal Capital Construction funding; and (c) miscellaneous land acquisitions.

Revenue flowing into the CCA is variable, but somewhat predictable. Eventually, the Department anticipates revenues may come from the sale of the Ontario, Cottage Grove, Dallas, and Mason armories and property at the Newport Airport. Other revenue sources appear to be project management fees charged to the federal government and certificate of participation revenue transferred into the account. Some of the Department's real property originally donated by counties is on a reverter clause, which requires that the land revert back to the county if the Department determines it is no longer needed for military purposes.

The CCA's balance is approximately $1.1 million. According to the Department, over the course of the last 11 years, the CCA has had revenues of $13.8 million and expenditures of $13.3 million. Interest earnings have totaled $682,539 over this same period.

### Budget Environment

Of all the Department's programs, the Capital Construction program is the one most likely to be affected by shifting federal priorities. The Legislature is frequently requested to add projects or adjust limitation requirements for existing projects. Such changes may require additional state matching funds. The fluidity of the Department's capital projects as compared to other state agencies capital projects underscores the uniqueness of this state agency and the influence federal funding has over its budget. It also underscores the need for the Legislature to understand both the Department's short- and long-term Capital Construction priorities.

The agency plans to pursue all available Federal Funds for new facility design and construction and is looking to continue to partner with other state agencies to share services and reduce operational expenses. The agency has more than 20 projects identified in the National Guard Bureau Long-Range Construction Plan, with estimated project costs estimated at $729 million. Of that amount, the state would be required to pay $111 million, or 15%, of costs. Federal Funds for capital construction continue to be highly competitive among states.

### Essential Budget Level

Capital Construction is not budgeted at the essential budget level (EBL). Legislatively approved projects are only budgeted for the biennium in which they are approved, but are typically expended over a six year period. The Department's 2007-09 legislatively approved Capital Construction budget totals $76.2 million, of which $19 million is Other Funds and $57.3 million is Federal Funds.

### Issues and Options

There are many challenges facing the Capital Construction Program given the status of some of the Department's installations. The first is completing construction on current legislatively approved projects, some of which will require additional state and federal funding to complete, if such funding is available. The second challenge is acquiring state funding for any new projects, including any approved as part of the federal economic stimulus package. The Legislature may be placed in the unfortunate position of approving funding for new and ongoing construction projects, while at the same time being forced to shutter armories due to General Fund constraints on operating budgets. In order to make informed decisions, the Legislature needs from the Department a single, comprehensive, prioritized facility management/Capital Construction plan. The Newport Armory Addition/Alteration project has an unexpended balance of an estimated $1.4 million (plus associated General Fund Debt Service). This could be used as originally intended, used to fund other needed construction projects, or disappropriated.

The Governor's recommended budget (GRB) adds $44.5 million in new Major Construction projects, of which $30.7 million is Other Funds (certificates of participation) and $13.8 million is Federal Funds. The GRB does not include any proposed reductions to existing legislatively approved projects. The GRB Capital Construction Program is comprised of the following policy enhancements, which are supported by Debt Service under that Program:

- Emergency Preparedness ($14.2 million Other Funds)
- The Dalles Readiness Center ($4.1 million Other Funds)
- Milton-Freewater Armory ($3.4 million Other Funds)
- Salem USAR Reserve Center property purchase ($3 million Other Funds)
- Grants Pass Armory ($2.6 million Other Funds)
- Albany Armory ($1.9 million Other Funds)
- Hood River ($1.6 million Other Funds)

A major state deferred maintenance bill providing certificate of participation funding for select agency projects is anticipated early in the 2009 session and may include some Department Major Construction projects. However, these projects differ from those included in the GRB.

## Board of Parole and Post-Prison Supervision – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 3,450,872 | 3,683,312 | 3,980,132 | 4,138,063 |
| Other Funds | 5,624 | 9,812 | 16,539 | 10,048 |
| **Total Funds** | **$3,456,496** | **$3,693,124** | **$3,996,671** | **$4,148,111** |
| Positions | 15 | 15 | 15 | 15 |
| FTE | 15.00 | 15.00 | 15.00 | 15.00 |

### Agency Overview

The three member Board of Parole and Post-Prison Supervision (BPPPS) is responsible for setting parole release dates for offenders who committed crimes prior to November 1, 1989; approving release plans and establishing conditions of community supervision for all offenders; setting release dates for dangerous offenders; conducting administrative reviews of offender appeals; administering parole revocation hearings; issuing arrest warrants and order sanctions for parole/post-prison violators; and notifying victims of hearings and releases.

### Revenue Sources and Relationships

The Board is supported almost entirely by General Fund. Other Funds revenue is generated from the sale of documents and hearing tapes to the public and to offenders, as well as court ordered costs payable to the Board.

### Budget Environment

The following factors have dramatically altered and/or changed the Board's role and workload in recent years: the implementation of sentencing guidelines in 1989; the passage of SB 1145 in 1995; increases in inmate and offender populations; increases in, and results of, inmate and offender judicial appeals; increases in victim participation in post-sentencing matters; and biennial statutory changes. The agency's focus is shifting from determining when inmates are released from prison to approving release plans, imposing conditions of community supervision, and determining the appropriateness of remaining in the community if a violation of condition occurs. Board members are now spending more time addressing victims and district attorney and community concerns about the release of inmates.

### Essential Budget Level

The essential budget level for the BPPPS is $168,535 total funds (4.2%) more than the 2007-09 legislatively approved budget as of December 2008. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The 2007-09 legislatively approved expenditure level includes $286,452 total funds ($279,725 General Fund and $6,727 Other Funds) in special session and Emergency Board actions during Fiscal Year 2008.

### Issues and Options

In its 2009-11 agency request budget, the BPPPS asked for more resources and staffing to adequately fund Attorney General and Professional Services costs, the addition of a fourth Board member, the reclassification of two positions, the establishment of a Paralegal/Hearings Officer position, and making Board members eligible for PERS police and fire status. The cost for these improvements would be $638,414 total funds and two positions (2.00 FTE).

The Governor's recommended budget funds the agency above its calculated essential budget level and includes a portion of one of the agency request enhancements. The Governor's recommended budget adds $147,273 General Fund and one permanent Paralegal/Hearings Officer (0.67 full-time equivalent) position to the BPPPS.

General Fund reduction options focus solely on staffing. The first 10% reduction option would reduce one 1.00 (full-time equivalent) Systems Analyst position to 0.50 FTE, eliminate one Systems Analyst position, and reduce support staff by 1.00 full-time equivalent. The total reduction would be $290,340 General Fund.

## Department of State Police (OSP) – Agency Totals

| | 2005-07 Actual* | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 177,443,107 | 217,762.143 | 224,709,275 | 266,694,456 |
| Lottery Funds | 6,364,954 | 6,926,708 | 7,150,132 | 7,596,103 |
| Other Funds | 143,800,393 | 83,823,273 | 162,941,154 | 85,311,266 |
| Federal Funds | 110,752,832 | 19,327,201 | 25,741,644 | 13,310,911 |
| Other Funds (NL) | 5,814,110 | 0 | 0 | 0 |
| Federal Funds (NL) | 36,809,520 | 0 | 0 | 0 |
| **Total Funds** | **$480,984,916** | **$327,839,325** | **$420,542,205** | **$372,912,736** |
| Positions | 1,174 | 1,294 | 1,333 | 1,325 |
| FTE | 1,159.36 | 1,227.60 | 1,229.16 | 1,320.75 |

** The 2005-07 Actual numbers include those budget units and programs that have been transferred to other agencies by the 2007 Legislature, including the Emergency Management Office and the Criminal Justice Services Division. These transferred programs represent $2.5 million General Fund and $218 million total funds in the 2005-07 figures above.*

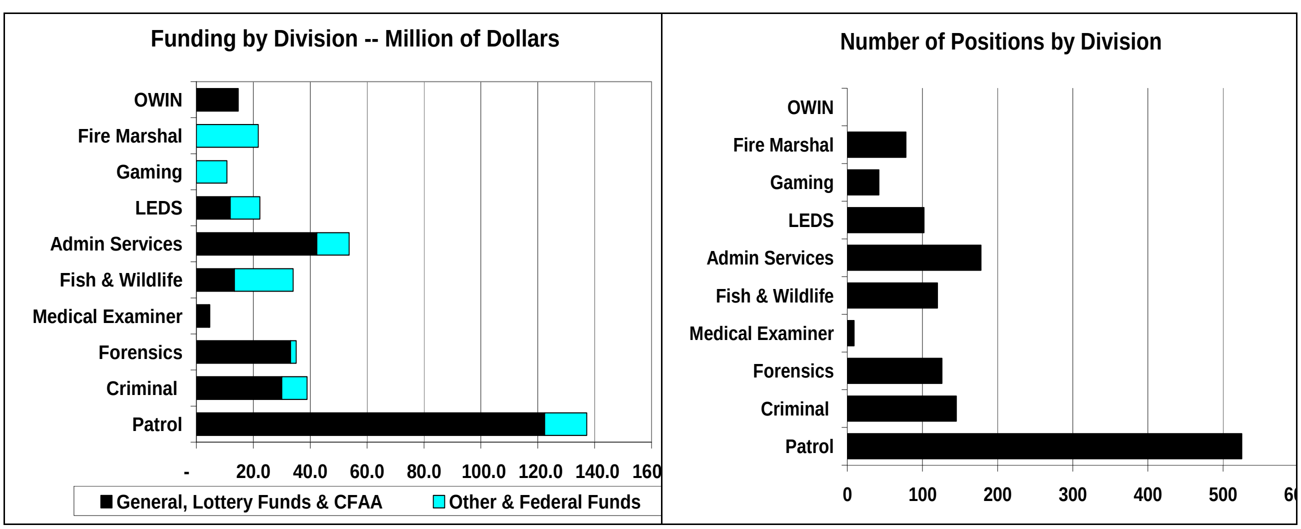
### Agency Overview

Historic functions of the Department of State Police (OSP) include patrol, criminal investigation, forensic lab services, State Medical Examiner, State Fire Marshal, emergency management, and fish and wildlife law enforcement. The Office of Emergency Management (OEM) and the homeland security grant programs of the Criminal Justice Services Division (CJSD) were transferred to the Military Department in 2007, and the remaining grant programs of CJSD to the Department of Justice (DOJ) and the Administrative Services Division of the State Police.

### Essential Budget Level

The essential budget level (EBL) for the State Police of $372.9 million total funds is 11.3% less than the 2007-09 legislatively approved budget. This decrease is explained by the $85.8 of OWIN capital construction which is included in the legislatively approved budget. Without this OWIN capital construction, the 2009-11 EBL is 11.4% greater than the 2007-09 legislatively approved budget. The combined General Fund and Lottery Funds 2009-11 EBL is 18.3% larger than that for the 2007-09 legislatively approved budget. This growth is due to a combination of factors including the: (a) roll-up costs of the new trooper (139 positions), forensics (15), criminal detectives (8), training (4), and administrative infrastructure (35) positions; (b) employee compensation costs approved during the 2007-09 biennium; and (c) inflation including additional adjustments for ammunition and fuel. The only OWIN related costs in the EBL are $14.7 million General Fund for debt service costs. All other OWIN spending and positions are classified as limited duration and must be added in policy packages to be included in the 2009-11 budget. The EBL by division is shown below.

**2009-11 Essential Budget Level**



### Issues and Options

The 2007 Legislature restored a number of the positions across the agency that had been eliminated during the 2001-03 budget crisis. They not only included the 139 new trooper positions for the Patrol Division, detectives, and forensic scientists; but 35 positions that support the operations of the agency including financial related staff, dispatchers, evidence technicians, information systems staff, and vehicle maintenance personnel. Even with these additions, the agency does not have the administrative infrastructure of other agencies of this size.

The agency continues reorganizing efforts it begun two biennia ago. For 2009-11, the information systems staff responsible for maintenance of the desktop and central hardware as well as the systems development staff was transferred from the Information Management Division to the Administrative Services Division. Also transferred were the staff and funding responsible for the maintenance of the agency's existing wireless system and equipment. Finally the former Information Management Division is renamed the Law Enforcement Information Division. The staff and programs remaining in this Division include the Identification Services Section and the Criminal Justice Information Systems program.

For the past two biennia, the agency has left trooper positions vacant in the Criminal and Fish and Wildlife Divisions to fully fill trooper positions in the Patrol Division. In 2007-09, this practice continued, but in large part to ensure there were sufficient coaching staff for the new troopers and to better match the Department of Public Safety Standards and Training's (DPSST) schedule for the basic law enforcement recruit school.

The 2009-11 Governor's budget for the State Police of $615.3 million total funds is 65% greater than the total funds EBL, but most of that increase is due to the proposed $240.5 million in capital construction spending for OWIN. Without this OWIN budget (capital construction), the Governor's total funds budget is only $1.9 million more than the EBL. The Governor's General Fund budget for the same period of $277.3 million is $10.6 million more than the EBL. OWIN again is responsible for the increase since its General Fund budget is $16.2 million greater than EBL. Without the new OWIN spending, the Governor's General Fund budget is $5.6 million less than the EBL for 2009-11. Major reasons for this decrease include:

- Existing positions in the Criminal and Forensics Divisions are underfunded by a total of $3.1 million General Fund. This means that existing positions in these divisions will have to be left vacant to meet their budgeted amounts.
- Approximately $1.1 million General Fund of Services and Supplies funding for Forensics is eliminated which will limit the amount of lab supplies, outside contracts and replacement equipment that can be purchased.
- Three General Fund sworn positions are eliminated in the Fish and Wildlife Division as well as five sworn positions funded with Lottery Funds. These reductions are offset in part by four new trooper positions funded with revenues from the Oregon Department of Fish and Wildlife and the Department of State Parks and Recreation (ATV related fees).

These General Fund reductions will make it harder to rebalance the budget during the 2009-11 biennium. Savings from vacant positions in the Criminal and Forensics Division, as well as Services and Supplies savings in Forensics, have generally been used to offset the overspending in Patrol and Administrative Services.

## OSP – Patrol Services

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 79,757,887 | 96,769,654 | 101,881,574 | 122,416,270 |
| Other Funds | 10,792,036 | 14,751,762 | 15,156,674 | 14,475,588 |
| Federal Funds | 104,980 | 330,853 | 330,853 | 340,694 |
| **Total Funds** | **$90,654,903** | **$111,852,269** | **$117,369,101** | **$137,232,552** |
| Positions | 381 | 486 | 525 | 525 |
| FTE | 372.36 | 432.60 | 434.16 | 523.00 |

### Program Description

The Patrol Services Division provides uniformed police presence and law enforcement services throughout the state with primary responsibility for traffic safety and response to emergency calls on Oregon's state highways and interstates. Services include enforcement of the Motor Vehicle Code, Motor Carrier Regulations, Criminal Code, and assistance to local public safety agencies and the public. Past Legislatures have approved transfers to this Division of the field command and support staff which better reflects the reporting structure within the agency as well as the Capitol Mall Security unit and the Dignitary Protection.

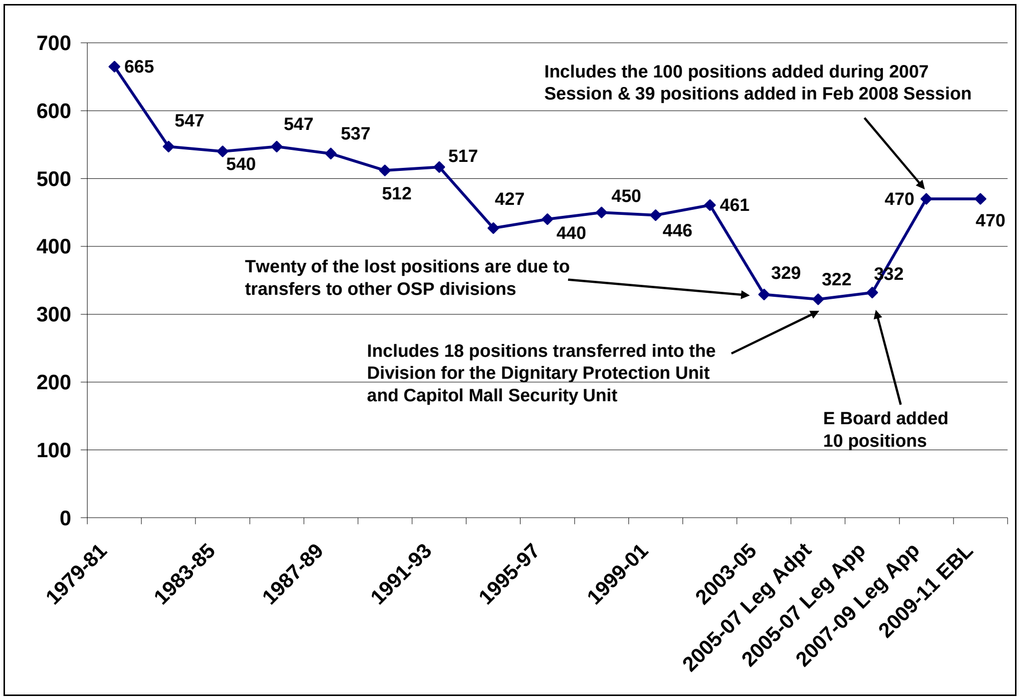
### Revenue Sources and Relationships

Other Funds revenues are received from the Department of Transportation for a variety of purposes (totaling $6.2 million) including traffic safety patrols in highway construction zones, commercial truck inspections, snow-park enforcement, and DMV vehicle identification (VIN) inspections. Additional Other Funds sources include Oregon State University for campus security ($2.3 million), and the Parks and Recreation Department, including the State Fair ($655,765). Also included in the Other Funds for this Division is the Capitol Mall Security unit ($3.4 million) which is funded by the Legislative Administration Committee and the Department of Administrative Services. Federal funding for this Division includes a grant for protective vests, and funding from the Army Corp of Engineers and the Forest Service.

### 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 troopers in the Patrol Division has decreased from 665 in 1980 to 322 by 2005-07, or over 50% (see chart below). By the end of 2007-09, the number is expected to grow to 470. The amount of the troopers available on the road is actually less than these figures since this number includes the troopers assigned to Dignitary Protection (5 positions), Oregon State University security (9 positions), and Capitol Mall Security (12 positions); and does not account for vacancies and temporary assignments as well as officers (e.g., captains) who have a limited presence on the road. Prior to 2001-03, this reduction was due, in part, to the need to shift staff to address increases in criminal activity (violent crime, juvenile crime, drug activity, crimes against children) and increased competition for limited General Fund resources. Since 2001-03, the decrease is due to state budget shortfalls and the need to fill other crucial holes in the State Police budget. With the addition of 139 trooper positions in 2007-09, there will be limited 24-hour coverage on state highways and interstates.

**Patrol Division Sworn Full-Time Positions**




*These positions include all sworn employees in the Patrol Division including officers and Troopers as well as those assigned to the OSU office, Dignitary Protection Unit, and Capitol Mall Security in later years.*

Troopers are generally assigned for patrol only on major interstates and state highways (e.g., I-5). A major accident or storm can leave even these areas with no coverage. The additional 139 troopers for 2007-09 will provide limited 24 hour coverage for many areas of the state. Full 24/7 coverage is difficult to define and is somewhat subjective. In addition, there may be situations in more sparsely populated areas of the state where it is more cost effective to have a trooper on call rather than "on duty." The agency views the importance of the number of troopers on the highway not only for driving safety issues to enforce traffic and DUII laws, but also as a deterrent and enforcement for other crimes such as drug-related crimes. Significant quantities of methamphetamine and other drugs have been found during traffic stops.

In a 2008 survey of other states, OSP found that Oregon had moved up in coverage as measured by "troopers per 100,000 of population." Oregon had ranked last in the number of "line" troopers per capita working full-time patrolling highways (does not include supervisors or troopers assigned for other duties like dignitary protection) in a 2006 survey when it had 6.98 troopers per 100,000 of population. That ranking has increased to 9.85 troopers per 100,000 in Oregon with the remaining states ranging from 5.66 (Wisconsin) to over 77 (Delaware). The rate for surrounding states included Washington (10.59), Idaho (9.67), Nevada (15.24) and California (21.03). One must be careful in using these comparisons since the number of local police and sheriff deputies vary significantly across the states; and this is not necessarily a measure of total law enforcement officers per capita, but of state troopers.

### Essential Budget Level

The 2009-11 essential budget level (EBL) for the Patrol Division of $137.2 million total funds is over 16% greater than the 2007-09 legislatively approved budget. For the same period, the General Fund budget increases $20.5 million, or 20.1%. Much of this increase is due to the roll-up costs of the 139 new troopers added during 2007-09. These roll-up costs ($28.4 million) are substantial since many of these new positions started later in the biennium. In addition, support positions were also added during the 2007-09 biennium. Other factors leading to this increase include extra-ordinary inflation granted for fuel costs. The EBL assumes a price of gasoline at $3.15 per gallon, significantly higher than the current price. The cost or savings from a ten cent change in the price of gas means a $140,000 change in budget need ($200,000 agency wide).

### Issues and Options

The 2009-11 Governor's budget for the Patrol Division of $137.2 million total funds and $122.4 million General Fund is at the EBL. There are an additional 50 positions (23.28 FTE) in the Governor's budget but without any funding attached. Apparently these positions were mistakenly left in when a proposed policy package in the agency request budget to add 50 new positions (46 sworn troopers and sergeants) was removed as part of the Governor's phase of the budget process.

To maintain the funding for all of the 139 trooper positions added during the 2007-09 biennium and stay within the budget constraints, the Governor's budget underfunded existing positions in the Criminal and Forensics Division. Since the agency has not formally hired all of the 139 new troopers, including the 39 that are budgeted to be hired in June of 2009, the Legislature will have time to reassess this decision in the Governor's budget.

Options to reduce General Fund resources in this budget without affecting the number of troopers on the road are limited. Reductions of non-sworn staff (evidence technicians, support staff) will result in sworn troopers performing those functions instead of patrolling the roads. Other funding sources beyond the General Fund have been explored in the past including increases in the beer and wine tax, insurance premium surcharge, Lottery Funds, and gas tax (requires Constitutional amendment). Other options include eliminating the patrol airplane program which results in limited savings and decreases the agency's flexibility in enforcing speed limits; and eliminating the SWAT and Mobile Response Teams ($2.2 million General Fund) which most counties and local jurisdictions rely on in emergency and critical situations.

## OSP – Criminal Investigation

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 24,255,865 | 29,304,994 | 28,016,765 | 32,116,419 |
| Other Funds | 4,328,651 | 5,220,467 | 5,363,780 | 5,680,052 |
| Federal Funds | 6,197,818 | 5,665,667 | 5,665,667 | 1,054,767 |
| **Total Funds** | **$34,782,334** | **$40,191,128** | **$39,046,212** | **$38,851,238** |
| Positions | 140 | 145 | 145 | 145 |
| FTE | 140.00 | 142.72 | 142.72 | 145.00 |

### 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. Many of the crimes investigated by OSP are intrastate and multi-jurisdictional. Specialized areas or units include arson/explosives, drug investigations, intelligence, missing children clearinghouse, sex offender registration, sexually exploited children, tobacco tax compliance, polygraph examinations, computer crimes, homicide incident tracking system (HITS), and crimes in state correctional institutions. Before the budget reductions made in 2001-03, 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. Their participation now is much more limited.

### Revenue Sources and Relationships

The Division is expected to receive $6.2 million in Other Funds or Federal Funds revenue. Major sources of this revenue include:

- sex offender registration fees ($423,582 Other Funds);
- arson/bomb investigation funding ($3 million Other Funds) from the State Fire Marshal in Fire Insurance Premium Tax revenue;
- drug enforcement funding of $1.4 million Federal Funds from the federal government; and
- resources transferred from the Department of Human Services ($170,000 Other Funds) to prevent tobacco use by minors.

### Budget Environment

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, OSP sometimes is the primary resource available to assist local jurisdictions with investigation of major crimes.

The number of investigators or detectives in this division has been fluctuating during the past decade. The 2005-07 budget added 8 further sworn positions specifically dedicated to addressing methamphetamine related crime. These positions have been focused on chemical diversion, methamphetamine labs, and mid-to-upper level methamphetamine-related investigations. The 2007-09 budget added four positions for major crime and drug investigations allowing the agency to increase its presence in drug-related investigations in Central Oregon and the Coast. The ability to conduct an increased number of investigations as well as larger and more sophisticated investigations is enhanced by OSP participation on these drug teams. The 2007-09 budget also included three new detectives to focus on fraud and identity theft crimes. The agency asserts that the workload and the complexity of investigations have generally increased in all areas of the division, including drug enforcement, major/violent crimes, sex abuse crimes, polygraph and public official corruption cases. The demand on detective resources to conduct investigations at state institutions continues to grow with more than 25% of the caseload at the Salem office being generated by state institutions, including the Oregon State Hospital and correctional facilities.

### Essential Budget Level

The 2009-11 essential budget level (EBL) for the Criminal Division of $38.9 million total funds is slightly less than the 2007-09 legislatively approved budget. For the same period, the General Fund budget of $32.1 million increases $4.1 million, or 14.6%. Much of this increase is due to the roll-up costs of the 8 new detective positions added during 2007-09. The EBL reflects the decrease in federal funds due to the transfer of the High Intensity Drug Trafficking Area (HIDTA) program to the Department of Justice.

### Issues and Options

The 2009-11 Governor's budget of $35.6 million total funds is $3.3 million (-8.5%) less than the 2009-11 EBL while the General Fund budget of $30 million proposed by the Governor is $2.1 million (6.5%) less than EBL. The major reduction for the General Fund is the over $1.9 million under funding of existing positions in the budget. The agency estimates that it will have to hold 12 to 13 positions vacant for the entire biennium to meet the reduction in funding for Personnel Services and will likely reduce the staff resources for major crimes, child abuse investigations, and sex offender registration activities.

Since the agency has relied on vacancy and other savings in this division to backfill overspending in the Patrol and Administrative Services Divisions in the past, the agency's flexibility in 2009-11 will be greatly reduced. In addition, the Governor's budget reduces the Services and Supplies budget by over $168,000. Having to hold this number of positions vacant will affect OSP's ability to assist local law enforcement agencies across the state in investigating major and violent crimes. It will also likely affect OSP's participation in local drug investigations and drug teams.

The other major reduction is the termination of the OSP activities with the Tobacco Tax Compliance task force which was established by the 2001 Legislature to address noncompliance in the state's cigarette and other tobacco products tax programs. The task force included staff from OSP, the Department of Justice (DOJ), and the Department of Revenue. The Governor's budget eliminates the five positions in OSP as well as the positions at DOJ. Savings for OSP represent $1.2 million Other Funds which can be deposited in the General Fund. The impact of discontinuing the task force efforts on tobacco tax revenues is unknown at this time, but tax compliance rates during the task force's existence had increased. The number of referrals coming forward has been decreasing.

Further General Fund reductions would likely be in the same areas as the impact of the Governor's underfunding of existing positions – investigations of major crimes and sex offender registration. One other alternative would be to shift the remaining General Fund financing ($944,489) of the arson and bomb investigations to the Fire Insurance Premium Tax (FIPT). A careful look at the estimated FIPT revenues would be required before this action since these revenues are increasing less than estimated a few months ago.

## OSP – Forensic Services and Medical Examiners

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 27,290,300 | 34,165,301 | 33,032,463 | 37,487,183 |
| Other Funds | 1,783,865 | 303,410 | 468,859 | 336,315 |
| Federal Funds | 1,184,071 | 1,859,829 | 2,216,796 | 1,910,571 |
| **Total Funds** | **$30,258,236** | **$36,328,540** | **$35,718,118** | **$39,734,069** |
| Positions | 117 | 135 | 135 | 135 |
| FTE | 116.25 | 131.45 | 131.45 | 135.00 |

### Program Description

The Forensics Services Division provides scientific, technical, and investigative support to all criminal justice agencies across the state through forensic analysis. Forensic labs are located in Bend, Central Point, Ontario, Pendleton, Clackamas, and Springfield. A DNA Unit is also located in the Clackamas lab. This system is the only "full service" crime lab in the state, and at least 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 Clackamas 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.

**2009-11 Essential Budget Level**

| Program Area | General Fund | Other Funds | Federal Funds | Total | Positions | FTE |
|---|---|---|---|---|---|---|
| Forensic Services | $33,072,707 | $87,305 | $1,910,571 | $35,070,583 | 126 | 126.00 |
| Medical Examiner's Office | $4,414,476 | $249,010 | $0 | $4,663,486 | 9 | 9.00 |

### Revenue Sources and Relationships

The forensics labs do not charge for services and have been funded with General Fund resources. The Other Funds revenues are from miscellaneous sales of equipment, photographic requests, witness fees, and donations from citizens to support the Convicted Offender Program (DNA testing). For 2005-07, $1.6 million Other Funds revenues represented COP proceeds to purchase new intoxilizers to replace an aging and out-of-date existing stock. Federal Funds are grants from the National Institute of Justice, generally for the purchase of equipment, supplies, and DNA test kits. Other Funds revenue for the Medical Examiner includes payments for building support in the three metro area counties and autopsy reports.

### Budget Environment

The State Police crime lab system is the only comprehensive lab in the state and the entire public safety system depends on it for timely investigation of evidence. Forensics backlogs or turnaround times have increased from about 23 days in October of 2001 to a peak of over 50 days in July 2005. Since that time various measures have been taken to alleviate this situation, including:

- prioritization and triage guidelines placed in effect for the labs,
- new legislation allowing field test kit results for drugs in preliminary hearings when the charge is possession of controlled substance, and
- additional staff resources added during 2007-09.

As a result, turnaround times have fallen – in 2007 it was 49 days and the preliminary values for 2008 (as of September) are just under 40 days.

Because there have been delays, an estimated 30% of potential casework is not even received by the division so it is not part of the backlog numbers. The requests for DNA testing have increased and continue to grow, in part due to the continuing increase in DNA requests for property crimes. The additional staff added to the labs has helped address this increase in requests.

Several environmental factors contribute to the 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. The addition of the new lab system positions in 2007-09 will likely increase the number of requests for services as local law enforcement agencies see faster turn-around in their requests.

The workload for the Medical Examiner's Office continues to increase due to continuing growth in Oregon's population. Medical Examiner cases remain a consistent 12% of all deaths that occur. The 2007-09 budget transferred toxicology testing from Oregon Health and Science University (OHSU) to the Forensics Division to save funding and to increase the capabilities of the Forensic Division to do toxicology testing.

### Essential Budget Level

The combined 2009-11 essential budget level (EBL) for the Forensics Division and the Medical Examiners Office of $39.7 million total funds is 5.6% greater than the 2007-09 legislatively approved budget. For the General Fund, the EBL of $37.5 represents a 13.5% increase over the same period. The EBL does factor out the one-time increase in 2007-09 of $1.1 million General Fund to catch up on the DNA backlog. The Division actually only used half of this amount to catch up, with the remainder being used to fill gaps in funding in other OSP divisions in the December 2008 rebalance plan for 2007-09. Increases in the EBL are generally due to the roll-up costs of the 15 new positions for the Forensics Division, increases in employee compensation approved during 2007-09, and inflation.

### Issues and Options

The Forensics Division operates labs in Clackamas, Springfield, Central Point, Bend, Pendleton and Ontario. It is not entirely clear if operating all of these labs is economical. With the ability to ship samples across the state overnight or within a day or two, the smaller labs may not meet a strict cost-benefit analysis. Often political and regional considerations drive the decisions on keeping a lab open. The Forensics Division had planned to open a new lab in Bend during the 2007-09 biennium, but the building plans have yet to completely determined. At this time it will likely be the summer of 2010 before a new building will be available. The long-term plan for the Medical Examiner's Office also had included opening an office at that location, but that has been put on hold at this time.

The combined Governor's 2009-11 budget for these two units of $37.6 million total funds is $2.2 million (5.5%) less than the EBL. For the General Fund budget, the Governor's budget of $35.2 million is $2.3 million, or 6.2%, less than the EBL. The budget for the Medical Examiner's Office is at the EBL. As with the Criminal Division, the Governor's budget has under-funded existing positions in the Forensics Division by $1.2 million. This means that seven or eight positions will have to be held vacant for the entire biennium to meet the budget level, representing half of the positions added by the Legislature for 2007-09. This action would likely affect the newly created computer/digital evidence program which has proved useful in a variety of crime analysis including homicide, child pornography, and property crimes. Other areas affected likely would include chemistry and toxicology which supports drug analysis and urine analysis for DUII and drug testing. The Governor's budget also includes a $1.1 million reduction in the Forensic Division's Services and Supplies budget which will require delays in replacement of older scientific instruments and supplies used in various lab testing including DNA testing.

Since the Forensics Division has contributed both vacancy and Services and Supplies savings to fill gaps in the budgets of other OSP divisions in the past, this underfunding in the Governor's budget will only decrease the flexibility of the agency to internally balance their entire budget if expenditures in divisions like Patrol and Administrative Services are over budget like they are in 2007-09.

During the 2007 legislative session, there was discussion that the 15 positions added for the Forensics Division for 2007-09 was only the first step in getting the staff back to levels that it was at before the 2001-03 fiscal crisis. The Governor's budget does not include any further positions, and because of underfunding the existing positions, actually moves in the opposite direction.

Options for further reductions in these divisions include:

- closing labs and consolidating operations at the remaining labs; the agency has identified the Ontario and Central Point labs as options for closing;
- discontinuing the pass-through payments to counties made by the Medical Examiner; and
- eliminating all or a portion of the ballistics, property crimes, and computer crimes units in the Forensics Division.

## OSP – Fish and Wildlife

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 4,694,453 | 5,164,024 | 5,806,216 | 5,803,693 |
| Lottery Funds | 6,364,954 | 6,926,708 | 7,150,132 | 7,596,103 |
| Other Funds | 15,882,532 | 17,377,779 | 18,003,016 | 19,204,574 |
| Federal Funds | 981,288 | 1,448,966 | 1,465,774 | 1,353,386 |
| **Total Funds** | **$27,923,227** | **$30,917,477** | **$32,425,138** | **$33,957,756** |
| Positions | 122 | 122 | 122 | 120 |
| FTE | 121.58 | 122.00 | 122.00 | 120.00 |

### Program Description

The primary mission of Fish and Wildlife Division is to assure compliance with laws that protect and enhance the long-term health and equitable utilization of fish and wildlife resources. The officers assigned to this Division 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 Division also plays a crucial role in enforcing the requirements under the Oregon Plan in protecting fish habitat and stream bed enhancement. Lottery Funds (Measure 66) are specifically dedicated for this purpose.

### Revenue Sources and Relationships

This Division receives its primary funding from the Oregon Department of Fish and Wildlife ($17.3 million Other Funds) based on fish and game license fees. Historically, over 28% of these revenues have been provided to the State Police for enforcement but its share has fallen to less than 19% for 2007-09. Other major funding includes;

- Ballot Measure 66 Lottery Funds for enforcement of the Oregon Plan ($6 million Lottery Funds),
- Marine Board resources ($1.6 million Other Funds) for enforcement of boating laws,
- Parks and Recreation Department funds for activities on the Deschutes River ($159,316 Other Funds),
- Department of Environmental Quality payments ($230,000 Other Funds) for environmental investigations, and
- revenue from a fee for shellfish-related enforcement ($475,096 Other 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 approximately 46% in 2007-09. In the meantime, the amount of biennial ODFW license and tag revenue has increased by roughly 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 perform basic law enforcement activities beyond their generally assigned responsibilities. They are available to Patrol and other divisions to support their functions. This is a primary reason there has been 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 this funding is reduced, the availability of this staff to perform these other functions would be reduced.

### Essential Budget Level

The 2009-11 essential budget level (EBL) for this division of $34 million total funds represents a 4.9% increase over the 2007-09 legislatively approved budget. The combine General Fund and Lottery Funds EBL budget of $13.4 million is 3.4% greater over the same period. The increases are due primarily to increased employee compensation approved during 2007-09 and inflation including exceptional inflation granted for fuel costs.

### Issues and Options

The amount transferred from ODFW within a biennium has often not kept pace with increasing costs. The 2007-09 rebalance plan approved by the Emergency Board in December 2008 included General Fund resources to backfill almost $490,000 in costs due to employee compensation and fuel costs.

The 2009-11 Governor's budget for this division of $33.4 million total funds is $524,000 or 1.5% less than the EBL. The General Fund budget of $5.2 million is $582,000 or 10% less than EBL while the Lottery Funds budget is $1.4 million, or 18%, less than EBL. These General Fund and Lottery Fund reductions include the elimination of 8 positions. If these reductions are part of the 2009-11 legislatively adopted budget, the agency will look at eliminating General Fund positions in Fossil/Condon, Astoria, and Pendleton; and Lottery Funds (Oregon Plan) positions located in Central Point, Springfield, Portland, Roseburg, and Salem. Additional vacancies in Lottery Funds positions may have to be kept to balance to available revenues in 2009-11. Combined, this may mean that

54% of the trooper hours dedicated to the Oregon Plan will be eliminated when compared to 2007-09. In addition, the commercial fish program will likely be reduced by 17%.

The Governor's budget does add a total of five positions to this division's budget partially offsetting the reductions outlined above:

- Continuing two limited duration positions (not included in EBL) funded through the National Oceanic and Atmospheric Administration for research and to track trooper time on federally funded enforcement activities;
- Creating two new positions funded with revenues from ODFW located in Central Oregon; these two positions are dependent on approval in increases in fees for fishing and hunting; and
- Establishing two new positions funded through revenue generated from fees on All-terrain Vehicles (ATVs) to enforce related regulations.

The ATV related work will be done by all Fish and Wildlife, but will equal the equivalent of two positions. This allows for the replacement of the lost positions in Fossil/Condon and Astoria who will continue to perform all Fish and Wildlife enforcement activities.

Funding is also included in the Governor's budget to purchase three 35 foot rigid hull boats to enforce regulations off the Coast. These will be located in Astoria, Newport, and Coos Bay. At one time the agency had planned to buy a larger ocean-going vessel (estimated cost of $1.5 million), but the agency now plans to purchase these three smaller boats.

## OSP – Administrative Services

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 30,963,241 | 38,324,311 | 42,623,761 | 42,277,521 |
| Other Funds | 3,654,040 | 3,309,363 | 3,383,623 | 3,560,674 |
| Federal Funds | 121,892 | 7,575,208 | 7,615,876 | 7,829,465 |
| **Total Funds** | **$34,739,173** | **$49,208,882** | **$53,623,260** | **$53,667,660** |
| Positions | 145 | 177 | 177 | 178 |
| FTE | 143.99 | 173.23 | 173.23 | 177.00 |

### Program Description

The Administrative Services Division includes the Office of the Superintendent, financial services, fleet management, labor relations, dispatch, information systems, wireless communications, and other agency-wide support and staff. The Training unit of this division recruits, selects, and retains the sworn workforce.

### Revenue Sources and Relationships

General Fund supports the majority of the Administrative Services Division costs. Other Funds revenues include grant reimbursement and revenues from limited charges for services. Almost all of the Federal Funds for 2007-09 is the result of the transfer of the criminal justice grant programs that were previously administered in the Criminal Justice Services Division.

### Budget Environment

Training resources were substantially reduced during 2001-03 and 2003-05. The training budget at the beginning of the 2001-03 biennium was $4.4 million total funds and 17 positions. The 2005-07 budget had only four positions funded for training so it had to rely on other agency staff to augment these training resources. The 2007-09 budget added another four training staff; but, given the training and recruitment activities associated with adding 139 new troopers authorized by the 2007 and 2008 Legislatures, the unit continues to have to rely on other OSP staff. Without sufficient training resources, staff is challenged to keep pace with changes in the law as well as advances in the technology and science related to law enforcement. The Department of Public Safety Standards and Training (DPSST) requires completion of specified training hours for sworn staff to retain their certification. Since training positions have not been funded, OSP has had to use other staff to assist in the training. This takes resources away from direct law enforcement activities. Starting in

2007, OSP has used the 16-week DPSST basic law enforcement training instead of its own recruit school. It will augment the 16-week course with eight further weeks of additional training unique to OSP.

Over the past few biennia, OSP has faced significant reductions beyond troopers on the road and criminal detectives. The support functions of the agency have also been reduced, often at a rate greater than the core functions of the agency. These support functions include the financial services, payroll, personnel-related functions, fleet management, support staff in the field, training, and dispatch in this Division. They also include the communications support staff, information management system-related staff, and others in the Information Management Division. The 2005 and 2007 Legislatures added back positions to fill some of this gap, but not to the levels of pre-2001-03.

### Essential Budget Level

The 2009-11 essential budget level (EBL) for this division of $53.7 million total funds represents very little growth over the $53.6 million 2007-09 legislatively approved budget. The General Fund EBL of $42.3 million is less than a 1% increase over 2007-09. The relatively small change between the two biennia is due to over $1.3 million in phase-out of one-time 2007-09 costs and a reduction of debt service need. Offsetting this decrease are the roll-up costs of the new agency infrastructure positions added by the 2007 Legislature, increases in employee compensation approved in 2007-09, and inflation.

This EBL amount includes the transfer of the wireless communications and information systems programs from the Law Enforcement Data Division (formally the Information Management Division) to this division. This reorganization transferred 25 positions and $8.6 million General Fund which represents the agency's resources responsible for the design, acquisition, installation, maintenance, and repair of the statewide telecommunications and information management systems.

### Issues and Options

The Governor's 2009-11 budget of $45.8 million total funds is 14.6% below EBL while the General Fund budget proposed by the Governor is at the EBL. The reduction in total funds is due to the transfer of the administration of federal criminal justice grants from OSP to the Criminal Justice Commission. This transfer of $7.8 million Federal Funds and five positions proposes formalizing a decision made by the Governor during 2008. This completes the transfers of a number of grant programs started by the 2007 Legislature that had been previously administered by the former Criminal Justice Services Division. Transfers had already been made to the Department of Justice and the Oregon Military Department.

As noted above the agency has been building back its administrative infrastructure over the past few biennia after losing much of it during 2001-03. Based on the decisions made by the Governor in proposing this budget, he continues to fund the gains made since 2001-03 for this division and the Patrol Division while making General Fund reductions to other "program" divisions including Criminal, Fish and Wildlife, and Forensics.

General Fund resources pay for the vast majority of administrative costs of the agency. While Lottery revenues, transfers from the Department of Fish and Wildlife, revenues from gaming activities, and other non-General Fund sources makeup a significant portion of the operating revenues, they only make minor contributions to providing resources for administrative costs. Many agencies rely on formal or informal means of spreading these costs across all of their revenue sources, but OSP has not done that in the past. There have been discussions but they have not come to any significant changes. The General Fund's share of administrative costs would still have the largest share of any cost allocation plan since they represent over 70% of total expenditures under the EBL.

Potential reductions for this division would reduce the staff for dispatch, financial services, and other administrative infrastructure of the agencies. If other program related staff and functions were reduced, some of these reductions may be appropriate, but the agency still lacks the level of administrative structure many other larger state agencies currently have. Significant reductions in this area would mean program staff would start to take on basic administrative responsibilities taking them away from their assigned functions.

## OSP – Law Enforcement Information Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 7,951,203 | 11,000,712 | 9,923,525 | 11,859,344 |
| Other Funds | 7,540,240 | 9,308,386 | 9,687,034 | 10,156,499 |
| Federal Funds | 860,572 | 321,550 | 321,550 | 330,553 |
| **Total Funds** | **$16,352,015** | **$20,630,648** | **$19,932,109** | **$22,346,396** |
| Positions | 94 | 102 | 102 | 102 |
| FTE | 93.38 | 100.58 | 100.58 | 101.50 |

### Program Description

The newly named Law Enforcement Information Division replaces the former Information Management Division. Under this new name, the Division has two major responsibilities. First there is the Criminal Justice Information Section which maintains the Law Enforcement Data System (LEDS) which connects law enforcement, criminal justice agencies, and other authorized users to centrally maintained files including data relating to wanted and missing persons, sex offenders, drug manufacturers, stolen vehicles, concealed handgun licenses, criminal records, restraining orders, and offenders under parole or probation supervision. LEDS also operates the Oregon Uniform Crime Reporting Program, which collects, processes, and distributes Oregon crime and arrest statistics and provides Oregon data to the FBI for the national crime statistics program. The second major function is the Identification Services Section comprised of the Criminal History, Regulatory Compliance, Automated Fingerprint Identification System, and Firearms programs. Services relating to wireless communications and information systems development and support have been transferred to the Administrative Services Division.

### Revenue Sources and Relationships

The LEDS program receives Other Funds from charges to user agencies through terminal and other fees charged to agencies using the system ($800,000). Other major sources of Other Funds revenue is from fees for Identification Services including: open records checks of criminal histories and firearms checks ($4 million); employment and licensing background checks ($3.9 million); and concealed gun license checks ($212,209).

### Budget Environment

During the 2007-09 biennium, the Law Enforcement Data System (LEDS) Section restored positions lost during the budget shortfall of 2001-03. LEDS has now attained a minimal level of staffing required to meet the FBI's standards for accessing the National Crime Information Center (NCIC). The program had been at risk of being sanctioned for not meeting the federal standards but these restorations provided the resources to alleviate that action. One potential consequence of being sanctioned is the loss of access to National Crime Information Center (a valuable tool for law enforcement) and loss of federal grant funds.

The Identification Services Section (ISS) increased many of its fees for service in 2005 including those affecting other state agencies and non-profit employers. Firearms-related background checks did not see a fee increase. In doing so and in rebuilding staff resources, the Identification Services Section has remained within budget over the past biennium and regained the ability to provide acceptable turnaround times to customers for core services. The core function of maintaining the states criminal history repository is critical not only to the criminal justice community and law enforcement through positive fingerprint identification of reported arrestees, but to non-criminal justice users such as regulatory agencies making employment and licensing decisions, as well as the public. General Fund is used in this program to provide sufficient revenue to the central functions of the Section and to backfill those programs where fee revenue does not provide sufficient revenue (e.g. firearms).

### Essential Budget Level

The 2009-11 essential budget level (EBL) for this division of $22.3 million total funds represents a $2.4 million (12.1%) increase over the 2007-09 legislatively approved budget. The General Fund EBL of $11.9 million is a 19.5% increase over 2007-09. Most of these increases are attributed to the roll-up costs of the new agency infrastructure positions added by the 2007 Legislature, increases in employee compensation approved in 2007-09, and inflation.

The EBL reflects the transfer of the wireless and information systems related staff from this division to the Administrative Services Division. This reorganization transferred 25 positions and $8.6 million General Fund which represents the agency's resources responsible for the design, acquisition, installation, maintenance, and repair of the statewide telecommunications and information management systems.

### Issues and Options

The Governor's budget of $21.8 million total funds is $0.6 million, or 2.5%, less than the EBL. The proposed General Fund budget of $11.3 million is also $0.5 million less than EBL, but since the entire reduction is General Fund it represents a 4.6% cut. The proposed reduction of two positions in the Identification Services Section – a fingerprint technician and a support staff position – will have the direct impact to customers of affecting the timeliness of services. There is also a 5% reduction in the division's Services and Supplies ($346,706) which is primarily in the LEDS program, which may limit the quality auditing of the data. This is a concern of the federal government in the past.

The agency had proposed fee increases for the Identification Services Section as part of the agency request budget, but the Governor did not include them in his budget. The agency believes that a lack of a fee increase will not significantly affect the 2009-11 budget given the current cash balances, but will create cash flow issues beginning in 2011-13 without a fee increase or further General Fund backfill. Some of the fee increases are possible without legislative action but not all. The one fee area that was not increased in 2005 was related to firearms, and legislative approval would be required for those fees. Further information on this Section's program needs and cash flows will be available during the session for further review.

Options for further General Fund reductions would affect the Identification Services Sections by further delaying the processing of criminal identifications and background checks requested by a variety of service providers, gun owners, and law enforcement agencies. One option would be an increase in fees to offset the need for part of or all of the General Fund resources in the Section (over $5 million), but that would significantly increase fees paid by state agencies, non-profit groups and citizens. Reductions to the Criminal Justice Information Section would affect the quality of information provided to law enforcement agencies and make if difficult to track crimes that occur within the state.

## OSP – Gaming

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 72,012 | 0 | 300,819 | 0 |
| Other Funds | 7,793,070 | 9,674,801 | 10,142,933 | 10,678,922 |
| **Total Funds** | **$7,865,082** | **$9,674,801** | **$10,443,752** | **$10,678,922** |
| Positions | 42 | 43 | 43 | 42 |
| FTE | 42.00 | 42.88 | 42.88 | 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 Oregon State Athletic Commission (formally 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 the Lottery Security Section (LSS) services ($6 million). Native American Gaming Tribes fully fund the Tribal Gaming Section activities ($3.4 million). The Vendor Investigation Section is funded by both the Oregon Lottery and vendors who conduct business with Oregon's Gaming Tribes ($1 million). License fees and a gross receipts tax partially fund the Oregon Athletic Commission regulatory activities ($160,000). Seventy-five percent of any ending balance for the Oregon Athletic Commission are sent to the Children's Trust Fund. However, the Oregon Athletic Commission has not had an ending balance during the past few biennia.

### Budget Environment

The demand for investigative, oversight, and security services continues to grow due to new contracts and new lottery games and the increased complexity in technology. The Lottery Commission began with one game and now offers approximately 40 scratch-it games per year. Currently, the Department monitors 4,700 Lottery retailers and over 12,700 video lottery terminals located at over 2,300 retail video poker locations; conducts background checks on retail contractors, retail employees, and major vendors; and provides weekly oversight of megabucks, keno, and powerball. The number of background checks varies from year to year. For example, in 2000, OSP conducted 475 background checks on retailers and in 2008 there were over 1,600 checks performed.

Currently, there are nine tribal casinos operating 8,077 slot machines. This is an increase from only 2,600 machines in 1995. Some of the existing casinos are also considering expansions in their gaming centers. Another tribal government is in the process of getting approval to move their current casino in Central Oregon to a site closer to the Portland metro area in the Columbia Gorge. Also, the vendors who conduct business with both the Lottery and the Tribes are adding to their business models, often by purchasing subsidiary companies that operate in the area of complex gaming technology. This places an increased demand on the Vendor Investigative Section to stay current in new technologies and to have enough staff to provide the proper investigation and related updates of these companies. The agency has also changed their staffing, from relying less on sworn troopers to increasing the number of financial auditors.

### Essential Budget Level

The 2009-11 essential budget level (EBL) for this division of $10.7 million total funds represents a 2.3% increase over the 2007-09 legislatively approved budget. The EBL does not include any General Fund resources but the agency has had to add General Fund to the budget in the past two biennia to keep pace with expenditures of the Oregon State Athletic Commission. Increases to the EBL generally reflect employee compensation increases approved during 2007-09 and inflation. The EBL does eliminate one position.

### Issues and Options

The 2009-11 proposed Governor's budget of $10.7 million total funds is at the EBL level and includes no General Fund. As noted above, the agency has had to augment Oregon State Athletic Commission revenues with General Fund to keep pace with costs. The agency did request General Fund for the Commission in the agency request budget, but the Governor did not include it in his budget. As a result, the agency is considering implementing a moratorium on Commission events for one week per month so the Commission staff can keep up with the workload. Given the past financial issues with this program, the 2009 Legislature should review the role of the Commission and its funding.

## OSP – State Fire Marshal

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 0 | 0 | 49,928 | 0 |
| Other Funds | 20,000,443 | 19,637,707 | 20,495,637 | 21,218,642 |
| Federal Funds | 374,923 | 477,771 | 477,771 | 491,475 |
| **Total Funds** | **$20,375,366** | **$20,115,478** | **$21,023,336** | **$21,710,117** |
| Positions | 80 | 78 | 78 | 78 |
| FTE | 78.96 | 76.50 | 76.50 | 77.25 |

### Program Description

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

- ***Fire and Prevention Services*** which is responsible for fire prevention and investigation, emergency response including the Conflagration Act, administration of the Uniform Fire Code, a clearing house for fire prevention information, and collection of fire incident data. There are 18 Deputy Fire Marshals and supervising Deputy Fire Marshals who serve Oregon communities who choose to not provide their own full-service fire prevention programs.

- ***Licensing and Permit Services*** which, in coordination with Fire Prevention Services, regulates the storage and use of explosives, fireworks, and liquid petroleum. This unit also administers regulations governing non-retail fuel dispensing.
- ***Hazardous Materials Services*** 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. This unit is also responsible for equipping, training, and assisting the 14 Regional Hazmat Response Teams to ensure timely and complete mitigation of hazardous materials incidents. The section also manages the state's three Incident Management Teams and the Urban Search and Rescue Team.

### Revenue Sources and Relationships

The major Other Funds revenue source for the State Fire Marshal is the Fire Insurance Premium Tax (FIPT), which is assessed on insurance companies based on the premiums they collect for property casualty insurance. The current 2009-11 forecast shows available revenues from the FIPT at $17.8 million Other Funds plus approximately $5.2 million from a beginning balance. A portion of these FIPT funds are transferred to the Department of Public Safety Standards and Training and to the OSP Criminal Investigation Division, while the remainder is used as the major funding source for State Fire Marshal programs. The FIPT ending balance at the end of 2009-11 is presently estimated at approximately $3 million.

Other Funds revenue supporting the State Fire Marshal programs include non-retail fuel dispensing fees ($545,000) for card lock enforcement, hazardous substance user fees ($3.1 million) for the Community Right to Know program, and petroleum load fees ($3.6 million) for the Hazardous Response Teams. The remaining revenue is generated from licenses and permits (relating to liquefied petroleum gas, explosives, and fireworks) totaling $672,530, and from an interagency agreement with the Department of Human Services for fire and life safety inspections of Medicare and Medicaid funded facilities ($421,000). Federal Fund revenue is from Hazardous Materials Emergency Preparedness grants.

### Budget Environment

Based on information from 41 of the 50 states and the District of Columbia from a few years ago, funding sources for Fire Marshal programs vary significantly. Only six states, including Oregon, rely on a FIPT or similar source to fund all or almost all of their fire prevention programs. Two states rely totally on fees. Fifteen states, including California, Nevada, and Washington, rely on general funds as their primary funding source. The remaining states included in this information reported a mixture of funding involving an insurance tax like FIPT, fees, or general fund resources.

State Fire Marshal staff assists all but nine of the 323 fire agencies for prevention or inspections. The state has proportionately fewer staff per capita than local prevention programs. Based on 2008 data, there was one state staff for each 187,000 people in the areas the state covers, while the local agencies range from one to 13,426 in Portland to one to 53,500 in the Tualatin Valley Fire and Rescue service area. 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 43 in 2007. The number does vary from one year to another; for example, the number for 2005 was 28, but the long-term trend continues down.

### Essential Budget Level

The essential budget level (EBL) for the State Fire marshal of $21.7 million total funds is 3.3% greater than the 2007-09 legislatively approved budget. The change in the EBL is primarily due to increases in employee compensation approved in 2007-09, subtraction of one-time 2007-09 costs for equipment and information systems improvements, and inflation.

### Issues and Options

The most recent (December 2008) projections for the Fire Insurance Premium Tax (FIPT) – the major source of funding for the State Fire Marshal –– has fallen since its last projection in September of 2008 for both the 2007-09 biennium and the 2009-11 biennium. For the 2009-11 biennium, the total reduction is over $800,000 or about 5%. While there is not necessarily a problem yet, a review of the Spring 2009 projection should be viewed before approving any enhancements for the State Fire Marshal, the Department of Public Safety Standards and Training (DPSST), and the arson unit in the State Police's Criminal Division.

The Governor's 2009-11 budget of $21.8 million total funds is less than 1% greater than the EBL. The increase is for one limited duration position ($115,260 Other Funds/FIPT) to develop, publish, and distribute fire inspection training curricula for local fire agencies.

Costs incurred by local fire agencies after the Governor has invoked the Conflagration Act have been first reimbursed by OSP, who has then requested funds from the Emergency Board. Local fire agencies are reimbursed for their actual costs, including fuel, wages, and damages that occur during the "call-up." Generally, the federal government pays 75% of the costs of fires on federal lands, which represents the majority of wildfires, and the state pays the remaining 25%. In the past, the Emergency Board has allocated sufficient funding from the general purpose Emergency Fund for the state share, but in 2007 these costs ($738,385) were reimbursed using FIPT. Use of the FIPT for this purpose in future biennia should be based on factors including the availability of FIPT resources and the amount of reimbursable fire costs.

## OSP – Oregon Wireless Interoperability Network and Capital Construction

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 0 | 3,033,147 | 3,074,224 | 14,734,026 |
| Other Funds | 0 | 4,239,598 | 6,464,805 | 0 |
| Federal Funds | 0 | 1,647,357 | 81,422,150 | 0 |
| **Total Funds** | **0** | **$8,920,102** | **$90,961,179** | **$14,734,026** |
| Positions | 0 | 6 | 6 | 0 |
| FTE | 0 | 5.64 | 5.64 | 0 |

### Program Description

The Oregon Wireless Interoperability Network (OWIN) project represents the construction, staff, and other project costs for a major project to replace and enhance the wireless communications systems of four state agencies and the public safety communications infrastructure statewide. The figures above also include the capital construction numbers for the OWIN project. The OWIN project was created to address three basic issues:

- Components of the current wireless communications infrastructure of state agencies require significant upgrade or replacement. Some key system components (e.g., microwave system) are no longer supported by the manufacturer.
- The Federal Communications Commission (FCC) is requiring all land mobile radio systems to convert their systems from "wideband" to "narrowband" frequencies by 2013. Wideband radios will not be manufactured after 2009.
- The 2005 Legislature passed HB 2101 which stated it is the "policy of the state to develop, finance, maintain and operate a single emergency response wireless communications infrastructure…to meet the needs of state agencies and ensure communications interoperability among public safety agencies in the state."

### Revenue Sources and Relationships

The current "working" cost estimate of OWIN is approximately $400 million total funds. This is an estimate based on work performed by a contractor over two years ago and needs to be continuously updated based on costs, partnership agreements, project design, and changes in project scope. It is anticipated that a combination of state, local, and federal funds will pay for the costs of OWIN. Financing so far has been a combination of certificates of participation (COPs), federal grants, and contributions by partner local public safety agencies. Debt service costs at this point are being paid with General Fund resources. The Oregon Department of Transportation has also set aside $75 million in future highway funding to pay for debt service costs.

### Budget Environment

The 2007 Legislature determined that there was insufficient information available at that time to approve funding for the initial build-out of the project. Instead, it provided $6.8 million total funds to continue the planning for the construction of the OWIN project. In February 2008, the Legislature authorized $76 million in certificates of participation (COPs) authority for OWIN for the first phase of the project, but did not provide the

necessary expenditure limitation. The first phase is to develop the backbone infrastructure (tower site improvements and microwave system) in three areas – the seven northwest counties including the Portland metropolitan area, the seven southwest counties, and for a loop connecting Bend and Medford. Future decisions will be needed to approve further funding for other project phases including radio equipment and infrastructure development in other areas of the state.
The Emergency Board at its September 2008 meeting approved the $76 million in Other Funds Capital Construction expenditure limitation with the understanding that the Department of Administrative Services (DAS) would unschedule $49.5 million of the limitation increase until the OWIN project could demonstrate significant progress in meeting recommendations relating to project management, quality assurance, project governance, and other issues. The Emergency Board did provide authority to the OWIN project for $26.5 million in resources. Since it was found that a COP sale for just the OWIN project would be expensive, the Treasurer's Office made available a $26.5 million "line of credit" to OSP for the OWIN project. The OWIN project provided an update on its progress in meeting the recommendations to the Emergency Board in December 2008 and plans to return to the 2009 Joint Committee on Ways and Means to gain a recommendation for the remaining $49.5 million to be rescheduled. If rescheduled, all $76 million in authorized COPs would be part of the sale scheduled for February 2009.

### Essential Budget Level

The 2009-11 essential budget level (EBL) for OWIN of $14.7 million only includes the estimated debt service costs of the COPs that have been authorized to this point. A total of $85.8 million of capital construction expenditure limitation was approved during 2007-09 and continues for 6 years after its approval date. All other project costs, including staff, are viewed as "limited duration" and must be approved as policy packages by the Legislature.

### Issues and Options

The 2009-11 Governor's budget for OWIN is $5.1 million General Fund for project staff and other project costs (9 positions) and $25.8 million General Fund for debt service. This debt service amount is $11.1 million more than the amount assumed in the EBL and represents the estimated 2009-11 debt service costs for the $240 million in COPs proposed in the Governor's budget. There is also another $75 million of expenditure limitation included in Oregon Department of Transportation's (ODOT) budget for OWIN related construction and equipment. This total of $315 million is for phase 2 costs which the Governor's budget describes as the backbone infrastructure (tower site improvements and microwave system) for Northeast and North Central Oregon and the land mobile radio system for Western Oregon. Also included in the $315 million in limitation request is the funding for 38 limited duration positions relating to the project.

The Legislative Fiscal Office (LFO) has had concerns about the project management capacity of the current OWIN staff. While there has been significant progress made in meeting these concerns, there are a number of items that still must be met for effective project management. Before the next phase of the project is approved as part of the 2009-11 budget, a much more robust project management infrastructure must be in place. In additionm, a number of items must be completed including the project charter, risk assessment/mitigation plan, in-depth project plans for both phase 1 and 2, regular reports from the independent Quality Assurance contractor, and an up-to-date estimate of the total project cost (all phases).

Up to this point, it has been assumed that a combination of General Fund and highway related funds would pay the debt service for any OWIN long term financing that was issued. Other states have used a variety of sources for their wireless communications systems; and given the current forecasts for 2009-11 revenues, Oregon should explore these. One alternative would be a surcharge on the assessment currently in place for the 9-1-1 system. The state should also continue to work with its delegation to explore federal funding sources as well as federal agencies who must also upgrade their wireless systems in many areas of the state.

Another option to reduce General Fund expenditures for 2009-11 is to delay the OWIN project for two years which results in over $11 million General Fund savings that represents the 2009-11 debt service for the next phase of the project. A delay would mean the state would not meet the 2013 deadline required by the federal government to move to narrow band radio systems and also would mean the state would rely on an aging and out-of-date wireless system for at least another two years.

## Department of Public Safety Standards and Training – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 8,480,768 | 11,150,003 | 11,150,003 | 11,360,288 |
| Other Funds | 29,141,449 | 37,744,197 | 39,093,811 | 42,680,364 |
| Federal Funds | 52,992 | 54,635 | 54,635 | 56,165 |
| **Total Funds** | **$37,675,209** | **$48,948,835** | **$50,298,449** | **$54,096,817** |
| Positions | 156 | 170 | 170 | 170 |
| FTE | 134.73 | 167.13 | 167.13 | 168.12 |

### Agency Overview

The Department of Public Safety Standards and Training (DPSST) is responsible for developing and maintaining standards for employment and providing training to over 35,000 public safety professionals and volunteers in Oregon through five programs:

- The ***Criminal Justice Training and Certification Program*** provides training and certification for state troopers, police, sheriff deputies, local and state 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 16 weeks for the basic police course (as of the beginning of 2007), five weeks for corrections officers, four weeks for parole and probation officers (with an additional week for those who carry firearms), two weeks for tele-communicators, and one week for emergency medical dispatchers.
- 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 ***Private Security Program*** provides training, licensing, and certification to private security personnel that meet minimum requirements. There are approximately 550 private security firms and over 16,000 licensed private security providers statewide. The functions of the Board of Investigators were absorbed by this program beginning in 2006. There are approximately 700 active Private Investigator licensees.
- The ***Administration and Support Services Program*** includes the director's office, business and human resource functions, and information systems. In addition, this area includes the costs of operating the training facility (including food service, housekeeping, operations, and maintenance) as well as the debt service for the new facility.
- 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.

DPSST opened the new primary training facility in Salem during the summer of 2006 replacing the former site in Monmouth. The agency also has regional offices in five locations – Medford, Bend, Hillsboro, Baker City, and Pendleton. The agency has professional trainers on staff, but also relies on part-time trainers who are practicing professionals in their fields.

**Total Funds by Program Area**

| | Criminal Justice | Fire | Private Security | Administration and Support Services* | Memorial Fund |
|---|---|---|---|---|---|
| 2001-03 Actual | $12,272,342 | $1,241,725 | $857,883 | $3,522,487 | $426,192 |
| 2003-05 Actual | 11,595,761 | 1,379,562 | 933,915 | 6,683,646 | 168,058 |
| 2005-07 Actual | 14,083,350 | 2,596,214 | 1,290,921 | 19,536,651 | 168,073 |
| 2007-09 Leg. Adopted | 18,357,126 | 3,940,316 | 1,482,442 | 24,595,625 | 573,326 |
| 2007-09 Leg. Approved | 19,141,044 | 4,053,027 | 1,534,346 | 24,996,706 | 573,326 |
| 2009-11 Essential Budget | 21,734,370 | 3,857,611 | 1,636,223 | 26,279,374 | 589,239 |

** Debt service is included in the Administration and Support Services program and totals $11.2 million General Fund for the 2007-09 legislatively approved budget and $11.4 million in the 2009-11 essential budget level.*

### 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 a variety of fines and assessments, including the unitary assessment, paid by offenders. Over $35 million of new CFAA resources would be allocated to this agency for the 2009-11 essential budget level with the majority used in this program. There is over $2.2 million of projected CFAA revenue carried forward from 2007-09 to the 2009-11 budget. A sufficient amount of carry forward balances must be available to pay program costs until CFAA resources are distributed during a biennium. This program is also funded with polygraph examiner licensing fees and miscellaneous revenues ($13,600), a grant from the Oregon Department of Transportation ($375,000), and revenue from the 9-1-1 telephone tax ($476,702) for the 9-1-1 tele-communicators and emergency medical dispatchers training.

The primary revenue source for the ***Fire Training and Standards Program*** is $5.2 million from the Fire Insurance Premium Tax (FIPT). This program also receives funding from a Federal Emergency Management Agency (FEMA) grant for training developed by the U.S. Fire Academy ($56,165). The ***Private Security Program*** is funded primarily with licensing and certification fees ($2.2 million). The ***Administration and Support Services Program*** is supported with General Fund for debt service costs; CFAA funds for operation of the facility, administrative costs, and housing costs; and inter-fund transfers from programs within the agency to cover their share of common administrative costs. The ***Public Safety Memorial Fund*** is funded with CFAA funds.

### Budget Environment

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 35,000 "constituents" including over 8,100 law enforcement personnel, over 1,700 parole and probation officers, over 3,800 correctional officers and jailers, over 13,200 fire-related personnel, over 900 emergency tele-communicators, and over 17,000 private security and private investigator personnel. Trends or factors affecting the demand for DPSST services include:

- In 2004, Oregon had the second lowest number of full-time sworn state and local law enforcement officers responding to calls per 100,000 residents; Oregon with 176 sworn personnel followed Washington with 174 sworn personnel per 100,000 residents.
- The growth in prison and jail populations, in part because of Ballot Measures 11 and 57, has increased the demand for correctional officer training. The prison population for the Department of Corrections continues to increase and is expected to grow by roughly 1,980, or 14.1%, during the 2009-11 biennium. The number of private security staff licensed by DPSST could continue to increase as more commercial and other interests look at private security agencies as alternatives to depending on local law enforcement.
- Regional training continues to be an important component in DPSST's overall curriculum. The law enforcement training program delivered training to over 8,500 students during calendar year 2007 and 7,300 during 2008. The Fire Program will provide training to more than 8,000 students during the 2007-09 biennium.

Even with the increase in the basic law enforcement training to 16 weeks that started in January 2007, Oregon still lags behind other states. Based on data in the International Association of Directors of Law Enforcement Standards and Training 2005 Reciprocity Handbook, the average for police basic training was just under 21 weeks. The 1997 Legislature instructed the agency to increase the course from eight weeks to 16 weeks. The increase in length was delayed until a new facility was built and fully staffed. The composition of the new 16-week course has been updated for content (e.g., new court decisions and law changes), as well as how the training is delivered. The expanded curriculum will include greater use of scenarios in the training. Training not provided by DPSST must, in part, be provided by the public safety agencies with their own resources. Many agencies, especially smaller agencies, have very limited training resources.

### Essential Budget Level

The total funds 2009-11 essential budget level (EBL) for DPSST of $54.1 million is 7.6% greater than the 2007-09 legislatively approved budget. Most of the increase is explained by the roll-up of employee compensation increases during 2007-09. The budget also increases for standard inflation as well as an increase of almost $160,000 Other Funds for the extraordinary cost increase of ammunition used for firearms training. One-time 2007-09 expenditures of almost $900,000 for fire related vehicles and equipment and information systems investments are factored out of the EBL.

### Issues and Options

Spending from the Public Safety Memorial Fund has not kept pace with the amount budgeted to it each biennium. Expenditures for 2003-05 and 2005-07 averaged less than $175,000. The legislatively approved budget for the Fund for 2007-09 is $573,326; and until almost 18 months of the biennium (December 2008) spending was on pace with the two previous biennium. The death of two officers and the significant injury of another in mid-December 2008 demonstrated the unexpected nature of the spending from this Fund.

The budget for this agency has increased significantly over the past four biennia as the new training facility in Salem was brought into operation. Between 2003-05 and 2005-07, DPSST's budget increased by over 80% while between 2005-07 and 2007-09 the budget increased by over 33%. Not only did debt service and facility operations costs grow dramatically, but the increase in the basic law enforcement training to 16 weeks and the change in the training to a scenario-based method also contributed to this increase. The growth for 2009-11 has slowed significantly now that these increases have been fully phased in.

The 2009-11 Governor's recommended budget for this agency of $51.1 million total funds is 5.5% less than the EBL for the same period. Those portions of the budget supported by Criminal Fines and Assessment (CFAA) revenues are reduced substantially more – almost 15% below the EBL. Those CFAA revenues that are not used for DPSST and other eligible uses are transferred to the General Fund and are used for other programs in the overall state budget. These CFAA reductions from EBL in the Governor's recommended budget are taken in the Criminal Justice Training and Certification unit and in Administration and Support Services, and include (all Other Funds – CFAA):

- Reductions in the regional training program by $585,000 including the elimination of two of the regional training coordinators;
- Elimination of the Instructor Development program ($400,789) which provides training to local agency instructors;
- Cuts in staff (training coordinators) and other training costs at the facility in Salem ($793,107) which will reduce the staff contact and training for recruits attending the basic law enforcement training; and
- Reduction in staff and contract resources ($1.4 million) for the maintenance, security and operation of the Salem facility and the agency's information systems.

In addition, the Governor's budget recommends transferring the responsibility for the training of new correctional officers of the Department of Corrections (DOC) from DPSST to DOC. This reduction of $1.2 million and another cut of $240,000 effectively removes all resources from the DPSST budget for training new state and local correctional officers. While there is no established plan in place at this time at DOC for this new training responsibility, the DOC budget is reduced by another $7 million General Fund as part of this transfer. With this transfer there may be additional savings in non-training components of the budget as DPSST no longer needs to feed or house a significant number of the present trainees at the facility. The amount of savings will depend in part of the ability of the agency to renegotiate contracts with the food service provider.

Based on the resources available in the Governor's recommended budget, the agency proposes that three fewer Basic Police classes be offered in 2009-11 to offset the reduction in funding available for local corrections officers and to continue the Instructor Development program and the training coordinator positions. The Legislature will have to judge the value of these programs against possibly having newly hired police and deputy sheriff waiting for their basic training.

| | Number of Weeks | Projected 2007-09 | Projected 2009-11 Essential Budget Level | 2009-11 Governor's Recommended |
|---|---|---|---|---|
| Basic Police | 16 | 17 | 18 | 15 |
| Basic Corrections | 5 | 21 | 18 | 6 |
| Parole & Probation | 4 | 4 | 4 | 4 |

Further reductions beyond those proposed in the Governor's budget are possible but would only reduce the training available for public safety professionals. Local agencies could offset any reduction but their ability to do this depends on their financial status and the training staff they have. Agencies like Portland and the other larger local law enforcement agencies have training staffs, but the majority of police and sheriff departments are small and lack trained and experienced instructors. Another possible reduction in state costs would be to have these local agencies pay for a share of the training provided by DPSST, but discussions regarding this in the past have not gone far beyond the proposal stage.

## Oregon Youth Authority (OYA) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 212,774,323 | 254,588,426 | 260,835,288 | 346,165,025 |
| Other Funds | 10,195,513 | 22,547,307 | 22,700,916 | 16,341,610 |
| Federal Funds | 21,199,132 | 28,511,358 | 28,705,913 | 27,601,588 |
| **Total Funds** | **$244,168,968** | **$305,647,091** | **$312,242,117** | **$390,108,223** |
| Positions | 1,088 | 1,279 | 1,279 | 1,579 |
| FTE | 1,048.10 | 1,147.46 | 1,147.46 | 1,416.89 |

### Agency Overview

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 youth 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 provides a balanced continuum of services through a statewide network of facilities, state employees, and contracted community providers. 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 juvenile crime prevention, diversion, and transition programs; and operates the state juvenile corrections institutions. OYA operates youth correctional facilities at Woodburn, Salem, Albany, Grants Pass, Tillamook, Warrenton, and Burns; and transition programs in La Grande, Corvallis, Florence, 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 such as murder; 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 ages 15-17 who are convicted of certain offenses. About two-thirds of the youth in close custody are adjudicated in juvenile court, and about one-third are convicted in adult court on waived or Measure 11 offenses.

### Revenue Sources and Relationships

The General Fund supports the major share of OYA's activities and operations. About 7% of the total budget comes from Federal Funds, and about 5% from Other Funds.

Historically, Federal Title XIX Medicaid reimbursements paid for part of the cost of out-of-home placements and treatment services, case management services, and services for paroled youth. Under new federal rules scheduled to take effect April 2009, funding for juvenile justice under this program is eliminated. Due to this change, about $6.4 million in case management costs have been shifted from Federal Funds to General Fund in the 2009-11 budget.

The budget does include Title XIX Medicaid reimbursements for Behavioral Rehabilitation Services. This funding helps pay for eligible residential treatment services at about a 63% match rate; ineligible room and board costs are supported with General Fund. The budget anticipates continuing revenue from this source, which provides approximately 40% of the funding for residential care and multidimensional treatment foster care providers. However, there is also a significant risk to this revenue due to pending regulatory changes by the Centers for Medicare and Medicaid Services (CMS), and federal budget actions. If this revenue stream is pulled, there would be a $24 million shortfall in the agency's budget.

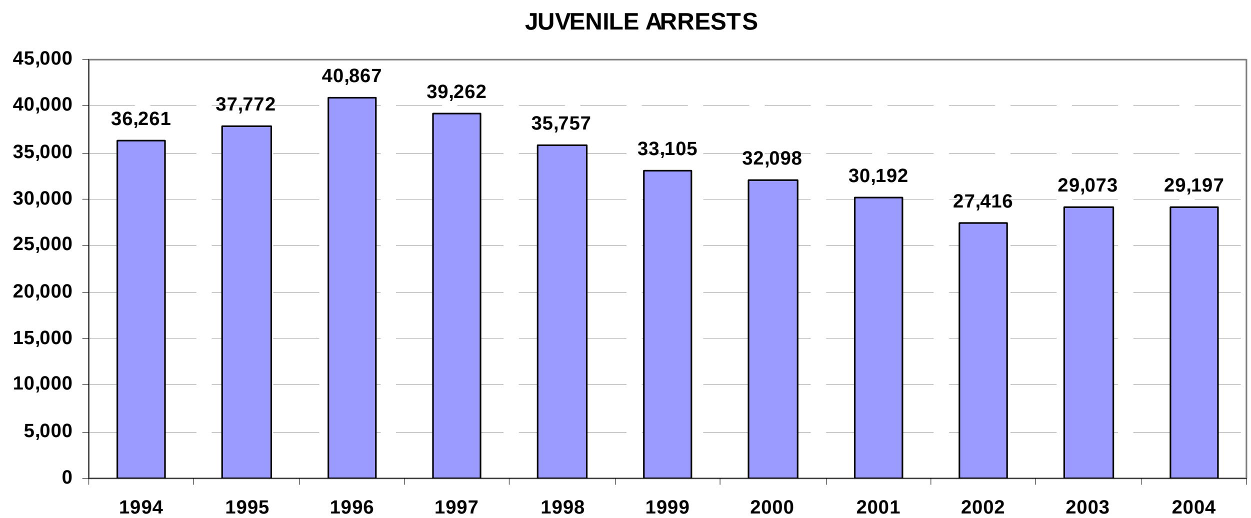
Federal funding overall is uncertain. Pending federal regulations, a new administration, and the possibility of a federal economic stimulus package, could all impact what the agency ultimately receives. In the Governor's recommended budget, the treatment of these revenue sources has been inconsistent among receiving agencies. The Legislature will need to carefully review the status of these funds, budgetary treatment, and associated policy choices before making program funding decisions

Federal funds for institution operations are very limited. OYA receives $2.8 million in federal nutrition program funds, and $0.1 million for Hillcrest's alcohol and drug treatment program. These are recorded as Other Funds.

The largest Other Funds sources are county contracts and youth trust fund reimbursements. The budget includes $3.5 million Other Funds revenue from counties to operate detention beds and $6.7 million Other Funds from child support and other assets of the youth, who are billed for part of the cost of care provided in OYA out-of-home placements.

### Budget Environment

As the chart below shows, total arrests for juveniles (excluding curfews and runaways) grew in the mid-1990s, but have trended down since 1996. Juvenile arrests in 2004 (the most recent data available) were actually lower than in 1994, and are down almost 30% from the 1996 peak. Person and property crimes have declined by 38% since 1994, while behavioral crimes such as traffic, alcohol, or drug law violations have grown by 15%. In 1994, behavioral crimes accounted for 35% of juvenile arrests; in 2004, 50% of arrests were made for those crimes.




The Department of Administrative Services' Office of Economic Analysis (OEA) prepares a semi-annual forecast of demand for close custody and community placements. The forecast projects demand based on the number and characteristics of offenders committed to OYA and those with similar delinquency characteristics who remain in the community, but who could be expected to be committed to OYA, if OYA had available capacity. The close custody forecast includes three major groups: juveniles convicted in adult court under Measure 11 or waived under ORS 419C.340; Public Safety Reserve youth committed for certain violent crimes, but too young for Measure 11 to apply; and youth committed for new crimes and parole violations as part of the county Discretionary Bed Allocation. The community placement forecast covers youth committed to OYA and placed in residential treatment or foster care while on probation or parole.

The demand forecast is not constrained by budgeted capacity, but it serves as a reasonable context for comparison. For example, on January 1, 2009, OYA's budgeted close custody capacity was 925 youth, but the OEA forecast demand was at 1,189 youth. The budgeted level was about 78% of the forecast demand. The October 2008 forecast indicates close custody demand will decline by about 4% over the 2009-11 biennium, from 1,177 youth in July 2009 to 1,129 youth in July 2011. On July 1, 2008, OYA's community placement population was 623; OEA forecast demand was 714. The community population was about 87% of the forecast demand. OEA forecasts community placement demand will decline about 2% over the 2009-11 biennium, from 708 placements at July 2009 to 695 placements at July 2011.

With limited close custody beds, OYA has had to manage growth in the adult and Public Safety Reserve populations by cutting the number of beds available for counties in the Discretionary Bed Allocation. At the same time, funding for community placements and local prevention has not met the level of need. Fewer beds for lower-level offenders combined with community program reductions have made it more difficult for counties to manage youth offenders.

SB 267 (2003) requires state-funded crime prevention programs and services to reflect scientifically based research and demonstrate cost-effectiveness. The bill applied to certain programs of the OYA, the Department of Corrections, the Commission on Children and Families, and mental health and addiction programs in the Department of Human Services. For the 2005-07 biennium, agencies had to spend 25% of the state funds they receive for these programs on evidence-based programs; this proportion increased to 50% in 2007-09, and is set at 75% beginning in 2009-11. OYA operates treatment and intervention programs such as sex offender or drug and alcohol treatment, family based treatment, and transition services, which meet the SB 267 criteria.

During 2008, the agency underwent a review of management processes and controls. A team identified several items that needed attention, ranging from security to quality assurance to business controls. This effort, called the System Improvement Project (SIP), resulted in specific recommendations on how to make improvements in the areas of concern. The agency is working to implement those changes and has asked for additional resources in 2009-11 to improve agency oversight, accountability, and performance benchmarks.

### Essential Budget Level

Without reductions, the calculated essential budget level (EBL), including caseload growth to match up with the April 2008 demand forecast, is 25% above the 2007-09 legislatively approved budget at December 2008. Due to federal regulation changes, the EBL contains a $6.4 million fund shift from Federal Funds to General Fund. Also included are standard adjustments for personal services costs, inflation, Attorney General rates, uniform rent, state government service charges, county payments, and payments to community providers. Based on actual cost projections, exceptional inflation for utility expenses, medical services, and pharmacy costs is added.

However, the Governor's budget is lower than the agency's essential budget level; associated reductions and impacts are noted below and in the program unit discussions.

### Issues and Options

The 2009-11 Governor's recommended budget for OYA is $298.3 million General Fund and $337.8 million total funds. While this amount is 25% higher than the 2007-09 legislatively approved budget at December 2008, it does represent a reduction from the agency's original 2007-09 program level. With expected 2007-09 actions needed to balance the statewide General Fund budget, it is very possible the original level will be reduced.

Under the Governor's budget, close custody capacity is funded at 950 beds, which is about 82% of the average population forecast level. It is also 70 beds less than the 995 originally funded for 2007-09. The level of community placements supported in the budget is 613, which is about 88% of the average population forecast level and a decrease of 68 from the 681 originally funded for 2007-09.

The Governor's recommended budget does not anticipate the closure of any facilities, but further reductions may lead to that discussion. The agency has just barely begun to recover from the cuts it took earlier this decade. For comparison, the current 925 close custody bed count is well below the number of beds supported in the agency's original 2001-03 budget, which funded an average of 1,113 close custody beds.

With General Fund resources scarce and OYA heavily dependent on General Fund, there are few options for mitigating likely program reductions. The Legislature can, however, make clear policy and budget choices for the agency and identify expected outcomes based on approved funding.

## OYA – Facility Programs

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 113,936,052 | 134,223,298 | 138,352,169 | 199,125,182 |
| Other Funds | 6,365,818 | 9,966,043 | 10,113,013 | 11,726,618 |
| Federal Funds | 87,602 | 21,471 | 22,390 | 0 |
| **Total Funds** | **$120,389,472** | **$144,210,812** | **$148,487,572** | **$210,851,800** |
| Positions | 837 | 1,009 | 1,009 | 1,289 |
| FTE | 800.54 | 890.34 | 890.34 | 1137.51 |

### Program Description

OYA operates a variety of close custody facilities across the state with varying levels of security and structure and a range of treatment services. In the 2007-09 biennium, OYA operated facilities at MacLaren in Woodburn, Hillcrest in Salem, Grants Pass, Warrenton, Burns, Tillamook, Florence, Corvallis, Albany, and La Grande. The total of 995 beds budgeted for 2007-09 includes 845 beds in six youth correctional facilities for more violent offenders; and 150 beds in four transition programs to help youth move successfully back into the community. MacLaren is the largest facility, budgeted at 295 beds for males and serving a variety of populations. With a budgeted phase-in of 20 beds in February 2009, Hillcrest would have 200 beds. The facility serves males and handles statewide male intake and parole violator intake assessment activities. Other facilities range in size from 25 to 100 beds, and serve targeted populations such as male sex offenders, male offenders receiving substance abuse services, and female offenders.

The 995 beds budgeted for the 2007-09 biennium included the phase-in of 145 additional close custody beds: 75 beds in Albany (December 2007 and January 2008), 20 beds at Hillcrest in Salem (February 2009), 25 beds at Warrenton (February 2009), and 25 beds in La Grande (February 2009).

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.

### Budget Environment

As described above, the Office of Economic Analysis prepares a semi-annual forecast for close custody and community placements. It is clear that the state's current budget environment will not be able to support full funding at the demand forecast level. OYA currently has physical capacity for 1,081 close custody beds, which counts all beds at the permanently constructed facilities, including 50 beds used for county detention programs.

In addition to providing "bed and board" for youth offenders, the facilities provide a wide range of services as needed for physical and dental health, mental health, substance abuse, recreation, education, vocational and other support needs. OYA uses a standard risk/needs assessment tool to develop individual correctional case plans. OYA reports that 73% of offenders in its close custody facilities have been assessed as substance-abusive or dependent; about 68% of the males and 96% of the females met the psychiatric requirements for a mental health disorder (excluding conduct disorder).

Females represent only about 9% of the close custody population, but are more likely to have substance abuse or mental health issues than are their male counterparts. To look at these issues, during the 2005-07 biennium OYA convened a Young Women's Work Group. The committee's recommendations include more gender-specific and evidence-based services, and providing services for female offenders in "single-gender" facilities. The February 2008 reopening of Oak Creek facility in Albany is allowing the agency to deliver these specialized services for young women.

### Essential Budget Level

Without reductions, the calculated essential budget level, including caseload growth to match up with the April 2008 demand forecast, is 42% above the 2007-09 legislatively approved budget at December 2008. Most of the cost increase is due to the roll-up of costs for beds that were phased-in part way through the 2007-09, along with caseload growth. In a change from previous biennia, the essential budget level includes $4.8 million General Fund to provide education services for close custody youth that have a high school diploma or have reached the age of 21. Funding used to be covered by a State School Fund distribution.

#### Issues and Options

In its 2009-11 agency request budget for this program, OYA asked for $15.8 million General Fund and 105 positions (105.02 FTE) in eight policy packages. About $13 million General Fund and 95 positions would allow the agency to reduce use overtime required due to use of paid leave and employee turnover. Just under $6 million and 6 positions would improve safety and security at facilities by reorganizing grounds keeping operations and adding mental health staff. Other requests would provide specialized staff training, fund deferred maintenance projects, expand services to minority youth, implement systems security measures, and purchase equipment to support revised business processes.

The Governor's budget does not include any agency packages; it is set at 19.3% below EBL. The budget is 15% above the 2007-09 legislatively approved budget at December 2008. Spending levels are higher due to roll-up cost and inflation and the number of close custody beds increases by 25 (up to 950) mid-biennium. All mandated caseload growth is eliminated from the EBL, for a reduction of $30.1 million General Fund, $0.8 million Other Funds and 282 positions (170.97 FTE). The amount also includes standard statewide EBL adjustments. This funding would have paid for 275 close custody beds.

Another $9.6 million General Fund and 46 positions (28.03 FTE) is eliminated from the budget. The reduction cuts 45 close custody beds (25 beds at River Bend, 20 beds at Hillcrest) that are scheduled to start up in February 2009. Twenty-five beds at Warrenton, also planned for February 2009, are delayed until July 2010. The $9.6 million reduction includes $1.8 million General Fund for educating older youth. This lower level of funding will require OYA to restructure how it provides educational services to these youth. The agency plans to work with local education districts, the Oregon Department of Education, and community colleges to maximize the resources available.

## OYA – Community Programs

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 66,317,913 | 84,554,268 | 85,277,552 | 100,795,182 |
| Other Funds | 3,447,588 | 2,909,717 | 2,910,099 | 3,679,405 |
| Federal Funds | 19,974,168 | 27,360,756 | 27,478,521 | 27,601,588 |
| **Total Funds** | **$89,739,669** | **$114,824,741** | **$115,666,172** | **$132,076,175** |
| Positions | 153 | 166 | 166 | 179 |
| FTE | 150.67 | 154.61 | 154.61 | 170.00 |

#### Program Description

Community Programs provide community-based supervision and services to youth offenders committed to OYA by the juvenile courts. OYA staff design and carry out an individual reformation plan for each youth in OYA's custody. The Community Programs budget includes community placement services, such as residential services and foster care; parole and probation services; individualized community services; and grants to county juvenile departments for diverting high risk youth offenders from OYA placement, juvenile crime prevention, and youth gang services.

#### Budget Environment

Earlier this decade, statewide funding constraints reduced statewide grants and targeted grants to counties; reduced funding for probation and parole staff; eliminated or reduced funding for residential, shelter, and foster care beds; and reduced other contracted treatment services. Some of these have been restored, but a lack of community resources and limited capacity at regional youth correctional facilities, continue to be on-going challenges for OYA and local communities to manage at-risk youth and offenders effectively.

As of July 2008, OYA had 630 youth in the community on probation, and 440 youth in the community on parole. OYA staff provides case management services to youth on probation, parole, and case planning in facilities, but the agency contracts for a range of other treatment services and residential placements with foster care or Behavioral Rehabilitation Services (BRS) providers. OYA has historically expressed concern with rates paid to its residential BRS providers. The rates were established in 1997 and had been updated only for small inflationary increases since that time. Providers have faced a number of operating costs, such as liability insurance and utility costs, that outstrip inflation. At the same time, community capacity reductions have caused providers to see more youth with greater service needs. For 2007-09, funding was added to give providers an average increase of 9% over the biennium.

The 2007-09 budget included $18.1 million for county diversion and juvenile crime prevention basic services grants for 36 counties. The funding covers local services for youth. County diversion funding has been provided since the 1980s, while juvenile crime prevention basic services funding began in 1999.

This program unit also includes $3.8 million General Fund support for youth gang enforcement services and intervention in Multnomah County; another $1.6 million was added in 2007-09 for statewide competitive grants for youth gang transition. Counties are working to develop evidence-based practices and measurable outcomes for these gang programs.

### Essential Budget Level

Without reductions, the calculated essential budget level, including caseload growth to match up with the April 2008 demand forecast, is 14.2% above the 2007-09 legislatively approved budget at December 2008. Most of the cost increase is due to the roll-up of costs for community placements that were phased in part way through the 2007-09, along with caseload growth.

### Issues and Options

In its 2009-11 agency request budget for this program, OYA asked for $14.7 million General Fund, $6 million Federal Funds, and 2 positions (1.88) FTE) in ten policy packages. About $6.9 million General Fund, matched with $4.5 million Federal Funds, would allow the agency to increase provider pay rates between 12% and 16% depending on program supervision level. One package would use $3.7 million General Fund to reinstate the juvenile crime prevention, diversion, and Multnomah Gang services back to historic levels. Another request adds centralized youth assessment centers through contracts with local governments or non-profit private agencies; this would cost $2.3 million General Fund. Legal advocacy services to keep youth in school, minority youth resources, training, and gang program enhancements were also in the agency's budget request.

The Governor's budget does not include any agency packages; it is set at 8.9% below EBL. The budget is 4% above the 2007-09 legislatively approved budget at December 2008. Although spending levels are higher due to roll-up cost and inflation, the number of community placements supported in 2009-11 is 613, which is less than the number originally budgeted for 2007-09.

All mandated caseload growth is eliminated from the EBL, for a reduction of $3.8 million General Fund, $0.2 million Other Funds, $1.1 million Federal Funds, and 19 positions (12.00 FTE). The amount also includes standard statewide EBL adjustments. This funding would have paid for 20 community placements.

Another $4.6 million General Fund, $2.4 million Federal Funds, and 4 positions (4.75 FTE) is eliminated from the budget. The reduction cuts 58 community placements, eliminates 10 foster care beds, and holds provider inflation flat at the fiscal year 2009 level.

## OYA – Program Support

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 25,334,686 | 27,831,614 | 29,226,321 | 37,856,140 |
| Other Funds | 320,645 | 1,066,547 | 1,072,804 | 935,587 |
| Federal Funds | 1,137,362 | 1,129,131 | 1,205,002 | 0 |
| **Total Funds** | **$26,792,693** | **$30,027,292** | **$31,504,127** | **$38,791,727** |
| Positions | 98 | 104 | 104 | 111 |
| FTE | 96.89 | 102.51 | 102.51 | 109.38 |

### Program Description

The Program Support unit includes the director's office and OYA's business services, such as accounting, employee services, budget and contracts, and information systems staff and expenditures. It also includes the agency's internal audits office and the Office of Professional Standards, which is an internal investigation function. The operational costs of the statewide Juvenile Justice Information System (JJIS) are part of this budget. Agency-wide costs that are not allocated to other programs, such as insurance premiums and Attorney General costs, are also part of this budget.

### Budget Environment

The major cost driver in this budget is intergovernmental service charges, which pay for some shared government functions and pooled costs, such as risk insurance. These costs make up about 25% of the Program Support budget.

For 2007-09, this unit received three new positions due to funded caseload growth in the facility and community programs. A position was also added to help ensure compliance with provider and client eligibility criteria for federal Medicaid reimbursement for Behavioral Rehabilitation Services in residential treatment placements.

Most of the business processes reviewed under the Systems Improvement Project related to policies, procedures, or business functions that originate within "belong" to this program unit. The review outlined a need for additional staffing for internal audit, employee services, communications, property control, and investigator functions.

### Essential Budget Level

The essential budget level is about 30% General Fund and 23% total funds above the 2007-09 legislatively approved budget at December 2008. The overall increase primarily reflects increased salaries, standard inflation, and adjustments for intergovernmental service charges based on actual projected costs. The disproportionate General Fund increase is due in part to a fund shift of $1.3 million from Federal Funds to General Fund to backfill case management costs that are not expected to be eligible for federal dollars.

In addition, the EBL also includes $1 million General Fund and 7 positions (5.38 FTE) tied to caseload growth in facility and community programs.

### Issues and Options

In its 2009-11 agency request budget for this program, OYA asked for $2.4 million General Fund, $0.9 million Other Funds, and 8 positions (7.40 FTE) in ten policy packages. About $1.3 million General Fund and 6 positions would support additional staffing needs identified under the SIP. General Fund dollars were also requested for working with counties to seek a new source of federal dollars, updating JJIS to allow it to interface with a national database, implementing information system security measures, and providing additional training to staff and providers. The Other Funds requests, which would be supported by proceeds from certificates of participation, would pay for finance costs associated with funding requests in the capital program.

The Governor's recommended budget maintains Program Support at the essential budget level. However, EBL includes positions and funding tied to requested caseload growth in facility and community programs when no caseload growth was approved for those programs. In fact, caseloads were actually reduced from the 2007-09 budgeted level. It is possible the Governor's budget is attempting to provide resources that could be used to address issues other than caseload growth. The Legislature will need to carefully evaluate this inconsistent treatment of caseload growth within the budget and ultimately align program support functions with the level of program that is actually funded.

The Legislature may determine that the agency needs additional resources within Program Support to address issues and solutions identified by the Systems Improvement Project. If funding is approved for that purpose, those new resources should be added in a policy package and outside of the essential budget level.

## OYA – Debt Service

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 6,557,517 | 7,263,876 | 7,263,876 | 7,653,121 |
| Other Funds | 61,462 | 0 | 0 | 0 |
| **Total Funds** | **$6,618,979** | **$7,263,876** | **$7,263,876** | **$7,653,121** |

### Program Description

OYA pays debt service on certificates of participation (COPs) issued through the Department of Administrative Services. COPs have been issued for construction of OYA's regional facilities, fencing, and property transactions. OYA has also paid for Juvenile Justice Information System COPs issued in 1998 and for Hillcrest remodeling COPs related to suicide prevention issues.

### Budget Environment

OYA's debt service budget has been supported by General Fund and reflects the estimated cost of debt service on all certificates of participation sold or approved to be sold for the agency. This includes certificates of participation expected to be sold in 2009-11 to support capital expenditures approved in 2007-09.

### Essential Budget Level

The essential budget level for Debt Service is 5.4% higher than the 2007-09 legislatively approved budget at December 2008. The increase is due the projected actual costs of debt service payments due in 2009-11.

### Issues and Options

In its 2009-11 agency request budget for this program, OYA asked for $4.4 million General Fund to pay for debt on new projects requested in the Capital Construction program. This additional debt service is not in the Governor's recommended budget; neither are the projects. If the agency receives approval for additional capital construction in 2007-09 via the proposed deferred maintenance initiative, debt service to support those projects will need to be added to the 2009-11 budget.

## OYA – Capital Improvements

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 628,155 | 715,370 | 715,370 | 735,400 |
| **Total Funds** | **$628,155** | **$715,370** | **$715,370** | **$735,400** |

## OYA – Capital Construction

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 0 | 8,605,000 | 8,605,000 | 0 |
| **Total Funds** | **$0** | **$8,605,000** | **$8,605,000** | **$0** |

### Program Description

The capital budgets reflect spending on OYA's 79 buildings at 11 locations, which have an estimated $187.4 million replacement value. Capital Improvement covers land and building improvements, including major repair or replacement, which cost more than $5,000 but less than $500,000. Capital Construction projects include land acquisition and new construction or major renovation projects costing $500,000 or more.

### Budget Environment

OYA currently has a physical capacity of 1,081 close custody beds; however, the agency is not funded to operate its facilities at full capacity. The regional youth correctional facilities completed in 1997 are in good shape, although maintenance costs are increasing. Most of OYA's other facilities are much older, in generally good repair for their age, but need improvements in safety, security, and functionality.

The Hillcrest and MacLaren facilities have significant problems with heating and electrical systems, and MacLaren has additional problems with its drinking water, storm water, and sanitary sewer systems. OYA has also repeatedly identified a need to replace Whiteaker Hall, the aging and deteriorating administration building at MacLaren. The oldest building OYA uses is the Corvallis House, which was constructed in 1913. The building has high maintenance costs and a long list of deferred maintenance projects.

In 2007-09, OYA received $8.6 million Other Funds Capital Construction expenditure limitation, funded by revenues from certificates of participation to be issued in the 2007-09 and 2009-11 biennia. Projects supported include $3.4 million for MacLaren infrastructure needs, $2 million for the Oak Creek facility, $2 million for deferred maintenance needs in OYA's facilities, $1 million for the Corvallis House renovation, and $200,000 to begin planning for renovation or replacement of the Whiteaker Building. The Capital Construction spending authority will be available through June 2013.

### Essential Budget Level

The EBL for Capital Improvements is 2.8% higher than the 2007-09 legislatively approved budget at December 2008. The increase is due to application of a standard inflation factor. The entire six-year Capital Construction budget authority approved for 2007-09 is recorded in that biennium, so does not carry forward to the 2009-11 essential budget level.

### Issues and Options

In its 2009-11 agency request budget for this program, OYA asked for $46.8 million in new Capital Construction supported with revenue from certificates of participation. The funding would pay for multiple projects, including $14 million for deferred maintenance, $8.5 million for renovation of Corvallis House (phase 2) and Whiteaker Hall, $5 million for energy conservation, and $19.3 million for increasing close custody capacity by 275 beds.

These capital projects are not part of the Governor's recommended budget. However, a portion of the projects may be funded in 2007-09 as part of a proposed initiative to add jobs and spur economic growth with infrastructure investments. In light of likely General Fund reductions, the Legislature will need to ensure that any capital investments approved for OYA are consistent with operational programs and funding levels.

# ECONOMIC AND COMMUNITY DEVELOPMENT

## County Fairs – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Lottery Funds | 3,344,827 | 3,554,474 | 3,554,474 | 3,554,474 |
| **Total Funds** | **$3,344,827** | **$3,554,474** | **$3,554,474** | **$3,554,474** |

### Agency Overview

County Fairs are provided state support as a pass-through from the Department of Administrative Services for financial assistance related to county fair activities. State funding is deposited into the County Fair Account, which is administered by the County Fair Commission. ORS 565.445 requires the Commission to distribute the monies each January in equal shares to county fair boards.

### Revenue Sources and Relationships

ORS 565.447 allocates 1% of the net proceeds of the lottery to the County Fair Account. The statute set an initial allocation cap of $1.53 million per year, but allows a biennial adjustment to the cap based on the change in the Consumer Price Index since January 2001.

### Budget Environment

The 2003 Legislature transferred the associated pass-through funding from the Department of Agriculture to the Department of Administrative Services (DAS). The Legislature determined that county fair funding would be better placed in the DAS budget since most other state Lottery pass-through dollars reside in the DAS budget.

Pass-through expenditures are included in the budget of the Department of Administrative Services in the Governor's recommended budget, but are displayed separately in Legislative Fiscal Office publications.

### Essential Budget Level

The essential budget level maintains the 2007-09 funding amount.

### Issues and Options

The Governor's recommended budget increases support for County Fairs to $3,813,569 Lottery Funds, or $1.9 million per year. Under current law, the Legislature will need to review and possibly adjust that amount based on updated Consumer Price Index information.

## Economic and Community Development Department (OECDD) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 1,791,094 | 4,227,676 | 4,760,464 | 4,431,047 |
| Lottery Funds | 93,797,043 | 132,354,598 | 133,083,024 | 113,014,071 |
| Other Funds | 31,994,929 | 42,926,613 | 53,023,261 | 45,206,567 |
| Federal Funds | 23,312,513 | 36,338,593 | 36,374,862 | 27,140,696 |
| Other Funds (NL) | 198,026,069 | 198,782,633 | 201,986,203 | 167,103,902 |
| **Total Funds** | **$348,921,648** | **$414,630,113** | **$429,227,814** | **$356,896,283** |
| Positions | 123 | 126 | 126 | 125 |
| FTE | 119.23 | 126.00 | 126.00 | 125.00 |

**Agency Overview**

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 business and industry development; support of in-state innovation efforts to improve economic competitiveness; trade, tourism and arts promotion; community development; and ports.

The 1997 Legislative Assembly established authority for the Oregon Economic and Community Development (OECD) Commission to distribute funds within the Oregon Community Development Fund for economic and community development purposes, subject to performance-based contracts. A large majority of the agency's budget reflects these distributions from the Community Development Fund, and the agency's activities to support both these distributions and other economic development activities. The Legislature also designates and directs funds, in the agency's budget, to specified economic and community development projects outside of the context of the Community Development Fund.

The Department has six budget program areas:

- The ***Operations*** program area provides overall policy direction, service delivery, and program support. All expenses relating to the operation of the agency (excluding the expenses related to support of the Arts Commission and Cultural Trust), including personal services expenditures and services and supplies expenditures, are included in the Operations program area.

- The ***Community Development Fund*** includes state and federal funds that are distributed, by direction of the Economic and Community Development Commission, in support of the Department's business and community development programs. Almost all of the expenditures in this program area are either special payments (loans, grants, or contracts) to local governments, non-profit organizations, or businesses; or debt service on bonds the state has issued to finance these categories of expenditures.

- The ***Film and Video Office*** is a semi-independent agency that receives pass-through support in the OECDD budget to promote and support the film, video, and multimedia industries in Oregon.

- The ***Oregon Arts Commission*** fosters the arts and cultural development in Oregon. All operating expenses relating to Arts Commission and Cultural Trust programs, including personal services expenditures and services and supplies expenditures, are included in this program area, as are funds awarded to individuals and arts-related nonprofit organizations.

- ***Lottery Funds Debt Service*** is used exclusively for debt service payments on lottery revenue bonds.

- ***Legislatively Directed Appropriations*** includes expenditures financed by individual line-item appropriations or allocations outside of the context of the Community Development Fund.

Following the 2007 session, the Oregon Economic and Community Development Department (OECDD) began a review of its programs, to determine how they could be made more effective, and whether any of them should be transferred to other agencies. The review was implemented out of two basic concerns. The first concern was that the broad scope of the Department's activities might have a negative impact on its effectiveness in administering the programs. The second concern was that the broad scope and complexity of the Department's programs affected its ability to communicate with its clients, the Legislature, and the public, and had a negative impact on the way the programs' performances were measured.

When this review began, some believed that effectiveness of both the community development and business development programs could be improved by transferring the community development programs to the Housing and Community Services Department (HCSD). The OECD Commission eventually rejected this concept, however, after the program reviews. Instead, it proposed that an Infrastructure Finance Authority (IFA) be established as a semi-independent agency, separate from the Department, to house most of the community development programs. The IFA would provide administrative support for the programs, and be governed by a Board that would include representatives of stakeholder groups. The IFA Board would approve the distribution of funds in the Special Public Works Fund, Water/Waste Water Financing Safe Drinking Water Revolving Loan Fund, and Ports Programs. The OECD Commission recommended transferring administration of the Community Development Block Grant Program to HCSD, transferring the Main Street Program to the State Historic Preservation Office, and transferring the Office of Minority-Owned/Women-Owned/Emerging Small Business Certification from the Department of Consumer and Business Services to OECDD.

Subsequent to making these recommendations, the State Treasurer indicated that the proposed IFA could not, as a semi-independent agency, hold the Lottery Funds within the balances of the various funds that it was supposed to administer. In response, the OECD Commission modified its recommendations, and recommended that the IFA and the community development programs (including the Community Development Block Grant) be retained in OECDD. Although the programs would still be financed within the Department's budget, a new IFA Board would nonetheless be established and given administrative authority over the community development programs (excluding the Industrial Lands Certification, Brownfields, and Regional Investment programs), independent of the Commission and the OECDD Director. Currently, the community development programs are under the authority of the OECD Commission.

### 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 for other public infrastructure, including community facilities and ports, and providing support for community-identified economic and community development programs.

The 2003 Legislature directed the agency to focus its efforts on the primary goal of assisting the business community 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 2005 Legislature added $7 million in Lottery Funds for an Innovation Economy initiative and added staff to support this initiative.

The 2003-05 budget reflected actions taken by OECDD to streamline its operations and 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 2005 Legislature maintained agency staffing at the 2003-05 level. The Emergency Board approved a reorganization plan that added 5 positions (3.58 FTE) and approved the conversion of Lottery Funds debt service (that otherwise would have reverted to the Department of Administrative Services Economic Development Fund) to support the additional staff needed to address agency workload.

### Essential Budget Level

Atypically for state agency budgets, the Department's essential budget level expenditures for the 2009-11 biennium are below the 2007-09 biennium expenditure level. State support (i.e., General Fund plus Lottery Funds) in the EBL is 14.8% below the 2007-09 biennium level, while the decline in total funds is 16.9% over the same period. There are a number of reasons why this is the case.

The decline in state support reflects the phase-out of support of a number of one-time expenditures approved in the 2007-09 biennium. The single largest expenditure phased-out in the EBL calculation is the 2007-09 biennium support for the Oregon Innovation Council (Oregon InC) Innovation Plan initiatives, at $28.2 million Lottery Funds. Although the Legislature has supported Oregon InC (or the Council's antecedents) initiatives for several biennia, the Legislature does not add these expenditures into the agency's base budget. Instead, it approves any support on a one-biennium basis. This reflects the nature of the Innovation Plan initiatives, which are targeted toward narrower outcomes than the Department's ongoing programs, and which establish short-term targets and goals of eventual self-funding. The short-term targets generally extend beyond a single biennium, however, and the Council often recommends reestablishing funding for an initiative the following biennium.

Other 2007-09 biennium one-time state support expenditures that are phased-out in the EBL calculation include $1.35 million in the Targeted Service Providers program, $1.7 million for the Strategic Reserve Fund for Workforce and Leadership issues, $0.5 million each for the Olympic Trials, the Main Street program, and commercial fisheries support, and $396,000 approved for information technology investments. Additionally, Federal Funds expenditures of $9.3 million are phased-out to reflect declining federal support, primarily in the Community Development Block Grant program.

### Issues and Options

The Governor's recommended budget supports the OECD Commission's recommendations to realign the Department's programs and to establish an Infrastructure Finance Authority within the Department. The Legislature would need to approve statutory changes outside of the OECDD biennial budget bill to implement these recommendations. There are no adjustments to overall expenditure or staffing levels associated with the proposed realignment. The Governor's recommended budget does, however, include changes in the program area structure of the budget to more clearly delineate between the community development and other programs, so to better support the proposed separate governance structures for these programs.

## OECDD – Operations

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Lottery Funds | 15,971,578 | 18,253,590 | 18,982,016 | 19,406,981 |
| Other Funds | 7,268,071 | 10,170,632 | 10,442,500 | 10,410,834 |
| Federal Funds | 645,498 | 1,683,457 | 1,719,726 | 1,339,483 |
| **Total Funds** | **$23,885,147** | **$30,107,679** | **$31,144,242** | **$31,157,298** |
| Positions | 114 | 117 | 117 | 116 |
| FTE | 111.15 | 117.00 | 117.00 | 116.00 |

### Program Description

The Director of OECDD is appointed by the Governor and confirmed by the Senate. Operations includes the ***Office of the Director*** (13.00 FTE), and four operating divisions. The divisions are: ***Central Operations*** (37.00 FTE) **–** which include administration of Department financial programs and contracts, and the Department's budget and fiscal services, information systems, and administrative support functions; ***Business and Trade Development*** (32.00 FTE) **–** which houses the business development, recruitment, and retention programs including the business development officers, and the small business and international trade support programs; ***Community Development*** (26.00 FTE) **–** which houses the infrastructure, brownfields, Community Development Block Grant, regional, industrial lands, and ports programs, and includes the agency's regional coordinators; and ***Innovation and Economic Strategies*** (9.00 FTE) **–** which provides staff support to the Oregon Innovation Council (Oregon InC) and supports the Department's cluster and other strategic planning.

### Revenue Sources and Relationships

Estimated revenues for the 2009-11 biennium include $1.4 million in Federal Funds (down 19.5% from the prior biennium level) for administration of federal programs and the Community Development Block Grant program, and $9.6 million in Other Funds (down 4.8% from the prior biennium level) 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 did the additional workload generated by the new programs, such as the Safe Drinking Water Revolving Loan program and expanded infrastructure program.

### Essential Budget Level

The $19.4 million of Lottery Funds required to finance the essential budget level is only a 2.2% increase over the prior biennium level. The essential budget level includes a phase-out of a one-time $396,000 Lottery Funds expenditure for information technology investments funded for the 2007-09 biennium, and a $236,000 Lottery Funds reduction in state government service charges. There is also a phase-out of $394,000 Federal Funds, reflecting a projected reduction in federal funding of the Community Development Block Grant program. This represents a 23% shortfall from the funding level needed to support ongoing Operations program area costs.

The projected $9.6 million of Other Fund revenues is not sufficient to finance the $10.4 million of Other Fund costs in the essential budget level. To support essential budget level expenditures, the agency will have to spend down its Other Fund balances by an estimated 46% in the 2009-11 biennium.

### Issues and Options

The Governor's recommended budget has no reductions in the Operations program area from the essential budget level, and provides an additional $350,000 Lottery Funds to establish two new positions (1.50 FTE) to serve as liaisons with other agencies to coordinate state workforce policies.

The Governor's recommended budget also funds two expansions in the Operations program area with Other Funds. The first increases Other Funds expenditures by $219,633 to establish one new Finance Officer position (1.00 FTE) to support financial oversight of the community development fund programs. The second enhancement is to transfer the Office of Minority-Owned/Women-Owned/Emerging Small Business Certification from the Department of Consumer and Business Services (DCBS) to OECDD, as the OECD Commission recommended in its agency realignment overview. The $938,423 Other Funds and five positions (5.00 FTE) added to the Operations program area are offset by equivalent reductions in the DCBS budget, resulting in no net impact on the state budget.

The Governor's budget also accepts the other OECD Commission recommendations on program realignment. The Main Street program is funded in the State Historic Preservation Office budget, and the Governor would reorganize the budget structure of the Department. The Governor's budget recommendations include eliminating the Operations program area, and allocating the expenditures and positions therein to three newly-created program areas. The recommendations include also eliminating the Community Development Fund program area, and replacing these with one program area for central agency administration and shared services, a second program area for the community development programs to be overseen by the new Infrastructure Finance Authority which would combine both administrative costs and program costs for the relevant programs, and a third program area to combine administrative costs and program costs for the remaining programs (broadly, business development, innovation, and trade).

## OECDD – Community Development Fund

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 493,143 | 0 | 500,000 | 0 |
| Lottery Funds | 28,076,388 | 48,130,895 | 48,130,895 | 22,975,362 |
| Other Funds | 19,464,365 | 24,692,722 | 34,492,722 | 25,383,279 |
| Federal Funds | 21,383,819 | 32,910,538 | 32,910,538 | 24,007,766 |
| Other Funds (NL) | 191,940,875 | 182,666,833 | 182,666,833 | 167,103,902 |
| **Total Funds** | **$261,358,590** | **$288,400,988** | **$298,700,988** | **$239,470,309** |

### Program Description

The Community Development Fund program area 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 includes federal resources used to finance local programs and projects. It also includes Other Funds resources used to finance local programs and projects, through loans and grants, and includes Other Funds resources for business finance. Each Federal Funds and Other Funds resource retains its identity for purposes of eligibility and reporting, but is considered part of the Community Development Fund for statewide resource prioritization and allocation.

### Revenue Sources and Relationships

Community Development Fund program area revenues include fees and service charges, interest earnings, loan repayments, federal grant funds, and Nonlimited Other Funds from the sale of program specific revenue bonds and lottery-backed bonds. Nonlimited Other Funds revenue includes $50.9 million in interest income and $64.7 million in loan repayments from community and port infrastructure projects and business finance loans. Programs include the Special Public Works Fund, Water/Wastewater Funds, Brownfields Redevelopment Fund, and Port Revolving Fund for the investment of proceeds from lottery-backed bond sales. Other Funds revenues include $38 million for the Safe Drinking Water Revolving Loan Fund. These are federally-sourced funds that are transferred to the Department from the Department of Human Services.

### Budget Environment

The 2007 Legislature approved a 71% increase in Lottery Funds for the Community Development Fund over the 2005-07 biennium level. This resulted primarily from an increase in support for the Oregon Innovation Council's Innovation Plan, which increased from $7 million lottery funds in the 2005-07 biennium to $28.2 million in 2007-09.

The state also issues lottery revenue bonds for the Community Development Fund. These lottery bonds provide capital to finance 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 lottery bond proceeds are in some cases used to match proceeds from Oregon Bond Bank bonds. The mixture of bond, loan, and grant funds increases OECDD's capacity for financing projects, and are spent in the agency budget as Nonlimited Other Funds. The 2005 Legislature approved $45 million in lottery bonds for brownfields redevelopment and industrial lands infrastructure development. The 2005-07 legislatively adopted budget included $90.5 million in Nonlimited Other Funds, reflecting increased bonding and loan repayments in the various revolving loan programs. The 2007-09 biennium legislatively adopted budget supported an additional $33.4 million of lottery bonds for infrastructure and specified projects. Debt service on lottery bonds is discussed in the Lottery Debt Service program area.

All components of the Innovation Plan share the common purposes of supporting innovation in Oregon and improving the state's economic competitiveness. The three Signature Research Center initiatives focus on building university research capacity in their respective areas, and on coordinating and promoting university research projects that will develop innovations that can be commercialized to establish new Oregon businesses and assist existing Oregon businesses. The other initiatives work to develop, share, and implement innovations to support certain emerging and established industries in the state.

### Essential Budget Level

Although Oregon InC Innovation Plan proposals have been funded in the agency budget for several biennia, this funding is approved each biennium on a one-time basis and not included in the essential budget level. This reflects the nature of the Innovation Plan initiatives, which are targeted toward narrower outcomes than the Department's ongoing programs, and which establish short-term targets and goals of eventual self-funding. As such, the $28.2 million of Lottery Funds allocated for the Oregon InC Innovation Plan in the 2007-09 legislatively approved budget is phased-out in the calculation of the 2009-11 essential budget level.

### Issues and Options

The Governor's recommended budget reduces Lottery Funds expenditures from the Community Development Fund below 2007-09 biennium levels. For the Oregon InC Innovation Plan, this is done by recommending a new, one-time Lottery Fund support level that is 27.2% below the 2007-09 biennium level. For the other ongoing programs in the Community Development Fund, which are included in the essential budget level, this is done by taking a direct reduction from the EBL. The essential budget level for these ongoing programs totals $23 million Lottery Funds. The Governor's budget reduces funding from this level by $5.35 million Lottery Funds, or 23.3%. Because the OECD Commission determines the funding levels for specific programs within the Community Development Fund, this impact on specific programs is not certain. Department staff, however, have indicated that their recommendation to the Commission will likely be to distribute this reduction as follows, where figures indicate the dollar and percentage reductions from the program essential budget levels: Regional Investment programs – $2.1 million (100% reduction for new program activity), Governor's Strategic Reserve Fund – $2 million (14.9%), Small Business Services (Small Business Development Center Network) – $1.26 million (53%), Industry Sector Outreach and Business Retention – $25,000 (1.5%).

The Governor's recommended Oregon InC funding supports the continuation of all seven programs funded in the 2007-09 biennium, plus funding for a new Forestry Cluster initiative. Funding for six of the seven ongoing

**Oregon InC Innovation Plan**
**Lottery Funds**

| Program | 2007-09 Legislatively Approved | 2009-11 Governor's Recommended | Change |
|---|---|---|---|
| Signature Research Centers | | | |
| 1) ONAMI - Oregon Nanoscience and Microtechnologies Institute | $9,000,000 | $5,656,500 | -37.2% |
| 2) OTRADI - Oregon Translational Research and Drug Development Institute | $5,250,000 | $2,760,000 | -47.4% |
| 3) BEST - Built Environment and Sustainable Technology Center | $2,500,000 | $3,172,500 | 26.9% |
| Emerging Industry Initiatives | | | |
| 4) OWET - Oregon Wave Energy Trust | $4,200,000 | $3,465,000 | -17.5% |
| Established Industry Initiatives | | | |
| 5) Northwest Food Processors Innovation Productivity Center | $3,432,000 | $1,620,000 | -52.8% |
| 6) Manufacturing Competitiveness Initiative (PSU/OMI) | $2,872,000 | $1,035,000 | -64.0% |
| 7) Community Seafood Initiative | $900,000 | $450,000 | -50.0% |
| 8) Forestry Cluster Initiative | | $2,340,000 | New |
| **Total** | **$28,154,000** | **$20,499,000** | **-27.2%** |

programs is reduced from the prior biennium level. These reductions range from a 17.5% reduction for the Oregon Wave Energy Trust, to reductions of 50% or more for the food processing, community seafood, and manufacturing competitiveness initiatives. Funding for the BEST signature research center, or the other hand, is increased almost 27% over the 2007-09 biennium level. BEST focuses on clean energy, bio-based products, and energy efficient building and development technologies. A new Forestry Cluster Initiative isdesigned to create a Center for Forest Transportation and supporting tree-growing technologies and other innovations in the forestry industry.

The Governor's budget also includes two policy option packages funded by Other Funds. The first is a $12.5 million Other Funds expenditure limitation increase, to allow spending of federally sourced funds from the U.S. Environmental Protection Agency for water system improvement projects under the Safe Drinking Water Revolving Loan Fund program. The second is approval of $9 million in Lottery bond proceeds to add capital to the infrastructure revolving loan funds (primarily the Special Public Works Fund). These Lottery bond proceeds are spent in the agency budget as Nonlimited Other Funds. The Governor's budget proposes issuing the Lottery bonds late enough in the biennium to postpone the first debt service payment until 2011-13. The bonds would be issued on a taxable basis with a 20-year term, generating estimated debt service costs of $2.1 million per biennium, to be paid with Lottery Funds.

In support of the OECD Commission's agency realignment recommendations, the Governor's budget recommends eliminating the Community Development Fund program area, and allocating the expenditures therein to two newly-created program areas. Approximately 86% of program area expenditures would be allocated to a newly-established program area that would hold the community development programs overseen by the new Infrastructure Finance Authority. The program area would also hold the agency's administrative costs associated with those programs. The remaining 14% of expenditures in the Community Development Fund program area would be allocated to a newly-established program area for the remaining programs (broadly, business development, innovation, and trade). This new program area would also combine the agency's administrative costs associated with these programs. This represents a change from the current practice of separating agency administrative costs from special payments in the agency's budget structure.

## OECDD – Film and Video Office

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Lottery Funds | 841,605 | 1,281,695 | 1,281,695 | 1,317,582 |
| **Total Funds** | **$841,605** | **$1,281,695** | **$1,281,695** | **$1,317,582** |

### Program Description

The Film and Video Office is a marketing agency for Oregon's statewide promotion of the film, video and multimedia industries. The 1995 Legislative Assembly authorized the semi-privatization of the Film and Video Office, which provides the program with greater flexibility in marketing activities. OECDD is responsible for the pass-through of Lottery Funds to the Office. The Office recruits film productions through its marketing efforts, provides assistance to productions to identify film locations, and administers the state's film and video incentive programs. Services include maintaining a photo library of potential movie and television locations statewide and assisting in film permitting.

A consultant's report commissioned by the Film and Video Office estimates the industry generated $709.5 million in direct economic output and generated 6,325 full- and part-time jobs in 2007, up 43.6% and 14.6%, respectively, from the levels two years earlier. Approximately 4,000 of the jobs in 2007 were in the indigenous film and video sector, 669 jobs resulted from out-of-state production companies working in Oregon, and 1,655 jobs were in the television and cable broadcasting industries. The fastest growing sector is the out-of-state production companies, where the 669 jobs in 2007 represents a 276% increase over the 2005 level.

### Revenue Sources and Relationships

The state-funded portion of the Office budget is from Lottery Funds, which OECDD passes through to the semi-independent office. The Lottery Funds finance the Film and Video Office's operating expenses, including the personnel costs of the office's six staff members. As a semi-independent agency, the office's employees are not considered state employees and are not included in the OECDD position count. In 2007, the Legislature increased support for the Office by 52% over the 2005-07 biennium. Three-quarters of this increase was dedicated to support expanding the Office's marketing activities.

### Essential Budget Level

Because the Film and Video Office is a semi-independent agency, the essential budget level calculation does include adjustments to phase-in compensation cost increases awarded in the prior biennium. The EBL is instead calculated as a simple 2.8% increase over the 2007-09 legislatively adopted budget.

### Issues and Options

The Governor's recommended budget provides Lottery Funds support for the Office of $50,000 (or 3.8%) below the calculated essential budget level. His budget also includes a 50% expansion of one of the Office's film incentive programs – the Oregon Production Investment Fund (OPIF) Program. This program provides film producers with a cash rebate of up to 20% of qualified goods and services expenditures and up to 10% of Oregon payroll costs. Rebates awarded under this program are not included in the Film and Video Office budget.

Funding for these rebates comes from money donated to the OPIF. Donors, however, are eligible for a tax credit against Oregon personal income tax. The amount of this credit is 110% of the donation amount, meaning the donation can be made at no cost to the taxpayer, and indeed the taxpayer personally gains from the donation by receiving a tax reduction that exceeds the donated amount. Current law limits the amount of tax credits that may be awarded to no more than $10 million per biennium. Because these credits reduce personal income tax collections, the cost of the program to the state is $10 million per biennium. Because the donation amount is less than the tax credit, the $10 million of tax credits provide approximately $9 million in production rebate funding. The Governor recommends increasing the maximum biennial tax credit to $15 million, thereby reducing

General Fund revenue by an additional $5 million to provide an additional $4.5 million of production rebate funds. Alternatively, the state could provide the same level of additional rebates at a cost of only $4.5 million through a direct allocation of funds. Similarly, the state could save $1 million by repealing the existing credit, and replacing it with a direct allocation of $9 million to support the existing level of OPIF rebates.

## OECDD – Arts Commission

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 1,297,951 | 4,227,676 | 4,260,464 | 4,431,047 |
| Other Funds | 3,437,043 | 5,933,259 | 5,958,039 | 6,148,672 |
| Federal Funds | 1,283,196 | 1,744,598 | 1,744,598 | 1,793,447 |
| **Total Funds** | **$6,018,190** | **$11,905,533** | **$11,963,101** | **$12,373,166** |
| Positions | 9 | 9 | 9 | 9 |
| FTE | 8.08 | 9.00 | 9.00 | 9.00 |

### 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 is the only part of the Department's budget that is regularly supported by General Fund. The Commission also receives federal NEA funding, 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 79% 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, to the Arts Commission. The mission of the Oregon Cultural Trust is to build a new public-private fund to support arts, humanities, and heritage sectors.

In 2003, the Legislature reduced General Fund support for the Commission 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 would result in improved efficiencies and that funds raised for the Trust would help to support the Commission. However, program revenue was not sufficient to support the staffing approved in the transfer.

In 2007, the Legislature appropriated $2.9 million General Fund to support the Creative Oregon Initiative. The funds were made available to increase grants to artists and arts-related programs, to provide business training to artists and arts administrators, to expand the Commission's staff support, and to promote the Cultural Trust program. The 2007-09 biennium level of General Fund support represents a 228% increase over the level appropriated to the Commission the prior biennium.

### Essential Budget Level

The increase in the essential budget level over 2007-09 biennium expenditure levels incorporates only the standard adjustments for personnel cost increases, and for inflation in services and supplies costs and state government service charges.

### Issues and Options

The Governor's recommended budget includes an additional $1 million of General Fund above the essential budget level for Creative Oregon II, a further expansion of the supplemental funding added in the 2007-09 biennium. Most of the funds ($800,000) would be used to supplement the Commission's grant program, the remainder would support program administration and marketing.

## OECDD – Lottery Debt Service

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Lottery Funds | 48,907,472 | 58,388,418 | 58,388,418 | 69,314,146 |
| Other Funds | 1,825,450 | 2,130,000 | 2,130,000 | 3,263,782 |
| Other Funds (NL) | 0 | 0 | 2,883,570 | 0 |
| **Total Funds** | **$50,732,922** | **$60,518,418** | **$63,401,988** | **$72,577,928** |

### Program Description

The Lottery Debt Service program includes debt service payments on all lottery revenue bonds that have been issued to support OECDD programs. Debt service on revenue bonds issued for the Oregon Bond Bank are shown in Nonlimited Other Funds in the Community Development Fund program area.

### Revenue Sources and Relationships

Debt service is paid with Lottery Fund allocations. However, interest earnings on lottery-bond reserves are also applied to pay debt service, to minimize the size of the required Lottery Funds allocation. Interest earnings are spent as Other Funds. The budget for this program was 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. The 2005-07 legislatively adopted budget provided $51 million total funds, an increase of $11.8 million (30%) above the 2003-05 legislatively approved budget from rollup costs for debt service on previously authorized infrastructure bonds. The 2005 Legislature authorized the use of $1.9 million in Other Funds from interest earnings on lottery-bond reserves and proceeds for the debt service on the $45 million in bonding authority for industrial lands infrastructure. The 2007 Legislature also approved the use of interest earnings on lottery-bond reserves and proceeds for the debt service. Debt service costs on lottery bonds is projected to total $63.4 million in the 2007-09 biennium budget, a 25% increase over the prior biennium level.

### Essential Budget Level

The essential budget level funds debt service for Lottery bonds that the Legislature has approved for Department-funded projects prior to the 2009 session, and that have issued or are expected to be issued. Lottery bond debt service expenses for these bonds during the 2009-11 biennium will total $72.6 million, an increase of $9.2 million, or 14.5%, over the prior biennium level. This increase results from Lottery bonds newly-issued during the 2007-09 biennium. In 2007, the Legislature authorized an additional $21.42 million of Lottery bonds for infrastructure projects funded through the Community Development Fund, plus $7 million of Lottery bonds for a parking facility in downtown Hillsboro and $5 million of Lottery bonds for the Coos Bay Channel Project.

### Issues and Options

The Governor's recommended budget funds Lottery Debt Service at the essential budget level. The budget does support authorization of an additional $9 million of Lottery bond proceeds for infrastructure projects in the 2009-11 biennium, but requires these bonds be issued late in the biennium to delay debt service charges until the 2011-13 biennium. Debt service costs on the $9 million of Lottery bond proceeds would be an estimated $2.1 million per biennium, beginning in 2011-13 and then continuing for the 20-year term of the bonds.

## OECDD – Legislatively Directed Appropriations

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Lottery Funds | 0 | 6,300,000 | 6,300,000 | 0 |
| Other Funds (NL) | 6,085,194 | 16,115,800 | 16,435,800 | 0 |
| **Total Funds** | **$6,085,194** | **$22,415,800** | **$22,735,800** | **$0** |

### Program Description

Legislatively Directed Appropriations includes items that are specifically identified by the Legislature as line item expenditures. All items represent one-time expenditures unless identified otherwise by the Legislature.

### Revenue Sources and Relationships

Projects have been funded either with Lottery Funds or with bond proceeds (which are shown in the Other Funds Nonlimited number). In the 2007-09 biennium, seven items received a total of $6.3 million of Lottery Funds.

### Essential Budget Level

Because Legislatively Directed Appropriations are typically one-time expenditures, their funding is phased-out and not included essential budget level for the following biennium. One Lottery-funded item was not phased-out and remains in the essential budget level. Essential budget level funding of the regional investment program, which provides pass-through economic development funds to regional economic development boards, was transferred to the Community Development Fund program area, as this was a long standing Department program. The $2 million provided for this program in the 2007-09 biennium was a major reduction from prior levels.

### Issues and Options

By definition, there are no new legislatively directed appropriations in the Governor's recommended budget. The Governor's recommended budget does eliminate the remaining funding for the regional investment program. This is noted in the Community Development Fund section above, where continued funding was included in the essential budget level.

## Employment Department (OED) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 3,714,007 | 3,886,325 | 3,976,091 | 4,170,698 |
| Other Funds | 94,639,938 | 118,075,537 | 121,768,437 | 124,337,370 |
| Federal Funds | 247,466,002 | 243,543,767 | 253,659,367 | 255,114,976 |
| Other Funds (NL) | 1,076,205,892 | 1,436,098,557 | 1,436,098,557 | 1,496,309,317 |
| **Total Funds** | **$1,422,025,839** | **$1,801,604,186** | **$1,815,502,452** | **$1,879,932,361** |
| Positions | 1,373 | 1,288 | 1,331 | 1,308 |
| FTE | 1,356.77 | 1,273.35 | 1,284.10 | 1,273.39 |

### Agency Overview

The Employment Department (OED) offers services in five program areas:

- Unemployment Insurance (UI) provides wage replacement income to workers who are unemployed through no fault of their own.
- Business and Employment Services offers job listing and referrals services and career development resources.
- Child Care promotes and regulates the child care industry.
- Workforce and Economic Research coordinates the collection and dissemination of occupational and economic climate data for the state, workforce regions, and counties.
- Office of Administrative Hearings conducts contested cases for approximately 70 state agencies.

### Revenue Sources and Relationships

Sources of Other Funds revenues include:

- The ***Oregon UI Trust Fund***, with a projected balance of $1.6 billion, consists of employer payroll taxes collected by the Employment Department and held by the U.S. Treasury. These funds are designated for unemployment insurance compensation payments to qualified individuals.
- ***Reed Act*** funds, in the amount of $98 million, were distributed to OED as Other Funds from the federal Employment Security Administration Account in 2002 and an additional $5.3 million in 2008-09 as a result of the Federal extension of unemployment benefits. These funds can and have been spent over multiple biennia, but only for expenditures relating to UI and Employment Services administration. The 2009-11 essential budget level assumes expenditures of $18 million. The remainder of these funds, approximately $11.7 million, will be expended in 2011-13, allowing the agency to downsize gradually to operate within limited or discontinued Federal Funds.
- The ***Special Administrative Fund*** receives revenues from penalties and interest on delinquent payment of employer taxes. These funds are designated for administrative expenses or other needs as determined by the Director of the Department. The legislatively adopted budget expends $6.1 million, leaving an estimated ending balance of $7.8 million.
- The ***Supplemental Employment Department Administrative Fund (SEDAF)*** is funded by a 0.9% unemployment tax diversion to fund administration of the unemployment system. The 2009-11 essential budget level assumes $64 million. However, because of the economic downturn, that revenue is unlikely to materialize as anticipated.
- 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 2009-11 essential budget level expends $4 million, leaving an estimated ending balance of $179,000.
- The ***JobsPlus Unemployment Fund***, authorized by HB 3441 (2001), was created through a diversion of UI taxes over a two-year period to support subsidized employment opportunities for UI clients. The program was discontinued at the end of the 2003-05 biennium. Proposed legislation to divert additional funding and extend the operations of the program failed to pass. Approximately $300,000 is anticipated to remain in the fund at the close of the 2007-09 biennium. OED will request legislation in the 2009 legislative session to close this fund and transfer the balance to the General Fund.
- The ***Child Care Fund*** consists of donations received through the *Child Care Contribution Tax Credit* program. Donors receive tax credits of $0.75 for each dollar contributed to the Child Care Division, up to $500,000

total credits each year. The essential budget assumes tax credits will generate $1.33 million in revenue for 2009-11, used to fund demonstration projects pursuant to statute. The demonstration projects selected by the Department are designed to show the effects of simultaneously increasing quality of care affordability and provider compensation. The Legislature extended the tax credit until January 1, 2013, enabling continuation of programs. This fund also includes the licensing fees from child care providers, which are assumed to be $743,000 for the 2009-11 biennium.

OED also receives Other Funds revenues from other state agencies for providing job placement services and conducting contested case hearings. The 2007-09 legislatively adopted budget continued 25 limited duration positions for this purpose, as described in the Business and Employment Services section below.

Sources of Federal Funds revenue include:
- ***Employer payroll taxes*** collected by the Internal Revenue Service under authority of the Federal Unemployment Tax Act (FUTA). During the 2007-09 biennium, an estimated $102.1 million will be distributed by the U.S. Department of Labor for administration of the Unemployment Insurance Program, and an additional $21.5 million is expected for employment services provided under the Wagner-Peyser Act, the Trade Adjustment Act, and for veterans placement services.
- ***Child Care and 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, is allocated by the U.S. Department of Health and Human Services. An estimated $123.3 million will be received during the 2009-11 biennium. Approximately 82% of these funds are reallocated to child care-related programs at other state and local agencies.

### Budget Environment

Economic conditions and trends directly affect OED's policy decisions and workload. During times of economic recession, high unemployment rates increase the number of clients served through Unemployment Insurance payments and job search services in field offices.

At present, the Oregon Employment Department is experiencing an unprecedented increase in Unemployment Insurance claims. In 2007-09, OED proposed and the Legislature adopted an agency downsizing plan in response to flat or declining federal funding. OED assumed that the funding decline would continue into 2009-11 and was prepared to make further reductions to balance its budget. However, the worsening economy has resulted in higher reimbursement rates for UI-related administration from the U.S. Department of Labor, and the 2009-11 essential budget level, the agency request, and the Governor's recommended budget include no further FTE reductions. At the December 2008 meeting of the Emergency Board, the agency requested and received additional Federal Funds expenditure limitation tied to higher reimbursement rates from the Department of Labor for UI-related administration, and established 43 limited duration positions to meet rising workload from additional claims.

Also in response to a changing economy and flat or declining federal revenue, OED began an initiative in 2007 to integrate workforce skill development and assessment with the Department of Community Colleges and Workforce Development (CCWD). The goal is to seamlessly provide skill assessment, training and job placement services to Oregon workers and job seekers, making better use of limited Workforce Investment Act (through CCWD) or Wagner-Peyser (Employment Department) dollars while eliminating duplicative administrative processes, leading to better skilled workers for employers and higher wage jobs for job seekers. The integration involves co-location and a shared intake and customer database, and both OED and CCWD reported that it could be accomplished within existing 2007-09 resources. The integration process has been in effect and under refinement since October.

The need for an accessible, affordable, high quality child care system also remains high. OED attempts 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. This is the only program within OED which receives General Fund support, and reductions to the 2009-11 essential budget level may need to be considered.

### Essential Budget Level

The 2009-11 essential budget level for the Employment Department is a 3.6% increase over the 2007-09 legislatively approved budget, primarily due to inflation associated with personal service costs.

### Issues and Options

OED is proposing legislation affecting unemployment insurance that mirrors legislation proposed and expected to be acted upon by the United States Congress. The following concepts would have a fiscal impact because they expand the number of individuals eligible to receive benefits. No associated policy option packages are included in the Governor's budget because there would be no impact to OED unless and until Congress takes action. The concepts include the following:

- An alternate methodology to determine eligibility for unemployment benefits allowing workers with an intermittent employment history to qualify for benefits, mirroring legislation that has been proposed in Congress.
- Allowing part time workers who are not willing to accept full-time employment to get benefits. Again, Congress is proposing similar legislation.
- Allowing workers to participate in job training programs without losing benefits.

Other legislation submitted at the request of the Employment Department include technical changes to Unemployment Insurance Statutes relating to corporations and how their UI tax rate is calculated; and elimination of statutory language regarding the Employment Department's involvement in the Jobs Plus program, which has not been funded by OED since 2005. The latter bill has no expenditure impact, and would result in the remaining balance of the Jobs Plus account – about $300,000 – to the UI trust fund. Bill numbers associated with these concepts were not available as of this writing.

The Governor's recommended budget includes policy option packages to enable the Department to continue to provide job placement services under contract to partner and state agencies on a fee for service basis, and a package to provide limitation and FTE for special research projects on a fee for service basis within the Workforce and Economic Research division. In addition, the Governor recommended transferring three administrative support positions associated with processing appeals for drivers licenses from the Office of Administrative Hearings to the Department of Transportation's Driver and Motor Vehicles (DMV) Division, and reduced federal funding projections for child care funds.

## OED – Unemployment Insurance

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 9,380,460 | 17,878,115 | 18,252,933 | 18,835,150 |
| Federal Funds | 94,524,916 | 92,326,531 | 101,375,345 | 101,148,899 |
| **Total Funds** | **$103,905,376** | **$110,204,646** | **$119,628,278** | **$119,984,049** |
| Positions | 586 | 545 | 588 | 597 |
| FTE | 577.43 | 537.8 | 548.55 | 568.97 |

### Program Description

The Unemployment Insurance program determines eligibility for benefits; processes benefit payments; enforces UI laws; collects employer payroll taxes; and provides support to the Employment Appeals Board (EAB). EAB, made up of three Governor-appointed members, is a separate and federally funded entity located within OED for administrative purposes and is responsible for reviewing decisions of the Office of Administrative Hearings on benefit cases.

### Essential Budget Level

The 2009-11 essential budget level is a 0.3% increase from the 2007-09 legislatively approved budget.

### Issues and Options

Significant additional reductions in federal support for the unemployment insurance program are not anticipated over the next few years due to the ailing national economy and because OED has modified its internal processes to maximize the amount of federal reimbursement that is paid for administration of the unemployment insurance program. While the result of this maximization effort may be an increase in Federal reimbursement in the near term, there is a risk that Oregon's share of the total may once again decline. Because the total amount of available federal revenue for UI administration has not been growing, future increases to Oregon are likely to come at the expense of other states, who may also take similar steps to maximize their reimbursement.

## OED – Business and Employment Services

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 54,000 | 0 | 0 | 0 |
| Other Funds | 56,488,056 | 67,043,299 | 69,306,927 | 69,807,032 |
| Federal Funds | 25,705,984 | 22,818,933 | 23,457,296 | 21,351,239 |
| **Total Funds** | **$82,248,040** | **$89,862,232** | **$92,764,223** | **$91,158,271** |
| Positions | 518 | 481 | 481 | 448 |
| FTE | 514.84 | 478.05 | 478.05 | 446.42 |

### Program Description

This program's mission supports businesses and promotes employment. Services are provided through field offices which recruit and refer qualified applicants to employers by matching the skills of the job seeker with employer job openings. Job seekers and employers can access employment information through interactive job services on OED's website. OED coordinates services with other Workforce partners to help customers access training, skills assessment counseling, and employability planning.

### Essential Budget Level

The 2009-11 essential budget level is a 1.7% decrease from the 2007-09 legislatively approved budget because of an assumed decline in the amount of federal revenue available to support businesses and employment services functions. The Department will be using Special Administrative Funds (Other Funds) to backfill the assumed decline.

### Issues and Options

The Governor's recommended budget includes a policy option package to provide additional Other Fund expenditure limitation in the amount of $2.7 million and authority for 25 limited duration positions to provide job placement services under contract to partner and state agencies. The Department utilizes the positions to respond to state and local agencies who contract with OED to place individuals from training programs (such as vocational rehabilitation, the JOBS program at DHS, and various workforce training programs at community colleges). A similar package has been approved for the last eight biennia (with greater or lesser numbers of positions) depending on the workload estimates of partner agencies. Not all authorized positions have been fully utilized in the past (in 2003-05 and 2005-07, approximately 20 of the 25 authorized limited duration positions were filled) as the positions are only filled when there is sufficient workload and funding availability. The package is funded on a fee-for-service basis.

## OED – Child Care

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 3,660,007 | 3,886,325 | 3,976,091 | 4,170,698 |
| Other Funds | 1,890,875 | 2,522,990 | 2,522,990 | 2,729,520 |
| Federal Funds | 120,614,717 | 122,476,548 | 122,739,183 | 126,386,344 |
| **Total Funds** | **$126,165,599** | **$128,885,863** | **$129,238,264** | **$133,286,562** |
| Positions | 74 | 74 | 74 | 76 |
| FTE | 70.00 | 70.00 | 70.00 | 72.00 |

**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 and inspects child care centers, family homes, and regulated providers; enforces mandatory registration of family child care providers; and staffs the Child Care Commission (CCC). CCC advocates and advises the Governor and Legislature on affordable, quality child care in Oregon.

**Essential Budget Level**

The 2009-11 essential budget level is a 3.1% increase over the 2007-09 legislatively approved budget.

**Issues and Options**

The Governor's recommended budget includes a policy option package to reduce Federal Funds by $3,136,788 in anticipation of flat funding from the federal Child Care Development Fund. The reduction will impact funds transferred to DHS Employment Related Day Care and Jobs Plus programs, and will reduce support for local commissions on children and families, school districts, community colleges, and child care resource and referral agencies.

## OED – Workforce and Economic Research

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 5,512,164 | 7,362,939 | 7,627,324 | 7,832,019 |
| Federal Funds | 6,620,385 | 5,921,755 | 6,087,543 | 6,228,494 |
| **Total Funds** | **$12,132,549** | **$13,284,694** | **$13,714,867** | **$14,060,513** |
| Positions | 72 | 69 | 69 | 68 |
| FTE | 71.50 | 68.50 | 68.50 | 67.50 |

**Program Description**

This program coordinates the collection and dissemination of occupational and economic climate data for the state, workforce regions, and counties, and is Oregon's designated employment statistics agency under the federal Workforce Investment Act. Businesses and individuals can access data through monthly and annual publications such as *Labor Trends*, which outlines payroll, unemployment, and other economic-related issues by workforce region, or through on-line resources such as the Oregon Labor Market Information System. The program also conducts specialized surveys requested through the U.S. Bureau of Labor Statistics or local workforce investment boards.

**Essential Budget Level**

The 2009-11 essential budget level is a 2.5% increase over the 2007-09 legislatively approved budget.

**Issues and Options**

The Governor's recommended budget includes a policy option package to increase Other Fund expenditure limitation by $782,050 and provides 2.00 limited duration FTE for special analysis on an as-requested, fee for service basis. Examples of analysis and research include surveys, publications, and consultants, if applicable. OED has stated that the positions would only be filled if relevant specific projects and associated funding are identified.

## OED – Office of Administrative Hearings

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 21,368,383 | 23,268,194 | 24,058,263 | 25,133,649 |
| **Total Funds** | **$21,368,383** | **$23,268,194** | **$24,058,263** | **$25,133,649** |
| Positions | 123 | 119 | 119 | 119 |
| FTE | 123.00 | 119.00 | 119.00 | 118.50 |

### Program Description

The program's mission is to be an independent and impartial forum for citizens and businesses to adjudicate their disputes with state agencies. Approximately 70 state agencies are required to utilize the services of the Office of Administrative Hearings for their contested case proceedings.

### Essential Budget Level

The 2009-11 essential budget level is a 4.47% increase over the 2007-09 legislatively approved budget, in part because of a classification and compensation study conducted by the Department of Administrative Services Human Resource Services Division that resulted in salary increases for administrative law judges.

### Issues and Options

The Governor's recommended budget includes a policy option package that reduces Other Funds expenditure limitation by $320,250 and eliminates three full-time, permanent positions. The positions process drivers' license appeals and are administrative in nature. Because they are not directly related to the hearings process, they are being transferred to the Department of Transportation (DMV).

## OED – Nonlimited

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds (NL) | 1,076,205,892 | 1,436,098,557 | 1,436,098,557 | $1,496,309,317 |
| **Total Funds** | **$1,076,285,892** | **$1,436,098,557** | **$1,436,098,557** | **$1,496,309,317** |

### Program Description

Payments of unemployment benefits to qualified applicants (associated with the Unemployment Insurance Division of OED) and federal Trade Adjustment Act payments (associated with the Business and Employment Services Division of OED) are budgeted as Nonlimited.

### Essential Budget Level

The 2009-11 essential budget level is a 0.6% increase over the 2007-09 legislatively approved budget.

### Issues and Options

Oregon's UI system is funded through a counter-cyclical strategy of raising revenue to pay benefits from employers when the economy is strong. Employer premiums are set in law and adjust annually so that sufficient reserves are on hand to cover 18 months of a recession. Unlike other states with a "pay-as-you-go" UI system, Oregon's employers are more insulated from sharp increases in premiums, and the state is not at risk for insolvency, unlike some other state UI systems.

## Oregon Historical Society – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 0 | 2,800,000 | 2,800,000 | 0 |
| **Total Funds** | **$0** | **$2,800,000** | **$2,800,000** | **$0** |

### Agency Overview

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

OHS is a nonprofit organization that is financed largely by membership fees, contributions, and publication sales. The state used to consistently provide a supplemental grant, but that support has been intermittent in recent biennia. In the past, the state grant amounted to slightly more than 10% of the Society's operating budget. The balance of the Society's budget has come from restricted gifts and grants, memberships and unrestricted grants, grants from local governments, operations, and investment income and bequests.

### Budget Environment

Budgetary constraints caused the Legislature to reduce funding for OHS during the 2001-03 biennium. Since 2001-03, no state funding had been given to OHS until 2007-09 when the Legislature provided $2.8 million General Fund. The additional funding was intended to help extend museum and public access hours, digitize photos and other holdings, and host regional workshops.

Pass-through grant expenditures are included in the budget of the Department of Administrative Services in the Governor's recommended budget, but are displayed separately in Legislative Fiscal Office publications.

### Essential Budget Level

The essential budget level for OHS includes the phase-out of $2.8 million General Fund approved in 2007-09.

### Issues and Options

The Governor's recommended budget adds $1.25 million General Fund.

## Housing and Community Services Department (HCSD) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 10,872,777 | 19,496,271 | 20,499,074 | 12,760,057 |
| Lottery Funds | 4,460,536 | 5,932,768 | 5,932,768 | 7,516,467 |
| Other Funds | 80,203,828 | 115,105,494 | 118,374,505 | 109,731,506 |
| Federal Funds | 113,524,160 | 116,636,686 | 146,915,336 | 120,362,585 |
| Other Funds (NL) | 1,548,604,772 | 1,808,419,156 | 2,129,942,600 | 1,537,062,014 |
| Federal Funds (NL) | 100,928,787 | 104,750,000 | 104,750,000 | 107,250,000 |
| **Total Funds** | **$1,858,594,860** | **$2,170,340,375** | **$2,526,414,283** | **$1,894,682,629** |
| Positions | 148 | 143 | 143 | 138 |
| FTE | 145.50 | 140.42 | 140.42 | 135.70 |

### Agency Overview

The Housing and Community Services Department (HCSD) provides financing and program support for the development and preservation of affordable housing, and administers federal and state antipoverty, homeless, energy assistance, and community service programs. The State Housing Council, a seven-member panel appointed by the Governor, advises the Governor, Legislature, HCSD, and local governments on affordable housing issues.

### Revenue Sources and Relationships

HCSD has numerous sources of Other Funds that include proceeds from the sale of bonds ($1.1 billion), mortgage and down payment assistance repayments ($375.7 million), loan and tax credit-related fees ($9.3 million), the energy bill payment assistance charge ($30.25 million) and a portion of the public purpose charge established as part of the electric industry restructuring legislation approved in 1999 ($22.8 million), civil penalties assessed to farm labor contractors by the Bureau of Labor and Industries ($154,953), a surcharge on court cases related to residential landlord and tenant law ($463,144), special assessments on manufactured dwellings ($876,400), and interest earnings ($35.7 million). Resources for bond-related activities are expended as Other Funds Nonlimited.

In addition to the direct sources of Other Funds revenues, a portion of the General Fund appropriation is transferred to the Oregon Housing Fund and expended as Other Funds to support grants and loans for low-income housing, emergency shelter and transitional housing services, and/or emergency payments of rents, mortgages, or utilities.

Allocations of $7.5 million in Lottery revenue support the debt service requirements for Lottery revenue bonds that were issued for the Community Incentive Fund, which supported grants and loans to revitalize downtowns, main streets and develop housing near jobs and transportation. Lottery Funds also support debt service associated with $16 million in lottery backed bonds, the proceeds of which were used to partially fund 150 units of permanent supported housing for homeless in 2007.

Federal Funds are received from a variety of federal agencies which administer the following programs: HOME Investment Partnership Program ($27.7 million), Section 8 rent subsidies ($107.25 million), Community Development Block Grant ($5.5 million), Community Services Block Grant ($11 million), Low-Income Home Energy Assistance (LIHEAP) funds ($55.9), Emergency Shelter grants ($2.1 million), Supportive Housing programs ($4 million), Bonneville and Department of Energy weatherization assistance funds ($8.2 million), Food Assistance programs ($1.8 million), and federal grants related to volunteerism and AmeriCorps ($4.6 million). Federal Funds Nonlimited expenditure authority is for Section 8 rent subsidy payments.

### Budget Environment

HCSD has traditionally relied on distributions from bond indentures, loan and tax credit fees, and interest earnings to fund nearly 50% of its personnel and operations. For 2009-11, HCSD estimates that this percentage will decline, to 37% of personnel and operations. Over time, the challenges of rising personal services costs, a

50% increase in the cost of debt issuance, increased insurance requirements due to a growing single family loan portfolio, and the expiration of higher yielding indentures have combined to constrict the agency's cash flow.

Since the 2001-03 biennium, HCSD has also been buffeted by the winds of economic and market conditions. The lower interest rate environment of 2001-04 resulted in customers having more options regarding low cost housing loans, investment earnings on loans were negatively impacted, and more customers paid off or prepaid loans. Also during this period, the Legislature used HCSD to backfill reductions in state General Fund spending. In the 2001 and 2003 biennia, the Legislature transferred a combined total of $3.82 million from the Housing Finance Fund and $5.5 million from the Housing Development and Guarantee Account (often referred to as the Housing Trust Fund) to the state's General Fund. The transfers, coupled with a weak economy, had consequences for the agency's ability to finance its operations at previous levels.

As interest rates rose between 2004 and 2007, HCSD began to see some improvement in its cash flow, but not enough to offset its rising costs. The 2007-09 legislatively adopted budget included personnel reductions to balance projected revenue with expenditures. Investments by the 2007 Legislative Assembly – in the form of a General Fund infusion to fully restore the corpus to its previous high of $15.5 million, and a $2 million transfer to the Housing Finance Fund – enabled the agency to dedicate interest on these funds to the development, acquisition, and construction of affordable housing, and financing agency operations, respectively.

These investments were expected to provide some stabilization for 2007-09, particularly in the area of agency administration. However, HCSD continues to contend with rising costs, as well as the expiration of one of the Department's higher yield single family bond indentures, and another imbalance exists for 2009-11.

All of these issues existed for HCSD in absence of the current economic downturn; existing market conditions have further implications for the agency. The unavailability of credit and skittish investors unwilling to buy bonds are having an impact. Federal and state housing credits are no longer worth as much as they were a few months ago, creating gaps in funding for proposed housing projects. There are fewer financial resources available to finance low income housing, and those resources do not stretch as far as they did two years ago, so fewer projects will ultimately be completed. Fewer bond sales and declining values of tax credits means the agency will lose out on fee revenue it has used for operations expenses.

To address the 2009-11 revenue shortfall for HCSD, the Governor's recommended budget again includes a policy option package which reduces agency personnel to balance expected revenue with projected expenditures. The package is discussed in more detail below. In addition, HCSD is planning to scale back the number single family loans issued due to insufficient capital to provide the necessary insurance reserves. However, it should be noted that reducing the number of single family loans offered by HCSD – while mitigating the immediate amount of capital needed for insurance reserves and the cost of issuing these bonds – will impact for the agency's operating revenue down the road, because there will be fewer indentures from which to draw future operating revenue.

### Essential Budget Level

The essential budget level is a 25% decrease from the 2007-09 legislatively approved budget, due to phase outs of $11.6 million in General Fund and $4.6 million in Other Funds for one-time initiatives associated with low income housing preservation, permanent supported housing for the homeless, and a $2 million investment in the agency's Housing Finance Fund.

The essential budget eliminated 5 positions as follows: three positions were abolished for permanent financing plans to reclassify other employees; one limited duration position was discontinued; and one position was phased out due to responsibilities merging with another program area. Further, the essential budget redistributes remaining positions among program areas to better reflect workload and management reporting structure.

### Issues and Options

The Governor's recommended budget includes the following policy option packages:

- A reduction of $2.9 million Other Funds and a net reduction of 12.50 FTE (only 1.00 of which is currently vacant) to balance agency administrative expenditures with anticipated revenue.

- A reduction of $1.9 million General Fund to emergency housing, homelessness, down payment assistance, and home buying education programs.
- $19.9 million in new lottery bond proceeds, and associated interest and debt service appropriations to fund the preservation of expiring Section 8 affordable housing contracts and manufactured home parks.
- $4 million in new General Fund for green and sustainable energy efficiency and weatherization technology for low income Oregonians.

## HCSD – Energy/Weatherization

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 37,803,639 | 46,275,195 | 47,368,419 | 51,005,692 |
| Federal Funds | 59,070,974 | 60,497,997 | 90,268,712 | 62,695,806 |
| **Total Funds** | **$96,874,613** | **$106,773,192** | **$137,637,131** | **$113,701,498** |
| Positions | 7 | 7 | 7 | 9 |
| FTE | 7.00 | 7.00 | 7.00 | 9.00 |

### Program Description

Energy and Weatherization programs help low income families by providing assistance payments, installing energy-saving modifications on heating systems and home weatherization, and providing conservation education. Bill payment assistance and energy efficiency measures free up scarce resources for other essentials, such as food and housing costs. HCSD administers various energy and weatherization activities through local community action agencies.

In 2008, Oregon's federal allocations of LIHEAP funding were increased, and the Emergency Board approved a request for additional Federal Funds expenditure limitation, amounting to an estimated 35,000 additional households receiving energy assistance in the coming year.

### Essential Budget Level

The 2009-11 essential budget level for the Energy/Weatherization program is a 17.4% decrease from the 2007-09 legislatively approved budget, primarily due to the additional Federal Funds increase in 2008. The essential budget reflects the movement of two positions and associated services and supplies associated with the positions into the program from elsewhere in the agency. The personnel moves are meant to better reflect workload and management reporting structure.

### Issues and Options

An August 2008 federal compliance review of the LIHEAP program recommended improvements in the state's program, as follows: ability to report outcomes; better training and monitoring of community action agency partners; and targeting the state's program to low income households with the highest energy burden. HCSD must develop performance measures, proactively collaborate with other state agencies and industry partners, and amend the state's LIHEAP plan to reflect existing situations (such as timing and amount of payments related to certain fuels or utilities) and emerging policies if Oregon is to maintain its share of LIHEAP block grant funding and effectively compete for future federal contingency funds.

The Governor's recommended budget adds three positions to the Energy and Weatherization program: an accountant, and two information systems specialists. These positions would be supported by Federal Funds. The extent to which these positions address the issues identified above should be reviewed. In addition, the Governor's recommended budget provides a pool of $4 million General Fund that the agency can use as leverage with Federal funds. The $4 million would be targeted to the purchase and installation of advanced technologies in affordable housing and weatherization programs, for conservation education for tenants, and skills training (installation and cost benefit analysis) for housing development partners. Federal guidelines require that improvements and weatherization measures meet certain savings to investment ratios within a shorter time frame for "payback" than more expensive green technologies generally allow. This "matchmaking" fund subsidizes the higher costs of these technologies.

## HCSD – Self-Sufficiency/Emergency Assistance

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 10,017,721 | 11,676,750 | 11,679,486 | 11,915,702 |
| Other Funds | 10,149,452 | 9,946,567 | 10,108,021 | 9,847,816 |
| Federal Funds | 14,262,294 | 16,413,366 | 16,445,321 | 24,548,021 |
| Federal Funds (NL) | 100,928,787 | 104,750,000 | 104,750,000 | 107,250,000 |
| **Total Funds** | **$135,358,254** | **$142,786,683** | **$142,982,828** | **$153,561,539** |
| Positions | 23 | 23 | 23 | 18 |
| FTE | 23.00 | 22.42 | 22.42 | 18.00 |

### Program Description

Self-Sufficiency/Emergency Assistance services are provided to very low-income Oregonians to help meet short-term, daily needs for food and shelter.

- ***Rental Assistance*** includes subsidizing housing costs and, in some cases, developing a self-sufficiency plan to assist individuals with other support, counseling, and training to avoid on-going reliance on assistance. Resources for this purpose include federal Section 8 rental assistance payments and HOME-Tenant-Based Assistance Program payments which subsidizes rental payments for low-income families and individuals, as well as transfers from the state Judicial Department into the Department's Low Income Rental Housing Fund which consists of fees associated with eviction notice filings and interest on security deposits.
- ***Homeless Assistance*** targets homeless or those at risk of becoming homeless to provide for the costs of emergency shelter, transitional housing, and prevention activities such as training and employment assistance and counseling services. HCSD receives both General Fund and Federal Funds for homeless programs. HUD funds the Emergency Shelter Grant Program and the Continuum of Care program which facilitates housing, mental health, and other services to holistically address homelessness in rural counties.
- ***Food Programs*** partner with the Oregon Food Bank to coordinate the distribution of donated foods through regional coordinating agencies and direct service agencies. HCSD also delivers food grants through the Community Action Program of Eastern Oregon (CAPECO) and the Salvation Army. Funding comes from the General Fund, the federal Department of Health and Human Services, and the United States Department of Agriculture.
- ***Community Services Block Grant (CSBG)*** is funded by the federal Department of Health and Human Services, serves all 36 Oregon counties and provides the foundation funding for community based organizations, which coordinate and administer a variety of services to assist low-income Oregonians. CSBG was formerly located in the Community Capacity Building program and was relocated to this program area to better integrate it with other HCSD anti-poverty programs.
- ***Individual Development Accounts (IDA)*** assist low-income individuals who enroll in personal development plans to obtain appropriate financial counseling, career or business planning, and other services. IDAs can be used for post-secondary education, job training, purchase of a primary residence, or to capitalize a small business. This service was relocated to this program area to better integrate it with other HCSD anti-poverty programs.

### Essential Budget Level

The 2009-11 essential budget for the Self Sufficiency/Emergency Assistance program is a 7.5% increase over the 2007-09 legislatively approved budget, primarily due to transfers of programs from the Community Capacity Building program area.

### Issues and Options

The Governor's recommended budget includes a total of $1.1 million in reductions to the Emergency Housing Account ($342,692) and State Homeless Assistance ($733,680) programs. The Emergency Housing Account provides flexible dollars to local community action agencies that can be used as agency support or as flexible "safety net" assistance to qualifying individuals for purposes such as emergency shelter, transitional housing, support services, rent, utility, or mortgage assistance. The State Homeless Assistance Program funds emergency shelter and services related to shelter care, such as nutritional assistance and personal hygiene.

Other Funds reductions to balance anticipated available revenue with projected expenditures are also included in the Governor's budget for this program area. A vacant Compliance Specialist 2 position (1.00 full-time equivalent) is slated for elimination. Duties of the position include administering agency programs related to anti-poverty efforts and providing oversight to ensure that all federal requirements are met.

## HCSD – Community Capacity Building

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 0 | 0 | 67 | 0 |
| Lottery Funds | 4,460,536 | 4,456,647 | 4,456,647 | 0 |
| Other Funds | 4,724,162 | 7,182,541 | 7,242,187 | 600,365 |
| Federal Funds | 16,379,487 | 17,463,736 | 17,476,535 | 4,648,574 |
| **Total Funds** | **$25,564,185** | **$29,102,924** | **$29,175,436** | **$5,248,939** |
| Positions | 11 | 10 | 10 | 5 |
| FTE | 11.00 | 10.00 | 10.00 | 5.00 |

### Program Description

Community Capacity Building includes the following services:

- The ***Manufactured Dwelling Park Community Relations Program*** maintains a centralized resource referral program for tenants and landlords to encourage voluntary dispute resolution. This service is funded through a special assessment on manufactured dwellings.
- The ***Oregon Commission on Voluntary Action and Services*** promotes and supports AmeriCorps, volunteerism, and civic engagement to strengthen Oregon communities. This program is funded by Federal Funds.

### Essential Budget Level

The essential budget transferred a number of services and attendant personnel, services and supplies from this program area to other program areas in the agency, as follows:

- The ***Community Incentive Fund (CIF)*** was transferred to Homeownership and Affordable Rental Housing.
- The ***Community Development Block Grant (CDBG)*** was transferred to Homeownership and Affordable Rental Housing.
- ***Individual Development Accounts (IDA)*** was transferred to Self Sufficiency/Emergency Assistance.
- ***Community Services Block Grant (CSBG)*** was transferred to Self Sufficiency/Emergency Assistance.

### Issues and Options

The reduction package to balance anticipated revenues with expenditures included in the Governor's recommended budget would eliminate $58,056 in services and supplies in this program area.

## HCSD – Homeownership/Affordable Rental Housing Development

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 794,880 | 5,819,521 | 6,819,521 | 842,468 |
| Lottery Funds | 0 | 1,476,121 | 1,476,121 | 7,516,467 |
| Other Funds | 18,300,805 | 40,774,888 | 42,260,213 | 37,949,225 |
| Federal Funds | 21,381,061 | 20,188,188 | 20,579,992 | 26,253,893 |
| Other Funds (NL) | 1,548,604,772 | 1,807,419,156 | 2,128,942,600 | 1,537,062,014 |
| **Total Funds** | **$1,589,081,518** | **$1,875,677,874** | **2,200,078,447** | **1,609,624,067** |
| Positions | 54 | 56 | 56 | 64 |
| FTE | 53.50 | 54.00 | 54.00 | 62.50 |

### Program Description

HCSD promotes homeownership by supporting below-market-rate loans financed through the sale of tax-exempt mortgage revenue bonds, administering federal programs for the repair and maintenance of existing low-income housing in rural Oregon, providing down-payment and closing cost assistance, and funding home ownership education. A limited revolving loan fund with low interest financing is available for manufactured home park purchases by residents. Farm worker housing loans and grants, low income weatherization using public purpose funds, and financial and physical inspections of projects receiving state and federal funds are other examples activities included in this program area.

HCSD also promotes affordable housing development through a variety of activities to issue tax-exempt bonds, provide conduit financing and loan programs, and administer three housing tax credit programs. Several of the grants and tax credits are allocated through the semi-annual, competitive Consolidated Funding Cycle.

### Essential Budget Level

The 2009-11 essential budget is a 26.8% decrease from the 2007-09 legislatively approved budget, primarily due to the phase out of one time funding for housing preservation and permanent supported housing for the homeless. The following programs were merged into the program area to align them with their funding sources and fellows.

- The ***Community Incentive Fund (CIF)*** was capitalized through Lottery Revenue Bonds as part of the Oregon Livability Initiative to revitalize downtown areas and main streets and to develop affordable housing near jobs and transportation. This program was transferred from Community Capacity Building, because the primary focus of the CIF is now as a funding source for affordable housing.
- The ***Community Development Block Grant (CDBG)*** funds maintenance and repairs to existing single-family housing in rural Oregon, and also funds ten ***Regional Housing Centers*** serving rural counties which provide "one-stop shopping" services related to housing rehabilitation, weatherization, credit counseling, and homebuyer education. This program was transferred from Community Capacity Building, because the primary focus of the CDBG is housing rehabilitation and promoting home ownership. The CDBG is supported by Federal Funds.

### Issues and Options

Spending Reductions: In anticipation of declining state revenue, the Governor's recommended budget proposes reductions of $842,468 General Fund and a corresponding $842,468 in Other Funds to the Homeownership Assistance program which will eliminate down payment assistance and the ABCs of HomeBuying program. Further Other Funds reductions to balance operating expenditures with available revenue total $1,080,489 and eliminate seven permanent positions (6.50 FTE), including loan specialists, a compliance specialist, an administrative specialist, a fiscal analyst, an accountant, and an architectural consultant.

Single Family Loans: HCSD's strategy to increase its long-term single family revenue stream through increased single family volume has driven increases in the amounts needed for insurance reserves. In an effort to further stabilize its budget, HCSD plans to issue approximately 400 fewer single family loans per year in the 2009-11 biennium, because it does not have the revenue to capitalize the required insurance reserves for previous loan volumes. As previously mentioned, reducing the volume of single family loans – while addressing an immediate revenue problem – will further erode future operating revenue, because there will be fewer indentures from which to draw future operating revenue.

Affordable Housing Preservation: During the 2007-09 biennium, the Legislature provided a total of $9.1 million ($6 million of which was General Fund) to preserve affordable housing with expiring section 8 contracts. The funding was estimated to preserve at least 350 units of affordable housing which might otherwise be converted to market-rate rents. To keep these housing units affordable, HCSD and its partners are working with existing or new owners to renew contracts, rehabilitate units where necessary, and set up state contracts to ensure that the housing remains affordable well into the future. A January 2008 estimate puts the number of affordable housing units with contracts that expire between 2009-11 at 2,235. The estimated replacement cost of these units is over $424 million.

The 2009-11 Governor's recommended budget includes $20.1 million Other Funds ($19.9 million in lottery bond proceeds and $150,000 in interest income) to facilitate the preservation of affordable housing projects with expiring federal Section 8 subsidies, and to preserve manufactured home parks. The package includes Personal Service costs associated with a loan specialist and a compliance specialist to administer the funds (added back from the Other Funds reduction package to balance the agency's budget), with the remainder going to housing providers as special payments as follows: approximately $16 million in grants for Section 8 properties, and $3.1 million in loans for manufactured park preservation.

## HCSD – Program Outreach and Accountability

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 60,176 | 2,000,000 | 2,000,000 | 1,887 |
| Other Funds | 9,225,770 | 10,926,303 | 11,395,665 | 10,328,408 |
| Federal Funds | 2,430,344 | 2,073,399 | 2,144,776 | 2,216,291 |
| Other Funds (NL) | **0** | **1,000,000** | **1,000,000** | **0** |
| **Total Funds** | **$11,716,290** | **$15,999,702** | **$16,540,441** | **$12,546,586** |
| Positions | 53 | 47 | 47 | 42 |
| FTE | 51.00 | 47.00 | 47.00 | 41.20 |

### Program Description

The Program Outreach and Accountability area includes:

- The ***Director's Office,*** responsible for coordinating the mission and goals of the agency, assisting community development through the efforts of six Regional Advisors, and participating in the Economic Revitalization Team. The office houses the director, deputy director, human resource, and agency affairs section (which includes policy and planning).
- The ***Financial Management Division,*** which includes accounting, financial reporting, budget, grant monitoring and reporting, field audits, loan processing, payroll, facilities management, and bond-related activities; and
- The ***Information Services Division,*** providing centralized information technology services to the agency as well as training and technical support to community action agencies and other service partners who have access to OPUS, a web-based client service system. This Division also includes the Research and Analysis Section, which gathers and analyzes data on housing market dynamics, and the Communications section.

### Essential Budget Level

The 2009-11 essential budget level is a 24.1% decrease from the 2007-09 legislatively approved budget. Two positions were abolished for purposes of providing permanent financing for the reclassification of other positions. Other positions and associated funding were moved to other program areas to better reflect their primary duties.

### Issues and Options

The 2009-11 Governor's recommended budget reduces Other Funds expenditure limitation by $1,646,618 and eliminates eight permanent, full-time positions (8.00 FTE) to balance the agency's operating costs with projected available revenues. Eliminated positions include an Office Specialist, an Administrative Specialist, a Public Affairs Specialist , a Human Resource Analyst, three information systems professionals, and an Operations and Policy Analyst.

## Oregon Public Broadcasting – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Lottery Funds | 1,619,165 | 1,790,684 | 1,790,684 | 1,882,673 |
| Other Funds | 0 | 0 | 3,000,000 | 0 |
| **Total Funds** | **$1,619,165** | **$1,790,684** | **$4,790,684** | **$1,882,673** |

### Agency Overview

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 provides some funding, and OPB also receives sales and service revenue. The operating grant to OPB was reduced during the 2001-03 biennium and no grant funds were provided in the following biennia.

Over the last decade, the Legislature has provided OPB with grants for infrastructure development. These grants, $7 million in 2001-03 and $3 million in 2007-09, were supported with Lottery bond proceeds. Lottery Funds are used to pay the debt service on the bonds. Pass-through grant expenditures and debt service costs are included in the budget of the Department of Administrative Services in the Governor's recommended budget, but are displayed separately in Legislative Fiscal Office publications.

### Budget Environment

OPB has sought reinstatement of the operating grant. Budget constraints precluded the Legislature from providing any grants since the 2001-03 biennium.

### Essential Budget Level

The essential budget level supports debt service payments for existing lottery bonds.

### Issues and Options

The Governor's recommended budget adds $250,000 General Fund for OPB operations.

## Department of Veterans' Affairs (ODVA) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 5,608,595 | 6,034,088 | 6,477,737 | 6,584,883 |
| Other Funds | 34,645,935 | 39,941,373 | 40,835,064 | 42,601,691 |
| Other Funds (NL) | 408,659,171 | 608,469,525 | 608,469,525 | 488,236,708 |
| **Total Funds** | **$448,913,701** | **$654,444,986** | **$655,782,326** | **$537,423,282** |
| Positions | 112 | 111 | 111 | 111 |
| FTE | 111.03 | 110.53 | 110.53 | 110.21 |

### Agency Overview

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 18% ($758 million) 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 which includes conservatorship fees. The Veterans' Home Program operates a skilled nursing care and Alzheimer's disease facility in The Dalles, Wasco County.

## ODVA – Loan Program

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 13,180,513 | 16,799,002 | 17,273,959 | 18,071,937 |
| Other Funds (NL) | 408,659,171 | 608,469,525 | 608,469,525 | 488,236,708 |
| **Total Funds** | **$421,839,684** | **$625,268,745** | **$625,743,384** | **$506,308,645** |
| Positions | 81 | 78 | 78 | 78 |
| FTE | 80.13 | 77.63 | 77.63 | 77.31 |

### 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 334,000 home and farm loans with a principal amount over $7.6 billion. The program consists of:

- ***Director's Office*** – internal audit, public information, and communications.
- ***Loan Services*** – functions dealing with the loan program, including originating and servicing the loans.
- ***Financial Services*** – overall financial oversight of the Department, including accounting, cashiering, and financial management.
- ***Support Services*** – human services, information services, business services, and records and information management.

Previous federal and state statutory restrictions on the use of tax-exempt bonds to provide low-cost mortgage loans only to veterans of the Viet Nam and prior eras is reflected in the dramatic reductions in program and staff size. The federal government just removed the restriction and the program expects to make new loans the rest of this biennium and next biennium as a result. The Department closely monitors its cash flow needs to ensure that it has sufficient reserves to retire outstanding debt and maintain operations of the program.

### Revenue Sources and Relationships

The largest sources of ODVA Other Funds revenues for the 2009-11 biennium are veteran loan and contract-related repayments ($150 million), interest earnings ($125 million), and bonding authority ($270 million). The balance of revenues come from insurance premiums and other service charges, licenses, fees, and miscellaneous revenues. Available revenues and reserves are expected to be sufficient for operations and necessary debt services.

### 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. Federal law now allows post-1976 veterans to access tax exempt bond proceeds for a home loan through ODVA. Veterans now have 25-30 years from the date of their discharge to apply for these loans. ODVA now expects to fund loans aggregating $55 to $60 million this biennium. It expects similar loan demand in the 2009-11 biennium. However, current market conditions (very low conventional loan rates), if carried over into the next biennium, may make it a difficult market for ODVA to offer a competitive mortgage product. Should this be the case, loan originations may be lower than projected.

### Essential Budget Level

The essential budget level is calculated as a continuation of the activities funded in the 2007-09 biennium.

### Issues and Options

The Governor's recommended budget includes two one-time Policy Option Packages costing $626,000 Other Funds. The packages are to replace and upgrade the access control system to the headquarters building in Salem, and to replace old HVAC controls with modern controls that will improve energy efficiency in the building.

## ODVA – Veterans' Services Program

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 5,608,595 | 6,034,088 | 6,477,737 | 6,584,883 |
| Other Funds | 1,580,277 | 2,067,605 | 2,466,429 | 2,502,880 |
| **Total Funds** | **$7,188,872** | **$8,101,693** | **$8,944,166** | **$9,087,763** |
| Positions | 28 | 30 | 30 | 30 |
| FTE | 27.90 | 29.90 | 29.90 | 29.90 |

### Program Description

The Veterans' Services Program includes:

- Counseling and claims ($2.9 millon), which assists veterans, their dependents, and survivors to obtain service-connected and non-service related benefits. Over 20,000 active claims have required service during the past two years. 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 ($1.6 million), which provides conservatorship services for 166 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, emergency assistance, and service delivery partnerships, which includes the Aid Program, Aid to Counties, and Aid to Veterans' Organizations ($5.4 million). 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. An emergency assistance program was established by the Legislature in 2005 to provide emergency financial assistance to Oregon veterans and their immediate families. A small business repair loan program was approved in the 2008 special session to provide loans to help returning small business owners who had been called away on active duty. 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 $10,400 per year. In 2005, the Legislature added statutory authority and $2.6 million General Fund to expand the services provided by county veterans' services offices. Aid to Veterans' Organizations was established in 1949 and consists of partnerships with other veterans' service organizations in Oregon, such as the American Legion, Disabled American Veterans, and Veterans of Foreign Wars.

### 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 2009-11 estimated conservator fees are $600,000. The balance of Other Funds comes from existing cash balances in the Veterans' Loan program. The Constitution allows that those revenues can be used for Veterans' Services.

### Budget Environment

Oregon has approximately 350,000 veterans. The aging veteran population is increasing the demand for veterans' benefits, assistance, and conservatorship services. Additional needs have been created by veterans of current and 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.

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.

### Essential Budget Level

The essential budget level continues legislatively approved programs without increases in cost, other than those driven by inflation.

### Issues and Options

The Governor's recommended budget exceeds the essential budget level in three areas. It includes $400,000 General Fund for distribution to eligible veterans: $250,000 for emergency needs, and $150,000 for education benefits. During the interim, the Emergency Board approved an additional $70,000 General Fund for education benefits. The budget also includes $422,000 General Fund for five permanent positions, and related services and supplies, to provide counseling services to veterans at colleges and universities throughout the state.

## ODVA – Oregon Veterans' Home Program

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 19,885,145 | 21,074,766 | 21,094,676 | 22,026,874 |
| **Total Funds** | **$19,885,145** | **$21,074,766** | **$21,094,676** | **$22,026,874** |
| Positions | 3 | 3 | 3 | 3 |
| FTE | 3.00 | 3.00 | 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 and Medicaid payments, 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. Many veterans receive aid and attendance along with disability compensation or income-based VA pensions, which, combined with their social security benefits, provides the revenue with which to pay for their care in the Home. The total amount of revenue is based in part on the occupancy projections obtained from the Home's contractor.

### 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 its financial condition. The Home continues to enjoy an occupancy rate of about 92% for the past couple of years. The Home has been able to address a prior problem of a shortage of qualified nursing personnel by working with local post-secondary education institutions. With a high occupancy rate, due in large measure to its ability to adequately staff the Home, the Home's revenues have covered its operating costs.

### Essential Budget Level

The essential budget level continues the operations of the Home at the 2007-09 level, adjusted for inflation.

### Issues and Options

The Governor's recommended budget eliminates $120,000 Other Funds and one grant coordinator position that had not been filled for some time. It also includes $3.9 million Other Funds for additional staffing needs by the contractor. The Department of Human Services has enacted rules requiring additional staffing at nursing homes throughout Oregon. The contractor will need additional fees to hire the additional staff. Additionally, the budget includes $763,000 additional Other Funds to improve the existing HVAC system, add parking stalls, and improve walking paths and outdoor lighting for improved safety.

# NATURAL RESOURCES

## Department of Agriculture (ODA) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 14,835,593 | 16,500,480 | 17,054,149 | 17,393,910 |
| Lottery Funds | 10,924,178 | 10,184,289 | 10,412,624 | 10,799,970 |
| Other Funds | 40,181,341 | 47,922,134 | 49,900,553 | 49,108,221 |
| Federal Funds | 7,357,069 | 6,297,998 | 7,551,822 | 6,751,898 |
| **Total Funds** | **$73,298,181** | **$80,904,901** | **$84,919,148** | **$84,053,999** |
| Positions | 513 | 527 | 527 | 517 |
| FTE | 364.12 | 375.05 | 375.05 | 368.29 |

### Agency Overview

The Department of Agriculture's mission is centered on three broad policy areas of ensuring food safety and providing consumer protection, protecting agricultural natural resources, and promoting economic development in the agricultural industry. The agency emphasizes public education and technical assistance in its provision of regulatory oversight on legislatively mandated programs. Oregon's agricultural industry is one of the state's most important economic activities. Producers are active in over 225 major commodities with a farm level value of more than $5 billion per year. Another $1.5 to $2 billion per year can be counted as value-added through food processing activities.

The Department consists of permanent staff and 131 seasonal employees. The permanent staff is primarily located in Salem, Portland, or one of nine regional offices. 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.

## ODA – Administration and Support Services

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 1,318,124 | 1,684,808 | 1,729,011 | 1,804,726 |
| Other Funds | 6,152,554 | 6,577,603 | 6,810,973 | 7,018,645 |
| **Total Funds** | **$7,470,678** | **$8,262,411** | **$8,539,984** | **$8,823,371** |
| Positions | 40 | 41 | 41 | 41 |
| FTE | 40.00 | 41.00 | 41 | 39.11 |

### 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 other commodity commissions when there is a change of administrator at a commodity commision.

### Revenue Sources and Relationships

Approximately 20% of the program's expenditures are financed by the General Fund. Other Funds 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 Administrative and Support Services receives a separate General Fund appropriation. Other Funds programs contribute using the Federal Funds indirect rate as a base that is adjusted downward to recover costs and maintain a prudent operating reserve. Programs dealing primarily with pass-through funds are not usually assessed. Federal Fund programs are assessed at a federally approved indirect rate, which is in turn expended in the Administration and Support Services Division as Other Funds, not as Federal Funds, to ensure that state federal expenditures are counted only once.

### Budget Environment

The need for administrative and support service functions within the agency rises or falls as external demands on agency programs change and programs are either added or removed.

### Essential Budget Level

The essential budget level for the Administration and Support Services program unit is $75,715 General Fund (4.4%) and $207,672 Other Funds (3.1%) more than the 2007-09 legislatively approved budget as of December 2008. These increases are caused by standard increases in the cost of providing the same level of service as the previous biennium, including an inflation allowance for goods and services, inclusion of future merit increases for eligible employees, and higher costs for employee benefits like health care. Some of these increases are offset by reductions due to the scheduled sunset of the pesticide use reporting system (PURS). The authorizing legislation which created PURS is due to sunset in December 2009, therefore the essential budget level is reduced by $140,000 General Fund and Other Funds to reflect a phase-out of PURS related expenditures. The PURS program is housed in this program unit as well as the Natural Resources program unit. An explanation of the history of PURS funding is included in the Natural Resources program description.

### Issues and Options

The agency requested authority to submit legislation to reauthorize the PURS program and restoration of corresponding expenditures related to continuing the program. The Governor did not approve the legislation and instead proposes eliminating the program at the beginning of the 2009-11 and not waiting for the sunset, so as to generate additional General Fund savings. The Governor's recommended budget includes a reduction of $115,000 General Fund to represent eliminating the program at the start of the 2009-11 biennium. One of the information technology positions in the PURS program that would otherwise be eliminated was retained using Other Funds revenues from administrative charges, resulting in a recommended increase of $130,000 Other Funds.

## ODA – Food Safety

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 6,472,201 | 6,771,204 | 6,896,120 | 7,083,135 |
| Other Funds | 14,768,154 | 18,525,182 | 19,271,672 | 19,303,385 |
| Federal Funds | 887,674 | 343,720 | 733,044 | 513,479 |
| **Total Funds** | **$22,128,029** | **$25,640,106** | **$26,900,836** | **$26,899,999** |
| Positions | 191 | 187 | 187 | 187 |
| FTE | 125.47 | 122.71 | 122.71 | 122.71 |

### 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 33 field inspectors located throughout the state to sample food and inspect over 8,900 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, and produce 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 there are currently over 53,000 such measuring devices.

- 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 leaving the state to ensure legal ownership. The Division also has responsibility to deal with issues concerning stray livestock. 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.

### 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. Federal funding consists of grants for Laboratory Services, funds for the Animal Health and Identification Division relating to BSE or Mad Cow disease 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, over 750 food product sampling and testing inspections are done under contract for the Food and Drug Administration (FDA) each year. It is likely the FDA will continue to rely on state inspections as it continues to divert resources toward Homeland Security activities.

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. These factors, along with the fact program fees have not been raised to keep up with the increased cost of providing program services, have caused the Department to request a fee increase. Fees in the Weights and Measures program were increased in 2007 for the first time since 1992 and fees in the Livestock Identification program were last increased statutorily in 2007.

### Essential Budget Level

The essential budget level for Food Safety program unit is $185,015 General Fund (2.7%) more than the 2007-09 legislatively approved budget as of December 2008 due to allowed increases such as an inflation allowance for goods and services, inclusion of future merit increases for eligible employees, and higher costs for employee benefits like health care. Other Funds remained almost unchanged between 2007-09 legislatively approved level and the 2009-11 essential budget level as increases caused by standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges were offset by a phase-out of nearly $600,000 Other Funds expenditure limitation in services and supplies for which there is no revenue. Federal Funds are down $220,000 in the essential budget level as Federal Funds the agency received during the 2007-09 interim for Animal Health grants were not carried forward into the 2009-11 essential budget level.

### Issues and Options

The Livestock Identification program is projected to continue to face revenue challenges in 2009-11. Estimated revenues are unable to support continuing 2007-09 expenditure patterns, therefore program expenditures are reduced by $1.3 million using a revenue shortfall package to match anticipated revenue. The agency proposes restoring about $350,000 of these expenditures through an increase in the brand inspection fee. The Department had also requested General Fund to make long delayed purchases of new equipment for the laboratory. However, due to General Fund constraints the Governor proposed using $600,000 Other Funds from program support revenues to make these purchases instead.

The Governor proposed a number of General Fund reductions in the Food Safety program area that total nearly $500,000. These include reducing special payments to USDA – APHIS Wildlife Services for predator control activities by $335,009. This reduces total support to $120,000 per biennium, which matches the amount provided by ODFW. The Governor's budget also reduced General Fund support for shellfish testing by $31,518, which represents 10% of General Fund support; saved $95,953 General Fund by eliminating one position in the Export Service Center Lab; and cut all state support ($110,000) and replaced most of it with Other Funds in the Weights and Measures Packaged Products program that is used to test retail package weights to ensure that prepackaged goods are sold at the correct weight and consumers are not being overcharged. The Governor also recommended creating General Fund savings by shifting over $2.2 million of expenditures in the Food Safety Inspection program and the Animal Health program to Other Funds from fees and projected 2009-11 Other Funds beginning balances in the programs. Of the total amount shifted roughly $1.9 million is in the Food Safety Inspection program and $0.3 million is in the Animal Health program.

## ODA – Natural Resource

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 3,869,938 | 4,348,487 | 4,682,286 | 4,382,357 |
| Lottery Funds | 10,889,778 | 10,149,099 | 10,377,434 | 10,763,998 |
| Other Funds | 10,944,256 | 12,102,377 | 12,805,461 | 11,888,320 |
| Federal Funds | 5,120,617 | 4,102,676 | 4,238,545 | 4,295,675 |
| **Total Funds** | **$30,824,589** | **$30,702,639** | **$32,103,726** | **$31,330,350** |
| Positions | 157 | 157 | 157 | 157 |
| FTE | 122.01 | 122.76 | 122.76 | 120.26 |

### 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); conduct field burning smoke management and research; implement agricultural water quality management plans (SB 1010); and conduct groundwater research and development. The Division consists of 28 Salem-based staff and 9 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, and weeds, as well as, 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 spread of invasive plants on public and private land remains a growing concern for land managers. This Division also protects threatened and endangered plants. 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 and Lottery Fund revenues provide over 50% of the policy area revenue, but are provided primarily to the Natural Resources and Plant Divisions. Lottery Funds have been provided to the Plant Division beginning in the 1999-2001 biennium for weed control activities from Measure 66 Lottery Funds dedicated to salmon and habitat restoration. Lottery

Funds have also been provided to the Natural Resources Division to support the Agricultural Water Quality program and Department based support services to 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 include 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, and field burning alternative programs will continue to call for agency attention. The Plant 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 worked 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. All plans are now complete and the Department has begun implementation efforts. In conjunction with this effort, the Division also has positions dedicated to working 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 focused attention on local Soil and Water Conservation Districts (SWCDs). The Natural Resources Division has a long tradition of working with the existing 45 SWCDs to deliver conservation programs for water quality improvements and watershed management. The 2007-09 legislatively adopted budget transferred funding for operation of Soil and Water conservation Districts to the Oregon Watershed Enhancement Board (OWEB) since all of the funding for SWCD support will come from OWEB funds.

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. Funding for completion and implementation of the system was removed during the 2001-03 biennium and no funding was provided for the 2003-05 biennium either. Funding to restart the program was finally included in the 2005-07 legislatively adopted budget and the system began operation in January 2007. Funding for the base regulatory pesticides program comes from fees. The PURS program is due to sunset in December 2009.

To assure sufficient funding to operate the base pesticide program beyond the 2003-05 biennium, the Department requested the 2005 Legislature to increase the maximum fees allowed by statutes. While an increase in the annual pesticide product registration fee to $250 was authorized, the fee charged has continued at $160 since January 2006. Increases in this fee, to a maximum of $250, are anticipated to occur in the future, and some increase from the current $160 fee may occur as soon as the 2009-11 biennium.

### Essential Budget Level

The essential budget level for Natural Resource program unit is $299,929 General Fund (6.4%) below the 2007-09 legislatively approved budget as of December 2008. This decrease is due in large part to the scheduled sunset of the pesticide use reporting system (PURS) and General Fund for grasshopper eradication efforts in eastern Oregon and assistance to a private shellfish hatchery that the agency received during the 2007-09 interim from the Emergency Board were not carried forward into the 2009-11 essential budget level. The authorizing legislation which created PURS is due to sunset in December 2009, therefore the essential budget level is reduced by $300,000 General Fund and Other Funds to reflect a phase-out of PURS related expenditures. The PURS program is housed in this program unit as well as the Administration and Support Services program unit.

The Other Funds essential budget level is $917,141 (7.2%) less than the 2007-09 approved level due to removal of PURS expenditure limitation as well as elimination of $700,000 of expenditures in a number of programs for which there is no supporting revenues. These reductions more than offset increases caused by standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

The Nursery program projects revenues will be insufficient to meet 2009-11 essential budget level expenditures. This causes a reduction of $700,000 in Other Funds expenditure limitation to match current law revenues. The agency is seeking ratification of an administrative increase in nursery program fees that occurred in 2008 to restore all these expenditures. The agency is also proposing to add a position in the fertilizer program ($185,000 Other Funds) to monitor fertilizer products including review product labels, evaluate product content, investigate marketplace claims, investigate product distribution, and work with the Department of Justice to pursue enforcement actions when necessary.

As stated previously, the Department sought authority in its agency budget request to reauthorize the PURS program and restore corresponding expenditures. The Governor did not approve the legislation and instead proposes eliminating the program at the beginning of the 2009-11 and not waiting for the sunset, in order to create additional General Fund savings. The Governor's proposed budget therefore includes reductions of about $240,000 General Fund and $220,000 Other Funds to represent eliminating the program at the start of the 2009-11 biennium. Additional General Fund cuts recommended by the Governor include eliminating funding for Pesticide Outreach which saves over $140,000 General Fund and reducing a position in the Insect Pest Prevention and Management program by 0.35 FTE to create saving of approximately $60,000 General Fund.

The Governor's budget also includes cuts made in Measure 66 Lottery Funds expenditures to match overall Measure 66 expenditures to forecasted revenue for Lottery Funds. These reductions included eliminating two positions in the Agriculture Water Quality program funded with $380,000 Measure 66 operations Lottery Funds; reducing Measure 66 operations Lottery Funds for contracted coordinator support of the Invasive Species contract by $70,000; and cuts $440,000 Measure 66 capital Lottery Funds from grants for noxious weed control.

## ODA – Agricultural Development

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 3,175,330 | 3,695,981 | 3,746,732 | 4,123,692 |
| Lottery Funds | 34,400 | 35,190 | 35,190 | 35,972 |
| Other Funds | 8,316,377 | 10,716,972 | 11,012,447 | 10,897,871 |
| Federal Funds | 1,348,778 | 1,851,602 | 2,580,233 | 1,942,744 |
| **Total Funds** | **$12,874,885** | **$16,299,745** | **$17,374,602** | **$17,000,279** |
| Positions | 125 | 142 | 132 | 132 |
| FTE | 76.64 | 88.58 | 86.21 | 86.21 |

### 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 3.3 billion pounds of produce for processing (primarily potatoes) and 1.5 billion pounds of fresh fruit, vegetables, and nuts each year. The program has undergone significant restructuring recently as it moves away from relying on part-time agency employed inspectors, to using full-time employees to oversee and audit inspections conducted by employees of the processors. This has lead to a reduction of 139 positions in the Shipping Point Inspection program since restructuring began.

### Revenue Sources and Relationships

The Agricultural Development and Marketing Division is funded primarily with 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. The Shipping Point Inspection program increased fees administratively during the 2005-07 biennium.

### Budget Environment

Oregon agricultural producers currently sell 80% of their products outside of the state and 40% outside the country. Assistance for farmers, ranchers, and specialty food producers in finding new domestic and global markets for their products is a priority for the Department. Building markets is accomplished through market research, attendance at trade shows, direct negotiations with international buyers, and promotional activities aimed at specific Oregon products. The Commodity Inspection Division validates and promotes Oregon agricultural products through inspection and certification services and communications with producers, wholesalers, and retailers and its activity level is driven solely by the demand for its services.

### Essential Budget Level

The essential budget level for the Agriculture Development program unit is $376,960 General Fund (10%) more than the 2007-09 legislatively approved budget as of December 2008. This increase is caused by standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges, as well as the full biennial cost for positions phased-in during 2007-09. Federal Funds are down nearly $640,000 in the essential budget level as Federal Funds the agency received during the 2007-09 interim for Specialty Crop grants were not carried forward into the 2009-11 essential budget level. The Other Funds essential budget level is $115,000 lower than 2007-09 approved levels as standard increases, including an inflation allowance for goods and services, inclusion of future merit increases for eligible employees, and higher costs for employee benefits like health care, were offset by the elimination of $650,000 of Other Funds expenditures in the Shipping Point Inspection program for which there was insufficient revenues. The Shipping Point reductions are not added back later in the budget and are permanent.

### Issues and Options

Even though the Agriculture Development program unit contains 24% of the agency's total General Fund expenditures, the Governor proposed only a $60,000 one-time fund shift of General Fund to Other Funds in the Commodity Inspection program as a cost saving measure. Untouched was new funding added in 2007-09 to create a Farm to School program designed to link local agricultural producers with local school district food purchasers or $470,000 General Fund added in 2007-09 for professional services costs to address interest in developing renewable energy sources such as biodiesel. Neither were any reductions made in the Agricultural Marketing program.

## Columbia River Gorge Commission (CRGC) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 852,939 | 1,077,770 | 1,077,770 | 1,179,356 |
| **Total Funds** | **$852,939** | **$1,077,770** | **$1,077,770** | **$1,179,356** |

### Agency Overview

The Columbia River Gorge Commission (CRGC) was authorized by the 1986 Columbia River Gorge National Scenic Area Act and created as a regional agency through an interstate compact between Oregon and Washington. The 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 Commission completed review of the Management Plan adopting a revised Management Plan in April 2004. The review included a public process framed by comment on a set of six monitoring reports developed by commission staff in conjunction with Scenic Area partners. Concurrence with the plan by the U.S. Secretary of Agriculture through the U.S. Forest Service was received in September 2004. Each of the counties in the Gorge area needs to adopt the new plan for full implementation.

The proximity of the entire Gorge area to the Portland/Vancouver 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 broad mission of the Commission results in many interpretations by the various individuals and groups that recreate and live in the Columbia River Gorge. This has led to controversy regardless of which side of an issue the Commission chooses.

According to the Commission, base funding levels for Commission activities represent the most limiting factor affecting fulfillment of key strategies. 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 public increasingly expects to obtain rapid and efficient responses for information. Due to funding shortfalls in 2004, the agency was unable to fill a vacant Public Outreach Coordinator position limiting the Commission's ability to meet performance objectives. In the latter part 2005, the Commission was able to fill a vacant planning position and half-time Geographic Information Services Coordinator and a land use planner position. The effectiveness of these positions has yet to be fully realized as staff has just completed their probation and training periods. In addition, a new Director was hired by the Commission starting work in September 2006.

## CRGC – Joint Expenses

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 799,004 | 1,055,000 | 1,055,000 | 1,156,133 |
| **Total Funds** | **$799,004** | **$1,055,000** | **$1,055,000** | **$1,156,133** |

### Program Description

The Commission's Joint Expenses program represents all operational activities of the Commission except for the expenses of each state's appointed commissioners. Expenditures for Joint program activities are required by law to be equally shared by Oregon and Washington. 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 provision of support to counties within the National Scenic Area for activities related to the Act's implementation is not included in the Joint program budget.

### Essential Budget Level

The essential budget level for the Commission's Joint program activities of $1,156,133 represents an increase of 9.6% over the 2007-09 legislatively approved expenditure level. The budget includes standard adjustments for inflation and state government service charges.

### Issues and Options

In its 2009-11 agency request budget, the Commission asked for an increase of $73,030 General Fund. This amount represents Oregon's share of the cost to restore the Communications Coordinator position (no position or full-time equivalent increase for Oregon due to Washington state personnel status). This position would provide front line customer service for the public; coordinate communication with the city, county, state, federal and tribal partners; maintain the agency's website; staff public outreach activities; coordinate performance measures, surveys, and community meetings; and develop official communications (e.g., annual reports, press releases, meeting minutes). This position was eliminated by Oregon during the 2003-05 biennium budget reductions.

The Governor's recommended budget funds the agency at its calculated essential budget level of $1,156,133 General Fund and $73,030 Other Fund, which is expected to be generated through natural resources grants.

## CRGC – Oregon Commissioner Expenses

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 53,935 | 22,770 | 22,770 | 23,223 |
| **Total Funds** | **$53,935** | **$22,770** | **$22,770** | **$23,223** |

### 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.

### Essential Budget Level

The essential budget level for the Commissioner Expenses of $23,223 represents an increase of 2% over the 2007-09 legislatively approved expenditure level. The budget includes an increase of $453 General Fund for standard inflation and state government service charges.

### Issues and Options

The 2009-11 agency request budget and the Governor's recommended budget maintains the Commissioner Expenses at its essential budget level of $23,223.

## Department of Energy (DOE) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 0 | 1,500,000 | 3,100,000 | 0 |
| Other Funds | 16,989,048 | 24,967,679 | 22,095,949 | 21,307,557 |
| Federal Funds | 3,781,133 | 5,529,281 | 5,622,500 | 5,847,654 |
| Other Funds (NL) | 82,101,876 | 158,006,507 | 158,006,507 | 167,916,815 |
| **Total Funds** | **$102,872,057** | **$190,003,467** | **$188,824,956** | **$195,072,026** |
| Positions | 89 | 89 | 94 | 86 |
| FTE | 86.73 | 88.50 | 90.49 | 84.79 |

### Agency Overview

The mission of the Oregon Department of Energy (DOE) is to ensure Oregon has an adequate supply of reliable and affordable energy and is safe from nuclear contamination, by helping Oregonians save energy, develop clean energy resources, promote renewable energy, and clean up nuclear waste. DOE encourages energy conservation through public information and incentive programs which provide loans or tax credits for implementing energy efficient technologies in residences, public sector buildings, and private sector businesses.

DOE staffs two statutory boards:

- The Energy Facility Siting Council, a seven-member citizen board 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.
- The Hanford Cleanup Board, a 20-member board, 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.

DOE also provides staff support for the following work groups and task forces, through its Renewable Energy Division:

- The Governor's Renewable Energy Working Group, which was formed to implement the Governor's Renewable Energy Action Plan that contains numerous renewable energy policy goals for the state. The 35-member group prioritizes and monitors 57 tasks, and advises on renewable energy production policy.
- The Global Warming Commission, a statutory commission that replaced the Governor's Climate Change Integration Workgroup and is charged with recommendations for reducing greenhouse gas emissions, education, tracking impacts of global warming on Oregon, and examining cap and trade systems.
- The Oregon Wind Working Group, which promotes the development of wind energy in Oregon with an emphasis on small and medium sized projects in rural Oregon.
- The Geothermal Working Group, which promotes the use of Oregon's geothermal resources for power generation and direct use.
- The Forest Biomass Coordinating Group, an interagency group formed to coordinate biomass market development and energy generation, and the Forest Biomass Working Group, a subcommittee which is looking at barriers and opportunities for forest biomass development.
- The People of Oregon for Wave Energy Resources (POWER) Group, which is working on wave energy development.
- The Solar Energy Working Group.
- The Small-scale Hydroelectric Working Group.

With the exception of the Global Warming Commission, the work groups above were created by executive order.

### Revenue Sources and Relationships

DOE has numerous sources of Other Funds revenues. The main source is the Small-Scale Energy Loan Program (SELP) which includes general obligation bond sales ($100 million in 2009-11), loan repayments ($39.6 million), and interest income ($28.3 million). Other sources include energy supplier assessments ($9.8 million), settlement funds, application fees related to the Business Energy Tax Credit ($5.6 million), energy siting fees

($3.4 million), and fees for services related to the program for schools and self-directed efficiency projects ($1.1 million) stemming from electric marketing restructuring.

Federal Funds received from the U.S. Department of Energy support various activities including oversight at the Hanford Nuclear site, deployment of technologies and energy sources that improve energy efficiencies in new building construction, promotion and utilization of alternative fuels, infrastructure development, and renewable resource projects. Federal Funds are also received for work related to tracking, monitoring, emergency planning for shipment of low-level radioactive waste materials, and monitoring and testing for contamination related to the Lakeview uranium mediation site. Additionally, the U.S. Department of Agriculture and the Environmental Protection Agency provide funds that support both conservation and renewable energy programs. Federal revenues are expected to total $6.1 million in 2009-11.

#### Budget Environment

DOE is heavily engaged in the identification and development of renewable resources and built-in energy efficiency. Additionally, the radioactive wastes at Hanford and the possibility of more waste being imported to the site will continue to threaten the health of the Columbia River until the clean up effort currently underway is completed.

The Governor's and Legislature's recent emphasis on renewable energy and sustainability have resulted in a number of impacts to DOE. For example, expansion of the Business Energy Tax Credit in the 2007 legislative session resulted in a significant increase in the number and complexity of tax credit applications, causing a processing backlog. DOE sought position authority and expenditure limitation from the Emergency Board to resolve the situation. Similarly, the passage of a renewable portfolio standard for utilities and an emphasis on sustainability are driving an increase in the number of energy siting requests that must be reviewed and permitted by DOE. Projects currently under review include wind farms, biomass projects, and new transmission infrastructure, many of which are proposed for locations far from DOE's Salem headquarters.

The Governor has been promoting Oregon nationally and abroad as a leader in sustainable and renewable energy technology, in hopes of drawing manufacturers and creating "green" jobs to improve the state's economy. In addition, the 2009-11 Governor's recommended budget once again includes new initiatives on sustainability and climate change, including a legislative proposal for a cap and trade program to curb greenhouse gas emissions. DOE, along with the Department of Environmental Quality (and possibly the Public Utility Commission) will have significant responsibilities for developing these program and monitoring outcomes.

### DOE – Operations

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 0 | 1,500,000 | 3,100,000 | 0 |
| Other Funds | 16,989,048 | 20,367,679 | 22,095,949 | 21,307,557 |
| Federal Funds | 3,781,133 | 5,529,281 | 5,622,500 | 5,847,654 |
| **Total Funds** | **$20,770,181** | **$27,396,960** | **$30,818,449** | **$27,155,211** |
| Positions | 89 | 89 | 94 | 86 |
| FTE | 86.73 | 88.50 | 90.49 | 84.79 |

#### Program Description

The Operations program has the following primary activities:

- Promoting conservation and renewable resources through incentive programs such as the Business and Residential Energy Tax Credits, State Home Oil Weatherization audits and loans, Northwest Energy Efficient Manufactured Housing certification, telecommuting, energy efficiency projects in new state buildings, alternative fuels use, and technical support and review of energy audits for schools.
- Siting new energy facilities that are safe and environmentally acceptable.
- Promoting the development of new, environmentally sound energy resources and technologies.
- Overseeing the clean up, storage, and transportation of radioactive wastes.

- Ensuring emergency preparedness and public safety in the event of an accident involving radioactive materials, severe petroleum disruptions, and electricity emergencies.

### Essential Budget Level

The 2009-11 essential budget level is an 11.9% decrease from the 2007-09 legislatively approved budget, primarily because of a one-time General Fund appropriation to assist in the repayment of a Small Scale Energy Loan owed to DOE by the Oregon Museum of Science and Industry.

### Issues and Options

Approximately 46% of DOE's Other Funds come from an assessment on energy suppliers (primarily utilities and petroleum suppliers) which is limited to one-half of 1% of the supplier's gross revenue derived in Oregon. The 2009-11 essential budget assumes a continuation of the existing assessment rate of .00069; however, 7 of the 15 policy option packages in the Governor's recommended budget would be funded at least partially through energy supplier assessments. DOE anticipates that adoption of these packages will result in an increase to the energy supplier assessment rate to .00082. This 18.8% rate increase is projected to produce about $1.84 million in additional revenue for the Department.

The policy option packages in the 2009-11 Governor's recommended budget for the Department of Energy amount to $8.8 million Other Funds, and the addition of 32.21 FTE. A short summary follows:

- Permanent staff to address workload associated with siting requests, the Global Warming Commission, the Business Energy Tax Credit, and Residential Energy Tax Credit programs.
- New staff to implement the Governor's policy initiatives concerning cap and trade, energy scores for existing homes and buildings, development of a more energy efficient building code, and performance standards for utilities.
- Permanent staff associated with energy audits for public schools.
- New staff for the State Energy Efficiency Design program (which incorporates energy efficiencies into new or remodeled state buildings).
- New staff related to safety concerns at the Hanford Nuclear site.
- New staff to support the Oregon Energy Planning Council, which the Governor created by Executive Order in the summer of 2008.
- New administrative staff consisting of an internal auditor, a human resource assistant, and an IT manager.
- Additional expenditure limitation for rent costs associated with a planned expansion of the DOE main office in Salem to accommodate the growth in the number of agency personnel since 2005-07.
- Additional expenditure limitation for the Global Warming Commission.
- Additional expenditure limitation for the opening of an Eastern Oregon satellite office of DOE.
- Additional expenditure limitation associated with the Community Renewable Energy Fund, which arose from settlement dollars awarded by the Department of Justice.

## DOE – Energy Loan Program Nonlimited

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds (NL) | 82,101,876 | 158,006,507 | 158,006,507 | 167,916,815 |
| **Total Funds** | **$82,101,876** | **$158,006,507** | **$158,006,507** | **$167,916,815** |

### Program Description

The Small-Scale Energy Loan Program (SELP) offers low-interest, long-term loans to individuals, businesses, non-profit organizations, tribes, and state and local governments for conservation and renewable resource projects. Established in 1980, SELP makes loans for projects such as renewable energy resources, 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.

### Essential Budget Level

The 2009-11 essential budget level is a 6.3% increase from the 2007-09 legislatively approved budget for the Energy Loan Program.

### Issues and Options

The 2009-11 Governor's recommended budget includes legislation requested by DOE that expands the loan program to include loans for the purchase of energy efficient equipment. A related policy option package provides an additional $11 million in expenditure limitation – $10 million in new loan funds and $1 million in loan payments on the new loans – and assumes the use of the expanded program from the rural and agricultural sectors. A bill number for this legislative concept was not available at the time of this analysis. Due to the current economic climate, the outlook regarding the bond program is mixed. A planned bond sale was delayed in the autumn of 2008, and when DOE did go to market, they did not sell all of the bonds they had anticipated. While the market has disrupted bond underwriters and buyers, DOE reports that the general reduction in credit availability has heightened interest in the use of SELP; DOE is getting requests for financing because there are fewer choices.

## Department of Environmental Quality (DEQ) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 23,091,569 | 37,856,722 | 38,725,586 | 40,371,909 |
| Lottery Funds | 3,799,400 | 5,019,593 | 5,184,632 | 5,555,984 |
| Other Funds | 108,485,888 | 125,953,847 | 130,788,166 | 132,316,333 |
| Federal Funds | 35,360,617 | 30,656,615 | 30,659,385 | 32,033,198 |
| Other Funds (NL) | 132,621,178 | 98,513,167 | 133,513,167 | 84,274,948 |
| **Total Funds** | **$303,358,652** | **$297,999,944** | **$338,870,936** | **$294,552,372** |
| Positions | 804 | 826 | 826 | 807 |
| FTE | 773.89 | 797.31 | 797.31 | 787.59 |

**Agency Overview**

The Department of Environmental Quality (DEQ), with policy direction from the five-member Environmental Quality Commission, administers the state's laws regulating air, water, and land pollution. The Department establishes the standards for clean air, water, and land; determines whether or not these standards are being met; and 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 budget unit, Cross Program, was added to manage funding associated with 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, Gresham, and the north coast. The Department moved into a new laboratory building in Hillsboro in December 2007.

## DEQ – Air Quality Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 3,375,697 | 9,838,739 | 10,029,567 | 10,167,305 |
| Other Funds | 33,404,318 | 35,709,907 | 36,866,876 | 38,189,649 |
| Federal Funds | 5,355,014 | 6,476,463 | 6,476,937 | 6,927,123 |
| **Total Funds** | **$42,135,029** | **$52,025,109** | **$53,373,380** | **$55,284,077** |
| Positions | 265 | 237 | 237 | 237 |
| FTE | 248.2 | 230.44 | 230.44 | 230.77 |

**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 125 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 (VIP). The VIP requires tests of vehicles operating in the Portland and Medford areas as part of the vehicle license renewal process. 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 Protection Agency operates the air pollution control program in Lane County and receives a share of state funding. Of the Division's 230.44 FTE in the 2007-09 biennium, 38.47 were located in headquarters, 52.31 in regions, 28.62 in the laboratory, and 111.04 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 Air Contaminant Discharge Permit (ACDP) fee was last raised in 2007, when the Legislature approved a 20% increase. A 24% Title V fee increased was approved and spread over three years in SB 107 (2007). Other non-General Fund sources include fees for asbestos certification and inspection, field burning permits, and the vehicle inspection program. The VIP is entirely supported by a $21 fee for certificates of vehicle emissions compliance, required as part of a vehicle's registration process. 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 federal Clean Air Act requires compliance with federal air quality standards and prevention of air quality deterioration in areas that exceed federal standards. Nine 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 (Portland, Salem, Eugene-Springfield area, Medford-Ashland area, Klamath Falls, 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/or particulate matter. The Department has submitted attainment and maintenance plans to the EPA for Portland, Salem, Medford-Ashland, Grants Pass, Lakeview, and La Grande areas in 2004 and 2005. All plans have been approved by EPA with the exception of the Salem maintenance plans for ozone and carbon monoxide, which are expected soon. The Lane Regional Air Protection Agency (LRAPA) is responsible for air quality assessment and protection activities in cities in Lane County like Eugene, Springfield, and Oakridge. The penalties for failing to meet standards include increasingly costly control measures, limitations on the siting of new industry, and, ultimately, loss of federal Highway Funds.

In 2006, EPA tightened the standard for fine particulate pollution, which comes primarily from woodstoves, open burning, diesel engines, and industry. Two Oregon communities, Klamath Falls and Oakridge, violate the new standard and will require new plans. Two more communities, Lakeview and Cottage Grove, are expected to violate (based on the limited monitoring data currently available) and several are at significant risk of violating including Portland, Medford-Ashland, Eugene-Springfield, and Burns.

### Essential Budget Level

The essential budget level for the Air Quality Division is $137,738 General Fund (1.4%), $1,322,773 Other Funds (3.6%), and $450,189 Federal Funds (7%) more than the 2007-09 legislatively approved budget as of December 2008. These increases are caused by standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The General Fund increase was offset by removal of one-time costs budgeted in 2007-09 that are not included in the 2009-11 essential budget level. Federal Funds increased at a higher rate due to a shift in budgeting some ongoing work from Other Funds to Federal Funds to better account for expenditures.

### Issues and Options

The Department had requested a fee increase in the vehicle inspection program due to concerns 2009-11 expenditures would reduce the program's ending balance to very low levels by the end of the 2009-11 biennium. This requested fee package was to increase Other Funds by $3.5 million and was included in the

Governor's recommended budget. The agency now believes it will have sufficient ending balances in 2007-09 to sustain the program through the 2009-11 biennium and therefore will ask that the VIP fee increase package not be included in the final agency budget. The agency also requested adding 9 new positions to implement new federal air toxics standards for hazardous pollutants. The new standards will require more gas stations and other small businesses to be regulated. Revenue comes from fee changes adopted administratively in 2007-09 to generate funding needed to meet the increased workload. Because many more entities will be regulated and paying fees, the fee structure was adjusted to lower fees of those previously regulated while still generating sufficient revenue to hire to new positions. Positions would provide technical assistance and oversee implementation.

The Governor proposed a number of General Fund reductions in the Air Quality program area that total nearly $2 million. These recommended cuts include eliminating $458,000 and 2 positions conducting clean diesel outreach activities; reducing Clean Diesel grants used to help pay for diesel engine retrofits and repowers that reduce diesel particulate emissions by $610,000; cutting $310,000 and 2 positions for ozone and fine particulate monitoring that were added in 2007-09; removing $218,000 and one position by eliminating 1 of 3 state funded air toxics monitoring sites; eliminating an air quality planner position working on particulate matter issues; reducing $130,000 and 0.50 FTE providing non-mandated technical assistance to small businesses; reducing LRAPA payments by $73,000; and cutting assistance to local governments working on particulate matter issues by $41,000.

The Governor also proposed establishing a new Greenhouse Gas Reduction or "Cap and Trade" program. To do this he proposes adding $1.2 million General Fund, $1.2 million Other Funds, and 10 positions (7.75 FTE) to help the state achieve the goal of reducing greenhouse gas levels to 10% of those in 1990 as expressed in HB 3543 (2007). This proposal would implement, as part of the Western Climate Initiative agreement, a market-based cap and trade system for reducing Greenhouse Gas (GHG) emissions by capping total emissions and then allowing the trade of allotted emissions among participants. Other Funds come from fees to report GHG emissions data and the trading for emissions credits. The Governor also recommended adding $172,000 General Fund to add one new position to the field burning and smoke management program for work associated with a bill the Governor plans to introduce to eliminate field burning in the Willamette Valley. The position would work with the Department of Agriculture to identify and test alternatives to field burning, help write new rules on the phase-out, and develop criteria for exception requests.

## DEQ – Water Quality Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 13,674,059 | 20,184,891 | 20,752,085 | 21,317,956 |
| Lottery Funds | 3,799,400 | 5,019,593 | 5,184,632 | 5,555,984 |
| Other Funds | 16,250,819 | 19,490,354 | 20,239,580 | 19,859,257 |
| Federal Funds | 12,876,680 | 12,358,990 | 12,360,035 | 12,962,549 |
| **Total Funds** | **$46,600,958** | **$57,053,828** | **$58,536,332** | **$59,695,746** |
| Positions | 210 | 259 | 259 | 245 |
| FTE | 201.41 | 241.45 | 241.45 | 236.40 |

### 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, implementing the Oregon Plan for the restoration of salmon populations and watersheds, and implementing portions of the Safe Drinking Water Act. The Department is responsible for two permit systems, the federally delegated National Pollutant Discharge Elimination System (NPDES) for discharges into surface waters and the state Water Pollution Control Facility (WPCF) permit program for all discharges such as sewage lagoons and effluent irrigation. Approximately 550 individual water quality permits and more than 5,500 general permits are enforced in Oregon under the NPDES and WPCF programs. DEQ also provides ODA assistance in issuing the general and individual permits for Confined Animal Feeding Operations. The Water Quality program also operates the nonpoint source pollution program in Oregon. Nonpoint source pollution is that not attributable to a specific source point. Examples of nonpoint source pollution include stormwater and agricultural runoff. 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 2007, the U.S. Environmental Protection Agency (EPA) approved the Department's latest 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 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 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 a court consent order to complete 1,153 TMDL's by the end of 2010. 998 of these plans will be completed by the end of 2008, leaving 155 TMDLs to be completed in the final two years.

In order to maintain water quality programs, the Division's positions are distributed between headquarters, the regions, and the laboratory. In the 2007-09 biennium, 70 of the Division's 241.00 FTE were located in headquarters, 127.00 FTE were in regional offices, and 44.00 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, some Federal Fund grant sources have declined, and base Federal Fund grants have failed to keep pace with inflationary increases in program costs. The 2005 Legislature approved an 11% revenue increase from fees as part of a package that included additional General Fund support.

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. DEQ must operate programs to carry out the mandatory requirements of the Clean Water Act that are acceptable to the 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.

### Essential Budget Level

The essential budget level for the Water Quality Division is $565,871 General Fund (2.7%), $371,352 Lottery Funds (7.2%), and $602,514 Federal Funds (4.9%) more than the 2007-09 legislatively approved budget as of December 2008. These increases are caused by standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. Standard General Fund increases were partially offset by removal of 2007-09 one-time program startup costs. Other Funds decreased slightly due to removal of 2007-09 one-time costs and a shift in budgeting ongoing work from Other Funds to Federal Funds to better align funding with work preformed and the revenue sources used.

### Issues and Options

The Department has requested the continuation of a number of Other Fund program activities, sometimes through a fee increase, that were included in the 2007-09 biennium including:

- Adding $335,000 Other Funds and 2 limited duration positions that were added in 2007-09 to implement SB 737 (2007). The bill required DEQ to develop a list of persistent bioaccumulative toxics by June 2009 and provide to the Legislature a prioritized list of persistent pollutants, their sources, and methods to control or reduce release of the identified toxics. The program is funded through a surcharge on the 52 largest municipal wastewater treatment plants in Oregon.
- Adding $520,000 Other Funds to restore 3 existing positions in the onsite septic system program that were eliminated due to insufficient revenue. This is paid for through an increase in fees for applications that include construction permits, site evaluations, variances to existing standards, and alternative treatment plan reviews.
- Add $510,000 Other Funds to restore 3 positions that were eliminated due to insufficient revenue in the dredge and fill 401c program. This proposal would be funded through an increase in fees and passage of a bill reworking the fee schedule. Dredge fill work under section 401c of the federal Clean Water Act require permits from the state, the federal government, or both. DEQ has not done this work recently due to insufficient revenue.
- $1.1 million Other Funds for 6 limited duration positions continued from 2007-09, to help communities protect their drinking water and carryout federally mandated source water assessment. DEQ and the Department of Human Services (DHS) are both responsible for drinking water source tracking, assessment and protection. Assessments include mapping source water areas (completed by DHS) and identifying potential sources of contamination (done by DEQ). The funding for the positions comes from DHS who receives it as Federal Funds, but it is expended by DEQ as Other Funds.

The Governor also recommended adding $400,000 General Fund for 2 new positions to analyze proposed water storage projects to ensure they maintain water quality. The most common types of projects requiring this assessment are aquifer storage or recharge projects that pump surface water into the aquifer during peak flow periods for later use such as the proposed Umatilla Basin project. It is important to ensure water being pumped into a clean aquifer does not contaminate the water naturally there. Such work is anticipated to increase as the Governor also recommended including $2.5 million of Lottery Bond proceeds in the Water Resources Department to complete water storage projects. The Governor proposed shifting $500,000 of General Fund expenditures in the TMDL program to Measure 66 Operations Lottery Funds to create General Fund savings. This was accomplished by reducing the OWEB non-capital grant program essential budget level to make Measure 66 Lottery Funds available for the fund shift. In addition, the Governor advocates eliminating the biomonitoring program to save General Fund. This action would cut $850,000 General Fund and 5 positions that provide technical assistance to other state agencies and local groups like watershed councils collecting monitoring data. The Department would no longer be able to meet their monitoring commitments as part of the Coastal Coho Recovery Plan.

## DEQ – Land Quality Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 1,071,300 | 2,308,785 | 2,394,922 | 2,487,455 |
| Other Funds | 37,690,837 | 46,420,002 | 48,684,365 | 49,617,913 |
| Federal Funds | 16,568,778 | 10,994,780 | 10,995,987 | 11,678,172 |
| **Total Funds** | **$55,330,915** | **$59,723,567** | **$62,075,274** | **$63,783,540** |
| Positions | 240 | 232 | 232 | 232 |
| FTE | 238.05 | 229.94 | 229.94 | 230.19 |

### 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, 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, rule and policy development, billing and financial operations, and federal grant and contract administration. In the 2007-09 biennium, just under 68 of the Division's 230.00 FTE were located in headquarters, 155.00 FTE were in regional offices, and approximately 7.50 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 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. Revenue from the disposal of hazardous waste began declining significantly during the 2001-03 biennium. Lower levels of fee and permit revenue are forecast to continue into the 2007-09 biennium.

### Budget Environment

Funding of the Orphan Site program continues to be unresolved. Orphan sites are contaminated sites where the owner is either unknown or is 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 on the orphan site bonds. In 1993, the Attorney General advised that the petroleum load fee should not be used for orphan site debt service. General Fund and a loan from the Hazardous Substance Remedial Action Fund were used to pay the petroleum load fee share. In 1995, the Legislature limited collection of the hazardous substance fee to an amount necessary to service debt from previous bond sales only and General Fund and Lottery Funds were used in lieu of petroleum load fees. 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 or the 2005 Legislature for issuance of new bonds due to General Fund constraints. The 2007-09 legislatively adopted budget resumed the issuance of General Fund supported bonds for cleanup of Orphan Sites.

### Essential Budget Level

The essential budget level for the Land Quality Division is $92,533 General Fund (3.9%), $933,548 Other Funds (1.9%) and $682,185 Federal Funds (6.2%) more than the 2007-09 legislatively approved budget as of December 2008. These increases are caused by standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

The agency requested an $8.2 million increase in Other Funds expenditure limitation to continue funding authority approved by the Emergency Board at its September 2008 meeting for DEQ to contract for a statewide electronic device recycling program. The program requires manufacturers of covered devices to register with DEQ and pay annual registration fees, either participate in the contractor program or offer their own program, and pays a private contractor to operate the statewide electronics recycling program. In a similar vein, the agency is requesting to add 2 positions paid for with Other Funds to develop and implement a product stewardship program. The agency would use the resources to develop recycling programs patterned on the electronic recycling program that requires manufacturers to be responsible for recycling costs of their products. This proposal is tied to an agency sponsored bill that would give the agency the ability to establish fees much like those for the electronic recycling program. The Governor also included in his recommendations a cut of $264,000 General Fund and one position in the hazardous waste program. This cut represents around a 10% reduction to staffing levels and will lead to fewer inspections and complaint investigations.

## DEQ – Cross Program

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 681,696 | 753,854 | 778,559 | 849,840 |
| Other Funds | 992,569 | 1,218,710 | 1,251,260 | 804,189 |
| Federal Funds | 560,145 | 826,382 | 826,426 | 465,354 |
| **Total Funds** | **$2,234,410** | **$2,798,946** | **$2,856,245** | **$2,119,383** |
| Positions | 8 | 10 | 10 | 5 |
| FTE | 7.75 | 10.00 | 10.00 | 5.00 |

### Program Description

The Cross Program budget unit was established within the agency's structure in 1999 to manage funding associated with environmental issues that cross the agency's traditional program lines. The budget is managed centrally in Agency Management, while the work is carried out through the traditional programs. The Cross Program budget includes the pollution control tax credit program (which is being phased-out), pollution prevention grants, electronic reporting grant (Exchange Network), and participation in Economic Revitalization Teams (ERT). ERT efforts are designed to streamline the delivery of state services which cross agency lines to local communities through the coordination of effort.

### Revenue Sources and Relationships

The 2001 Legislature included General Fund in the Cross Media program to support 4 limited duration positions to work with what is now ERT. These positions and funding were continued with General Fund in subsequent biennia. Other Funds from pollution control tax credit fees provide funding for agency work associated with certification of tax credit applications, however with the failure to reauthorize the pollution control tax credit in 2007 the agency is phasing out the program. The last date to submit an application was December 31, 2008. Under current law, DEQ is responsible for activities such as reviewing replacement facilities and transferring, reissuing, and revoking certificates through 2018 or 2019. DEQ projects that application fees will be sufficient to fund these final activities. Federal Funds for Cross Program activities are primarily from Environmental Protection Agency grants.

### Essential Budget Level

The essential budget level for the Cross Program area is $71,281 General Fund (9.2%) more than the 2007-09 legislatively approved budget as of December 2008 due to standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The Other Funds and Federal Funds 2009-11 essential budget levels are lower than the 2007-09 approved levels due to removal of one-time funding related to limited duration positions, removal of grant funding, and the phase-down of the pollution control tax credit program. These reductions more than offset increases caused by the standard essential budget changes.

### Issues and Options

Federal funding related to work on the Environmental Information Exchange Network which was removed for the essential budget level is requested to be added back. The $565,000 in funding would come from federal grants and would be used to add one limited duration position and conform DEQ's information systems to federal data reporting standards. This work is designed to streamline federally required reporting to EPA while at the same time make environmental data more available and more easily understood by the public and other governmental units.

## DEQ – Agency Management

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 20,147,345 | 22,366,614 | 22,997,825 | 23,604,725 |
| **Total Funds** | **$20,147,345** | **$22,366,614** | **$22,997,825** | **$23,604,725** |
| Positions | 81 | 88 | 88 | 88 |
| FTE | 78.48 | 85.48 | 85.48 | 85.23 |

### 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 solely 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 1999-2001 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 annually 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 the EPA on charging the indirect rate against federal revenues. One budgetary effect of this procedure is a double counting of the limitation associated with the indirect charge against General Fund and Lottery Fund positions due to how the transfer is accounted for by the Department of Administrative Services (DAS). 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 Agency Management.

### Budget Environment

All funding for Agency Management is generated through its indirect rate charge. The Department estimates the indirect rate for the biennium as part of budget building. The actual indirect rate is negotiated each fiscal year, six months in advance. The Department endeavors to maintain an indirect rate where the ratio of Agency Management costs to program personal services is constant. As a result, lower personal service expenditures in the programs reduce Agency Management revenues and expenditures are adjusted accordingly. General Fund in the Division's budget was used to pay for central government service charges that cannot be assessed against Federal Funds through the indirect charge. The 2005-07 budget changed the manner in which central government service charges are paid. Now the programs transfer Other Fund revenues to Agency Management, which pays the charges.

### Essential Budget Level

The essential budget level for Agency Management is $606,900 Other Funds (2.6%) more than the 2007-09 legislatively approved budget. This increase is due to standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

## DEQ – Pollution Control Bond Fund Debt Service

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 4,288,817 | 4,770,453 | 4,770,453 | 5,549,353 |
| Other Funds | 0 | 748,260 | 748,260 | 240,600 |
| Other Funds (NL) | 6,957,491 | 8,373,167 | 8,373,167 | 4,274,948 |
| **Total Funds** | **$11,246,308** | **$13,891,880** | **$13,891,880** | **$10,064,901** |

### 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

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 Funds support and revenue from the Hazardous Substance Possession fee.

### Budget Environment

The Clean Water State Revolving Loan Fund (CWSRF) program included a different mechanism to fund debt service in 2003-05. Debt service on CWSRF bonds was reduced by $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. Interest paid on previous loans had been deposited back into the CWSRF and used to make new loans. Debt service on 2007-09 CWSRF bond sales will also be paid using interest proceeds. The CWSRF Program is now self-funding in the sense that all debt service can be paid out of proceeds from interest payments made by CWSRF loan customers. Currently, interest proceeds are about 8 times the debt service need.

### Essential Budget Level

The essential budget level for 2009-11 contains updated estimates for debt service on already issued bonds. General Fund debt service is $778,900 (16%) higher than 2007-09 legislatively approved budget due to the authorized sale of orphan site cleanup bonds in 2007-09 for which no debt service was appropriated because the sale was to occur at the end of the biennium, now requiring debt service payments in 2009-11 and a one-time shift that occurred in 2007-09 whereby Other Funds balances were used to pay General Fund debt service. The

Governor is not recommending any new orphan site cleanup bond sales in 2009-11 due to General Fund constraints.

## DEQ – Nonlimited

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds (NL) | 125,663,687 | 90,140,000 | 125,140,000 | 80,000,000 |
| **Total Funds** | **$125,663,687** | **$90,140,000** | **$125,140,000** | **$80,000,000** |

### Program Description

A program to grant loans to local governments for construction of eligible waste water treatment facilities, where the amount available from the Clean Water State Revolving Loan Fund (CWSRF) was insufficient for the required work, was discontinued in 2003-05 due to lack of participation by local entities. During the 2003-05 biennium, the eligible uses of CWSRF loans were expanded to include projects addressing nonpoint source water pollution concerns. The estimate for total loans written during the 2007 – 2009 biennium is $96.6 million. The actual amount of cash disbursed to borrowers during 2007-09 is estimated to be $151 million

### Revenue Sources and Relationships

Since 1999, the repayment source for orphan site bond proceeds has been General Fund. Beginning in 2003-05, payment of debt service on CWSRF bonds has used interest paid on past loans instead of General Fund.

### Essential Budget Level

The 2009-11 essential budget is significantly lower than the 2007-09 legislatively adopted budget through December 2008 due to increased CWSRF loan availability in 2007-09 and removal of orphan site cleanup bond proceeds. No new orphan site cleanup bond sales are recommended by the Governor in 2009-11, however the agency is predicting an additional $30 million in CWSRF loans during the 2009-11 biennium. This would bring the 2009-11 Other Funds Nonlimited total to $110 million, which is closer to 2007-09 budget levels.

## Department of Fish and Wildlife (ODFW) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 10,993,233 | 15,499,228 | 15,973,589 | 16,909,505 |
| Lottery Funds | 5,719,505 | 11,761,024 | 12,322,064 | 11,281,640 |
| Other Funds | 116,757,237 | 127,722,216 | 131,898,100 | 130,985,313 |
| Federal Funds | 79,664,474 | 99,408,294 | 99,442,749 | 96,432,261 |
| **Total Funds** | **$213,134,449** | **$254,390,762** | **$259,636,502** | **$255,608,719** |
| Positions | 1,401 | 1,354 | 1,354 | 1,318 |
| FTE | 1,160.74 | 1,147.90 | 1,147.90 | 1,124.65 |

### Agency Overview

The Oregon Department of Fish and Wildlife (ODFW), under direction of its seven-member Commission, manages the fish and wildlife resources of the state. The agency's mission is to "protect and enhance Oregon's fish and wildlife and their habitats for use and enjoyment by present and future generations." By law, the Department is charged with managing wildlife to prevent serious depletion of any indigenous species and with managing fish to provide the optimum economic, commercial, recreational, and aesthetic benefits.

ODFW manages the state's fish and wildlife policies through three primary divisions: Fish, Wildlife, and Administrative Services. Enforcement of the state's fish and wildlife laws is provided by the Department of State Police, Fish and Wildlife Division. The 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, wildlife diseases, as well as landowner relationships and access for hunting.

### Budget Environment

The ODFW budget has become increasingly reliant on revenue from the sale of hunting and angling licenses and tags. During the 2007-09 biennium, revenue from these sources is estimated to provide almost 35% of the Department's total revenue. ODFW has found that the largest variable affecting license and tag sales is the abundance, or even the perceived abundance, of fish and wildlife resources available to hunters and fishers. When the resource available to potential hunters and fishers declines, so do license and tag sales. Another challenge facing the Department, particularly in the Wildlife Division, is demographic changes. 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, is likely to result in further erosion of hunting license and tag sales.

Actions taken by the Pacific Fishery Management Council have lowered the harvest limits of many marine fish species, including groundfish stocks and most recently Klamath Basin and Sacramento River salmon stocks, adversely affecting the commercial fishing industry. 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.

Hunting and angling license and tag fees were last increased on January 1, 2004, however as time passes the fixed price of licenses and tags loses purchasing power as the cost of doing business increases. This gradual rise in the cost of doing business is projected to reduce the Department's ending balance to minimal levels by the end of the 2009-11 biennium, necessitating the Department to request increasing fees and surcharges beginning January 1, 2010.

## ODFW – Fish Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 8,209,049 | 10,906,307 | 11,268,914 | 11,758,476 |
| Lottery Funds | 4,357,415 | 10,223,146 | 10,718,706 | 9,641,334 |
| Other Funds | 41,368,168 | 42,500,636 | 44,416,530 | 44,590,822 |
| Federal Funds | 65,460,781 | 74,782,313 | 74,782,313 | 78,672,359 |
| **Total Funds** | **$119,395,413** | **$138,412,402** | **$141,186,463** | **$144,662,991** |
| Positions | 1,072 | 1,027 | 1,027 | 994 |
| FTE | 834.83 | 822.53 | 822.53 | 798.52 |

### Program Description

The Fish Division consists of the Propagation, Natural Production, Marine Resources, and Interjurisdictional Fisheries programs and has primary responsibility for managing fish resources within the state.

- The purpose of the ***Fish Propagation*** program is to produce fish through artificial propagation to augment natural production and to provide fish for sport and commercial fisheries. In 2008, the program's 33 hatcheries and 15 satellite rearing facilities produced about 50 million salmon, steelhead, and trout. 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 and 75% of the salmon harvested commercially are hatchery produced fish. Hatcheries are also a tourist attraction and receive upwards of 1.4 million visitors per year.
- The ***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.
- The ***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.
- The ***Interjurisdictional Fisheries*** 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 fish. 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

All Fish Division programs receive Other Funds revenue from fishing license and tag sales. The Propagation program also receives Other Funds revenues from contractual agreements with non-federal agencies, commercial fishing industry fees, interest income, and donations. The Natural Production program Other Funds revenue sources include contractual agreements with non-federal agencies and hydroelectric operator and relicensing fees. 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 which are deposited in the Commercial Fish Fund. The Interjurisdictional Fisheries program also receives Other Funds revenue from contractual agreements with non-federal agencies.

The Propagation program's Federal Funds revenues are received from the U.S. Department of Energy through the Bonneville Power Administration, the Department of Commerce through the Mitchell Act, and the Department of the Interior through the Lower Snake River Compensation Plan. General Fund is provided to support state hatchery programs. The Natural Production program's 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 Marine Resources program's Federal Funds are primarily from the U.S. Department of Commerce and Department of Interior for marine resource management. The Interjurisdictional Fisheries program receives Federal Funds 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.

The Natural Production program also receives Measure 66 Lottery Funds for Oregon Plan related work and for fish screening activities. The agency has received $4 million of Measure 66 capital Lottery Funds for the Fish Screening program since the 1999-2001 biennium. This amount was increased to $5 million for the 2005-07 biennium. This funding has allowed the Department to install 148 fish screens and 48 fish passages using Measure 66 capital Lottery Funds. The program also contains Measure 66 operations Lottery Funds to pay for positions working on Oregon Plan activities such as providing technical assistance to local groups working on habitat restoration projects, completing and implementing conservation and recovery plans, as well as conducting the Lower Columbia monitoring program.

### Essential Budget Level

The essential budget level for the Fish Division is $489,562 General Fund (4.3%) and $3,890,046 Federal Funds (5.2%) more than the 2007-09 legislatively approved budget as of December 2008. These increases are caused by standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The increase in Federal Funds in EBL proves not to be supportable within anticipated federal revenues and therefore nearly all the increase over the 2007-09 legislatively approved level is reduced as a revenue shortfall. Lottery Funds is $1,077,372 (10%) lower than the 2007-09 legislatively approved budget due to removal of monies for one-time fish monitoring projects and removal of 2007-09 carryover expenditure limitation for fish screen projects begun in 2005-07 but not completed until 2007-09. Other Funds increases due to standard adjustments are mostly offset by removal of one-time funding for fish recovery planning expenses.

### Issues and Options

The agency has requested a fee increase because 2009-11 expenditures would reduce the Department's ending balance to very low levels by the end of the biennium. The Department plans on using $4 million of the new revenue for Fish Division program enhancements. These include purchase of privately raised trout to enhance angler opportunities, add positions to the fish screens maintenance program, add positions to the Marine program to work on commercial fisheries issues and rent more office space, and add 7 positions to enhance monitoring and evaluate recreational fisheries as part of the Department's 25-Year Angling Plan. The agency would also like to add $350,000 from a Commercial Fish Fund fee increase to identify innovative methods and gear for selectively harvesting hatchery reared salmon in the Columbia River. ODFW also proposed using almost $900,000 of the additional revenue to replace lost federal resources to operate hatcheries that rely on Federal Funds from the Mitchell Act. The agency also wants to add $400,000 Federal Funds to contract for removal of derelict crab pots. Revenue for this work would be from potential federal grants or contracts. The agency would also like to add $1.3 million Federal Funds from NOAA Fisheries for ESA recovery planning and implementation including money to investigate escapement of Chinook salmon to the John Day Basin and add a position to act as lead on the Klamath Restoration Agreement arising from the Klamath Hydro settlement.

A controversial proposal recommended by the Governor would add $2 million in Other Funds expenditure limitation for 8 new positions to evaluate the six Marine Reserve sites identified by the Ocean Policy Advisory Council (OPAC) for potential designation in the 2009-11 biennium. Work would include habitat surveys, biological surveys, economic surveys, outreach efforts on the formation of reserves, and support of local community resource teams. The Governor would fund his proposal with $1 million in Other Funds transferred from the Department of State Lands (DSL) using monies remaining from payments made to cover removal costs of the *New Carissa*. The rest of the Other Funds in the package represents limitation for donations, gifts, and or grants that ODFW would presumably receive to implement the Marine Reserves initiative. The Governor also proposed adding $182,000 General Fund and $250,00 Other Funds to add 2 new positions and months to an existing position (2.50 FTE) to address workload increases due to proposals to test and develop wave energy projects. ODFW would work on impacts to fish in project areas and license such projects; $182,000 of the Other Funds total is transferred from DSL using monies left over from removal costs of the *New Carissa*. The rest of the Other Funds in the package ($70,000) comes from a contract with the Dept of Energy. It should be noted that all uses of monies left over from *New Carissa* removal costs are one-time in nature and could not be sustained with the same revenue in future biennia.

Due to current economic conditions and weak General Fund revenue forecasts for 2009-11, the Governor recommends a number of General Fund reductions in the Fish Division totaling $1.4 million. These reductions include keeping the Butte Creek Hatchery closed for the biennium, reducing the marking of hatchery fish which can then be caught by anglers, eliminating technical assistance and monitoring positions, and reducing groundfish stock assessments. In the past the Legislature has used Other Funds revenue from license and tag sales to replace General Fund expenditures. The Governor proposed none of these types of fund shifts in his recommendations. Measure 66 operations Lottery Fund expenditures were reduced $355,032 and 8 positions (3.37 FTE) in salmon and steelhead monitoring programs and $180,000 Measure 66 capital Lottery Funds and 2 positions (1.67 FTE) in the fish screens program. These reductions were made to match overall Lottery Funds expenditures to forecasted flat revenue growth for Lottery Funds.

## ODFW – Wildlife Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 1,524,825 | 2,408,735 | 2,492,999 | 2,631,936 |
| Lottery Funds | 1,362,090 | 1,537,878 | 1,603,358 | 1,640,306 |
| Other Funds | 27,521,935 | 33,411,473 | 34,353,415 | 32,083,763 |
| Federal Funds | 12,849,849 | 22,141,589 | 22,141,589 | 15,827,632 |
| **Total Funds** | **$43,258,699** | **$59,499,675** | **$60,591,361** | **$52,183,637** |
| Positions | 213 | 211 | 211 | 207 |
| FTE | 212.45 | 212.74 | 212.74 | 211.17 |

### Program Description

The Wildlife Division consists of the Game, Habitat, and Wildlife Diversity programs and has primary responsibility for managing wildlife resources throughout the state.

- 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). The RHA is a cooperative program between the Department, landowners, and corporations to allow public hunting on privately controlled lands. Other duties of the Game program include disease monitoring and management and habitat improvement projects for waterfowl and upland gamebirds. Management and planning for the entire Wildlife Division is included in the Game program budget
- 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 Access and Habitat (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
- The goal of the ***Wildlife Diversity*** program 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 23 nongame wildlife species and 6 nongame 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 143 species or subspecies. The program is also responsible for creating the state's Comprehensive Wildlife Conservation Strategy. Any state receiving monies from the federally funded State Wildlife Grant Program or the Wildlife Conservation and Recovery program must complete such a plan.

### Revenue Sources and Relationships

The Game and Habitat programs receive Other Funds revenues from hunter license and tag sales. The Diversity program does not receive license and tag revenue since it deals with non-game species. Instead, the program receives Other Funds revenues from the nongame income tax check-off contribution and interest income. The Game program also receives Other Funds from waterfowl and bird stamp and print sales, and contractual agreements with non-federal agencies. Wildlife Habitat also houses the A&H program, which is funded through a $2 surcharge on hunting licenses. The A&H program surcharge was to sunset at the end of 2003; however the Legislature extended the sunset through 2009. The agency has proposed legislation requesting increases in fees that includes a doubling of the A&H surcharge from $2 to $4.

The Game program primarily receives Federal Funds through contracts with federal agencies, while the Habitat program's 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. The Diversity program receives Federal Funds from the U.S. Department of Interior for threatened and endangered species activities through the State Wildlife Grant program and the Wildlife Conservation and Recovery program.

### Essential Budget Level

The essential budget level for the Fish Division is $138,937 General Fund (5.6%) and $36,948 Lottery Funds (2.3%) more than the 2007-09 legislatively approved budget as of December 2008. These increases are caused by standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. Federal Funds is $6,313,957 (28.5%) lower than the 2007-09 legislatively approved budget due to removal of $3.9 million for a one-time grant and removal of $3.2 million in 2007-09 carryover expenditure limitation for land owner incentive and Threatened and Endangered species projects begun in 2005-07 but not completed until 2007-09. Other Funds decreased $2,269,652 (6.6%) due to removal of carryover expenditure limitation for Access and Habitat grants and landowner incentive projects which more than offset standard increases for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

As mentioned earlier, the agency has requested an increase in hunting licenses and tags for the 2009-11 biennium. The Department plans on using $1.5 million of the new revenue for Wildlife Division program enhancements. Specifically the Department would enhance funding for big game surveys to complete census information on deer, elk, antelope, bighorn sheep, and rocky mountain goats because rising costs have reduced survey scope recently and some areas received no surveys. In addition, new revenue would enhance the Green Forage and Deer Enhancement and Restoration programs to improve habitat to benefit big game species and enhance Access and Habitat program grants. Other non-state funding increases include adding monies from the Oregon Department of Transportation (ODOT) to create an additional liaison position to provide technical assistance related to permits needed for highway construction and maintenance projects where listed species may be impacted. ODOT already provides funding for 3 such positions in the ODFW budget and this would add a fourth.

The Governor recommended reductions to the 2009-11 budget to help match General Fund expenditures to available revenues. These reductions include reducing payments made to USDA – APHIS Wildlife Services for predator control activities on private land by $100,000, which reduces the total General Fund provided to $120,000 per biennium, eliminating two positions and months on another position that are used as match in the landowner incentive program, and reducing mitigation efforts in the Willamette River basin. The Governor also reduced Lottery Funds by eliminating a technical assistance position working with Watershed Councils and private land owners on habitat restoration projects ($141,443 Measure 66 capital Lottery Funds) and eliminating a habitat conservation biologist in Corvallis working in the Western Oregon Stream Restoration program ($109,620 Measure 66 operations Lottery Funds).

## ODFW – State Police Enforcement

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 12,953,322 | 14,356,763 | 14,784,038 | 16,081,254 |
| **Total Funds** | **$12,953,322** | **$14,356,763** | **$14,784,038** | **$16,081,254** |

### Program Description

The Department of 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 Division also serves a vital function in the Oregon Plan by enforcing laws designed to protect the remaining salmon populations. The Department of Fish and Wildlife contracts with the Department of 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 are sworn police officers and can enforce traffic, criminal, boating, livestock, and environmental laws and respond to emergency situations.

### Revenue Sources and Relationships

The Department of State Police, Fish and Wildlife Division receives General Fund support directly through the Department of State Police budget and Other Funds from hunting and fishing license revenue from the Department of Fish and Wildlife. Beginning with the 1999-2001 biennium, the Fish and Wildlife Division is also provided Measure 66 Lottery Funds to support enforcement of fish and habitat policies.

### Budget Environment

The proportion of the Department of 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 2003-05 biennium, the proportion dropped to its current level of a little more than 50%. The remaining funding has been supported by direct state support, through the General Fund and Lottery Funds.

### Essential Budget Level

The essential budget level for the State Police Enforcement program area is $1.3 million Other Funds (8.8%) more than the 2007-09 legislatively approved budget as of December 2008. These increases are caused by allowed non-standard adjustments for personal services costs to match OSP projected costs to fully support the same level of enforcement as was provided in 2007-09.

### Issues and Options

The Department's budget request proposes to increase funding to OSP by $500,000 using revenue from increased fees to fund two new enforcement positions in Central Oregon. The request would also add $250,000 to rent ocean going boats for commercial fishing enforcement, but not buying a boat as originally planned.

## ODFW – Agency Administration

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 1,088,221 | 1,987,245 | 2,014,735 | 2,322,152 |
| Other Funds | 29,440,869 | 32,314,583 | 33,200,726 | 34,974,111 |
| Federal Funds | 1,353,844 | 1,737,462 | 1,771,917 | 1,932,270 |
| **Total Funds** | **$31,882,934** | **$36,039,290** | **$36,987,378** | **$39,228,533** |
| Positions | 115 | 115 | 115 | 116 |
| FTE | 112.46 | 111.63 | 111.63 | 113.96 |

### 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 (POS) 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 Department has contracted with a national company to operate a new internet-based POS system. While still maintaining a presence at over 400 retailers where customers can purchase licenses and tags in person, this new system also allows individuals to purchase licenses and tags via the internet.

### 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 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. Much of the contract costs to operate 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. This fee does not cover the full cost of the new point-of-sale program. The remainder of the cost is paid with revenue from license and tag fees, and other revenues.

### Budget Environment

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 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 continued 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.

### Essential Budget Level

The essential budget level for the Administration Division is $307,417 General Fund (15.3%), $1,773,385 Other Funds (5.3%), and $160,353 Federal Funds (9%) more than the 2007-09 legislatively approved budget as of December 2008. These increases are caused primarily by standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges, as well as exceptional inflation allowances for increased fuel costs. The General Fund increase is also due to a reorganization which moved two public affairs positions from the Fish Division to the Information and Education program within the Administration Division.

### Issues and Options

The Department plans on using $1.4 million from the proposed license and tag fee increases for Administrative Division program support enhancements. Specifically, the Department would add one position to work on website content change, add another position to work on the migration of the agency's IT applications and databases from a 20 year old mainframe that uses COBOL to a new UNISYS platform, and add $200,000 in professional services expenditures to hire limited duration and temporary positions to provide network support. In addition, the Department would add 3 positions and $620,000 Other Funds expenditure limitation to implement internet sales of hunting and fishing licenses and tags. The new staff are needed to print, prepare, and mail products purchased online.

## ODFW – Capital Improvements

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 171,138 | 196,941 | 196,941 | 196,941 |
| Other Funds | 5,472,943 | 5,138,761 | 5,143,391 | 3,255,363 |
| Federal Funds | 0 | 746,930 | 746,930 | 0 |
| **Total Funds** | **$5,644,081** | **$6,082,632** | **$6,087,262** | **$3,452,304** |
| Positions | 1 | 1 | 1 | 1 |
| FTE | 1.00 | 1.00 | 1.00 | 1.00 |

### Program Description

The Capital Improvements 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

Nearly all of the Other Funds expenditures in the Capital Improvements budget had been for Restoration and Enhancement (R&E) Board projects. R&E projects are funded with a $2 surcharge per angling license. All General Fund expenditures are for emergency hatchery repairs. The agency has proposed doubling the R&E surcharge to $4 beginning January 1, 2010. Federal Funds were added on a one-time basis in 2007-09 to make repairs to federally funded hatchery residence buildings from the Federal Fund Hatchery Housing Fund, which holds rent paid by employees living and working at federally funded hatcheries.

### Budget Environment

Hatchery maintenance needs continue to grow. Generally, hatchery facilities are aging and need improvements to water supplies and waste water systems. The Department completed a deferred maintenance study in 2005, which estimated the following deferred maintenance needs: hatcheries, $5.9 million; wildlife area facilities, $2.4 million; and administrative and operational facilities, $0.9 million. Existing funding sources are not sufficient to eliminate the maintenance backlog. To help address this backlog, the 2007 Legislature added $1.4 million Other Funds from the sale of COPs to address the Department's most critical capital repair needs.

### Essential Budget Level

Other Funds decreased $1,888,028 (36.7%) due to removal of carryover expenditure limitation for Restoration and Enhancement grants obligated in 2005-07 but paid out in 2007-09 and removal of the $1.4 million Other Funds from the sale of COPs used to pay for deferred maintenance projects in 2007-09. Likewise, all Federal Funds were removed from the 2009-11 essential budget level as they represented one-time expenditures from the Federal Fund Hatchery Housing Fund.

### Issues and Options

The Department has proposed increasing the R&E surcharge from $2 to $4 to allow more grant projects to be undertaken. This would increase R&E expenditures by $2.8 million in 2009-11, if approved.

## Department of Forestry (ODF) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 52,819,882 | 40,058,848 | 48,702,605 | 44,963,795 |
| Other Funds | 192,407,822 | 190,304,955 | 245,863,893 | 170,400,142 |
| Federal Funds | 15,163,791 | 26,483,943 | 26,483,943 | 26,816,820 |
| Other Funds (NL) | 6,254,514 | 15,000,000 | 15,000,000 | 15,000,000 |
| **Total Funds** | **$266,646,009** | **$271,847,746** | **$336,050,441** | **$257,180,757** |
| Positions | 1,292 | 1,311 | 1,311 | 1,251 |
| FTE | 909.15 | 920.96 | 920.96 | 893.41 |

### Agency Overview

The Oregon 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, federal, 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 agency's 2004-2011 Strategic Plan approved by the State Forester in September 2004. The Strategic Plan is a companion document to the Board of Forestry's forest policy strategic plan, the 2003 *Forestry Program for Oregon.* The Department has adopted the following vision statement through its strategic plan:

The Department of Forestry will be successful in achieving its mission when Oregon has:

- Healthy forests providing a sustainable flow of environmental, economic, and social outputs and benefits.
- Public and private landowners willingly making investments to create healthy forests.
- Statewide forest resource policies that are coordinated among Oregon's natural resource agencies.
- The Board of Forestry recognized as an impartial deliberative body operating openly and in the public interest.
- Citizens who understand, accept, and support sustainable forestry and who make informed decisions that contribute to achievement of the vision of the 2003 Forestry Program for Oregon.
- Adequate funding for the Department of Forestry to efficiently and cost-effectively accomplish the mission and strategies of the Board of Forestry, appropriate use of information technology, business management strategies, and Department personnel policies that encourage and recognize employees, allowing them to meet their full potential in providing excellent public service.

### Essential Budget Level

The 2009-11 essential budget level of $257.2 million total funds is a decrease of $78.9 million, or 23.5% from the 2007-09 legislatively approved expenditure level and includes 1,251 positions (893.41 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $64.2 million total funds in special session and Emergency Board actions during Fiscal Year 2008 for emergency repair work related to winter storm damage, the 2007 and 2008 forest fire protection program, and increased compensation for employees. The 2009-11 essential budget level includes a reduction of $28.7 million to phase out expenditures related to one-time expenses for the business Improvement Technology Project ($1.7 million of $4.2 million); $16 million General Fund associated with eliminating double budgeting of Other Fund resources in the Protection from Fire Program accounts; $4.5 million Other Funds and 44 positions (16.96 FTE) to phase out Nursery Program operations; $9 million related to Capital Improvement and Capital Construction Projects; one-time federal grant programs; and one time debt issuance costs. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including the removal of 16 positions (10.44 FTE) related to administrative position adjustments. It also reflects technical adjustments to remove double expenditure limitation in operating programs for facilities maintenance and transfers it solely to the Facilities Management program.

### Issues and Options

In its 2009-11 agency request budget, the Department of Forestry requested 25 policy packages, totaling an increase of $44.9 million General Fund, $25 million Other Funds, $8.7 million Federal Funds, and 194 positions

(108.48 FTE). Its request seeks to rebalance $8.6 million administrative costs charged to operating programs based on a review of services provided and recommendations of a recent Secretary of State audit on forest management costs billed to the Department of State Lands for the Elliot State Forest. The review revealed that the current methodology which bills workload for administration programs 54% to the General Fund and 46% to Other Funds has shifted to 58% General Fund and 42% Other Funds. The major share of the total agency request, $27 million General Fund, a reduction of $6.3 million Other Funds, and 139 positions (52.95 FTE) is for changes in the way fire prevention and suppression activities are currently funded in the state. ODF submitted a legislative concept that would change the way that landowners and the state share costs of fighting the larger emergency fires. ODF also requested $8.6 million General Fund to address issues related to its cost allocation for agency administration costs charged to operating programs. The remaining requests are to add resources to improve forest management, landowner services for private forests, add capacity for agency administration, and capital construction. Specific information about the request will be described in programs below.

ODF has identified $4.6 million in General Fund reduction options that would impact the Fire Protection program's initial attack response and Private Forests monitoring and technical assistance programs. A corresponding Other Fund matching amount from Timber Harvest tax receipts and landowner assessments of $2.2 million would be reduced if these options were exercised.

The Governor's recommended budget is $283.7 million total funds. The General Fund budget is reduced $11.4 million, or 23%, compared to the 2007-09 legislatively approved budget through December 2008. The budget shifts about $3 million of General Fund costs to be paid with increased private landowner assessments for wildland fire protection and funds from the State Forestry Development Account (timber receipts). The Private Forests program is reduced $4.1 million General Fund or about 35%. The reduction will require significant restructuring of the program. The Other Funds budget is reduced $1.6 million, or approximately 17%. In the State Forest Lands program, the budget funds a portion of the Common School Fund's share of the agency administration costs with funds from the State Forestry Development Account. The budget adds six positions to implement new forest management plans at the Elliott, Clatsop, and Tillamook State Forests. The budget adds four positions for various monitoring functions. The budget allows the agency to spend federal dollars it receives for elimination of the Sudden Oak Death disease.

## ODF – Agency Administration

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 17,435,302 | 2,429,208 | 3,107,826 | 4,032,065 |
| Other Funds | 8,781,400 | 21,122,330 | 22,426,548 | 21,105,983 |
| Federal Funds | 554,238 | 773,760 | 773,760 | 820,971 |
| **Total Funds** | **$26,770,940** | **$24,325,298** | **$26,308,134** | **$25,959,019** |
| Positions | 80 | 81 | 81 | 80 |
| FTE | 78.84 | 78.85 | 78.85 | 78.84 |

### Program Description

Agency Administration includes the State Forester's office, Board of Forestry support, 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 (timber receipts) 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 for Salmon and Watersheds and the development of state forest management plans for the State Forests Program, including the Northwest Oregon Forest Management Plan and the Elliot State Forest Management Plan and Habitat Conservation Plan. Due to a strong interest in the environment on a national and international scale, public interest and involvement in all Department programs and activities is high and will likely increase. The program interacts with multiple external program areas, other natural resource agencies, the United States Forest Service (USFS), Bureau of Land management (BLM), and the Governor's Office on forest health issues.

Increased decentralization of controls by the Department of Administrative Services (DAS) continues to increase centralized Department services of accounting, payroll, contracting, purchasing, personnel, information systems, and facilities management.

A tight labor market and generational changes in the workforce are making it more difficult to develop viable applicant pools for recruiting. Continued turnover in the leadership of the Department due to retirements will impact organizational effectiveness. It will take time and resources for employees to become proficient in their new leadership positions.

### Essential Budget Level

The 2009-11 essential budget level of $26 million total funds a decrease of $349,115 total funds, or 1.3% from the 2007-09 legislatively approved expenditure level and includes 80 positions (78.74 FTE) as of December 2008. The General Fund essential budget is $1.6 million more than the 2007-09 legislatively approved expenditure level reflecting increases in salaries and standard adjustments for inflation. The 2007-09 legislatively approved expenditure level includes $2 million total funds in special session and Emergency Board actions during Fiscal Year 2008 related to emergency repair work for winter storm damage, State Data Center charges, and increased compensation for employees. The 2009-11 essential budget reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including an internal realignment of a position (0.01 FTE).

### Issues and Options

In its 2009-11 agency request budget, ODF requested 8 policy packages totaling $13.1 million General Fund and a reduction of $4.9 million Other Funds ($8.2 million total funds) and includes the addition of 23 positions (23.53 FTE) as follows:

- $8.3 million General Fund and a decrease of $8.3 million Other Funds to address a shift in workload within the Administration Program from operating programs Other Funds to operating program General Fund. The 2007 Legislature shifted the Fire Protection Program's share of Agency Administration program costs from General Fund to Other Funds. The agency request restores $3.2 million General Fund currently in the Fire Protection program as agreed to by the Legislature until the 2009 Legislature has an opportunity to assess the balance of funding between landowners and the state for this element of the program. A report is expected to be presented during the budget hearings process.
- $487,547 General Fund and $358,148 Other Funds to establish five permanent, full-time positions (5.00 FTE) to address workload increases in the Business Services program resulting from changes in statutes, audit opinions, changes to accounting standards, increased decentralization of DAS functions and rule changes regarding asset and facility management. These positions would address insufficient staff time devoted to critical contracts, segregation of contract duties, and contract-related training for program and district staff.
- $154,376 General Fund and a decrease of $178,403 Other Funds to establish two permanent, full-time positions (2.00 FTE) and add 0.50 FTE to an existing position to address high rates of staff turnover due to retirements and promotions to positions within the Department, a backlog of priority projects including a position classification study of Department employees, succession planning, and implementation of the state recruitment improvement project.
- $485,006 General Fund and $356,287 Other Funds to establish five permanent (5.00 FTE) positions to address workloads related to developing a data security program and training, improve web and intranet services, and increase capacity to perform critical services to keep systems functioning without delays.
- $245,012 General Fund and $179,988 Other Funds to fund ongoing maintenance fees of new business systems expected to be on-line during the 2009-11 biennium related to forest operations, timber revenue accounting, document management, Board of Forestry support systems and ODF financial systems.
- $3.2 million Other Funds to continue its investments in information technology systems development. The 2007 Legislature approved funding to replace its aging business information systems with an integrated

business information system to serve ODF. ODF requests certificates of participation to finance the project with $460,648 General Fund and $408,393 Other Funds to pay debt service during the 2009-11 biennium.
- $2,315,513 General Fund and 10.00 FTE to provide resources to engage in federal forest management, federal natural resource policy development, and ensure sustainable environmental, economic, and social benefits from federal forests.

The Governor's recommended budget retains the administrative cost funding for the Protection From Fire program within the Protection budget using Forest Development Account (timber receipts) to finance these costs. The 2007 Legislature changed the statute (SB 904) requiring prior written consent by the counties who share the revenue from the timber receipts for continued use of the fund for this purpose. The Legislature will need to change the statute to allow this use, or get prior written consent from the counties. In addition, the recommended budget uses the Forest Development Account to offset the difference between the current methodology, which bills workload for administration programs 54% to the General Fund and 46% to Other Funds (which has now shifted to 58% General Fund and 42% Other Funds for assessments related to managing the Elliot State Forest). Other than these changes, the Governor recommends the budget be funded at the essential budget level.

## ODF – Protection From Fire

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 23,704,478 | 23,874,658 | 31,412,297 | 26,015,119 |
| Other Funds | 92,452,450 | 59,581,726 | 111,606,386 | 46,829,165 |
| Federal Funds | 9,600,179 | 17,671,462 | 17,671,462 | 18,426,185 |
| Other Funds (NL) | 2,104,808 | 15,000,000 | 15,000,000 | 15,000,000 |
| **Total Funds** | **$127,861,915** | **$116,127,846** | **$175,690,145** | **$106,270,469** |
| Positions | 708 | 727 | 727 | 724 |
| FTE | 397.27 | 412.25 | 412.25 | 409.44 |

### 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, smoke management 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 12 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 nine 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% private 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 Legislature modified the reserve base for the OFLPF in HB 2327 from $15 million to $22.5 million stipulating that when the unencumbered balance of the fund reaches a level greater than $22.5 million but less than $30 million, the minimum assessment would decrease from $18 to $16.50, with $1.50 to be paid into the OFLPF. Above a $30 million balance, the assessment would drop to $15 per lot or parcel with none paid to the OFLPF. The OFLPF essentially serves as an insurance policy for local landowners in each of the forest protection districts. Revenues to support the OFLPF are estimated to be $16.8 million in 2007-09, and are generated from an assortment of landowner assessments and taxes:

- harvest tax of $0.50/thousand board feet (MMbf) on all merchantable forest products; the tax is suspended when the reserve base amount of the OFLPF is projected to exceed $22.5 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 class 3 forestlands) ($1.47 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 ($9.9 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*** – HB 2327 (2005) directs that, prior to February 1 of each year, the State Forester and the Emergency Fire Cost Committee review the need to purchase emergency fire suppression insurance and determine what level might be needed in view of the current condition of the forests, long-term weather predictions, available resources, and other factors. The statute includes a provision to annually assess the insurance premium equally between the Oregon Forest Land Protection Fund (OFLPF) and the General Fund. The current insurance policy provides $25 million total insurance with an annual deductible of $25 million and an annual premium of $1.3 million. Also HB 2327 (2005) limits the landowners' responsibility 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 ***Smoke Management/Fuels program*** – Funded by registration and burning fees collected from landowners (87%), contractual payments from other government agencies (12%), and landowner assessments (1%).

### 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 resulting in higher costs and greater damages and requires additional coordination by fire protection agencies. Numerous structures located on forestland have not been included within the boundaries of rural fire districts and are unprotected. An estimated 3.9 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.

### Essential Budget Level

The 2009-11 essential budget level of $106.3 million total funds is a decrease of $69.4 million total funds, or 40% from the 2007-09 legislatively approved expenditure level and includes 724 positions (409.44 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $69 million total funds in special session and Emergency Board actions during Fiscal Year 2008 related to wild land fire protection ($7 million General Fund and $50 million Other Funds) and changes to employee compensation. The 2009-11 essential budget phases out $16 million General Fund as a result of aligning the General Fund share accounting processes with agency enterprise-wide systems eliminating a double expenditure limitation situation caused by transferring General Fund to the Other Funds accounts. It adds $17.8 million General Fund to various line items throughout the budget and removes $17.1 million Other Funds to remove the double budgeted funds. The 2009-11 essential budget reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including an internal realignment of 3 positions (2.81 FTE).

### Issues and Options

In its 2009-11 agency request budget, ODF requested 7 policy packages totaling $24 million General Fund and a reduction of $6.3 million Other Funds ($17.3 million total funds) and includes the addition of 139 positions (51.92 FTE). The Department submitted a legislative concept supported by several policy packages to change the way fire prevention and suppression activities are currently funded in the state. ODF requested the following:

- $8,775,022 General Fund; a decrease of $74,449 Other Funds; and $106,342 Federal Funds to add 130 positions (47.26 FTE) to add seasonal fire fighting resources within the four highest-risk fire districts; replacing the current practice of drawing down resources from other districts to respond to wildfires in those districts.
- $8,146,150 General Fund to continue the biennial special purpose appropriation to the Emergency Board for fire insurance premium costs and severity resources. This package is not needed if the above package is adopted.
- Decrease $156,195 Federal Funds and eliminate 1.08 FTE to support full-range landowner services in the Private Forests Program.
- Establish one permanent part time Fiscal Analyst 1 position (0.50 FTE) to serve as the Emergency Fire Committee finance coordinator. The Coordinator will perform the financial assurance and oversight duties required to protect and appropriately distribute funds from the Oregon Forest Lands Protection Fund. the position is proposed to be funded with existing service and supplies dollars at a cost of $71,441 Other Funds.
- $58,212 General Fund and $363,521 Other Funds to establish 6 positions (3.35 FTE) to work as a rangeland association coordinators. ODF believes these positions are needed to provide guidance and mentoring of private landowners through developing and implementing rangeland protective associations in areas of unprotected lands where no other means of initial attack and suppression of wildfires exists. The positions would be partially funded by private landowner assessments under the cooperative fire program.
- $88,899 General Fund and $172,703 Other Funds to increase district base budgets. The Oregon Forestland Protection Fund fire suppression deductible rate increased from $0.08 to $0.10 for timber acres and from $0.04 to $0.05 for grazing acres to a maximum of $25,000 per fire.
- $309,493 Other Funds to establish two limited duration full-time positions (2.00 FTE) for development, implementation, and compliance monitoring of the Pacific NW Wildfire Coordinating Group Interagency Crew Agreement. The addition of these positions will provide greater monitoring and accountability of contract resources that perform wildfire suppression duties. These positions will be funded by users of the interagency contract crews, including various federal land management agencies and other states.

Above the 10% required reduction option, ODF identified that $2.2 million General Fund and $4.5 Other Funds would be the next reduction option for consideration by the Legislature. The reduction would eliminate 39.32 FTE in permanent and seasonal positions and impact the agency's ability to respond to fire outbreaks and forest fire patrol efforts.

The Governor's recommended budget would provide $444,154 Other Funds to add four positions (3.50 FTE) related to the Emergency Fire Cost Finance coordinator, one of six requested positions for rangeland association coordination to be funded by private landowner assessments, and the two positions for fire protection contracting effectiveness. The recommended budget changes the split between General Fund and private landowner assessments for basic fire protection from the current split of 50% General Fund and 50% private landowner assessments to 45% General Fund and 55% private landowner assessment. The budget also replaces $3.2 million General Fund costs in the Fire Protection program with State Forestry Development Account dollars (revenues from timber sales in state forestlands). The Governor's budget also recommends $5.1 million General Fund as a special purpose appropriation in the Emergency Fund for severity resources and insurance premium costs, which is the current amount approved for 2007-09 increased by the standard inflation factor of 2.8%.

## ODF – Equipment Pool Program

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 12,953,972 | 13,795,060 | 13,893,423 | 14,458,252 |
| **Total Funds** | **$12,953,972** | **$13,795,060** | **$13,893,423** | **$14,458,252** |
| Positions | 29 | 29 | 29 | 30 |
| FTE | 29.77 | 30.75 | 30.75 | 30.56 |

### Program Description

The Equipment Pool program operates a motor pool and a radio pool. The motor pool manages 750 pieces of equipment including vehicles, airplanes, pickups, trailers, and heavy equipment. The radio pool supports and maintains 3,500 pieces of major communication equipment such as repeaters, base stations, mobiles, and portables. The radio pool provides the equipment, engineering, maintenance, and support for the Department's co-operators (3 fire protection associations); Department of Fish and Wildlife; Oregon Parks and Recreation Department; and, at times, other agencies, such as the Departments of Agriculture, Water Resources, Justice, Corrections, and the Oregon State Fair.

### Revenue Sources and Relationships

Expenditures for the Equipment Pool program are financed 100% from fees charged to equipment pool users.

### Budget Environment

Motor pool operations are affected by changes in fuel prices. The radio pool is affected by changing telecommunications technology (narrowband and digital), Homeland Security, and the States Interoperability Executive Committee, which is requiring new strategies to provide the most efficient and effective exchange of information.

### Essential Budget Level

The 2009-11 essential budget level of $14.5 total funds is an increase of $564,829 total funds, or 4% from the 2007-09 legislatively approved expenditure level and includes 30 positions (30.56 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $98,363 total funds in special session and Emergency Board actions during Fiscal Year 2008 related to changes to employee compensation. The 2009-11 essential budget reflects a technical adjustment to remove $143,918 Other Funds double expenditure limitation in operating programs and reflects costs solely in the Facility Maintenance Program. The 2009-11 essential budget reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including an internal realignment of one position (0.19 FTE).

### Issues and Options

In its 2009-11 agency request budget, ODF requested the budget be funded at the 2007-09 essential budget level. The Governor recommends the budget be funded at the essential budget level as requested.

## ODF – State Forest Lands

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 62,057,656 | 63,698,183 | 65,810,846 | 67,500,736 |
| Federal Funds | 0 | 145,102 | 145,102 | 0 |
| **Total Funds** | **$62,057,656** | **$63,843,285** | **$65,955,948** | **$67,500,736** |
| Positions | 314 | 302 | 302 | 299 |
| FTE | 269.73 | 260.20 | 260.20 | 260.05 |

### Program Description

The State Forest Management program manages 780,000 acres of state forestlands on behalf of counties and the Common School Fund. The Board of Forestry owns nearly 83% (648,200) 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 $45 to $49 million for 2009-11. 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 $79 to $86 million for counties and local taxing districts, and timber sales from Common School Fund lands will generate $24.9 to $34.3 million in revenue during the 2009-11 biennium. Management costs on the Common School Fund lands are proposed in the budget at slightly over $9.7 million for the 2009-11 biennium.

### 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 20,860 acres with appropriate tree species and genetic sources of tree seed; fertilize and prune 8,950 acres; conduct regeneration harvest on 15,856 acres; pre-commercially thin 6,100 acres; and commercially thin or partially harvest 21,520 acres during the 2009-11 biennium.

Current economic conditions point to possible downturns in most of the Department's revenue sources, including state forests. Overall, ODF revenues may decline 12%-20% over the next two to three years. The national and state economic conditions are expected to remain weak at least through 2009, due in large part to the collapse in subprime and other inadequately secured home mortgages. These conditions in the credit lending industries and the resulting poor housing market conditions are affecting timber and other industries in Oregon and elsewhere. Less timber demand means lower timber sale revenue from state lands. The current fiscal year's (2008) average bid price per thousand board-feet has dropped 15% compared to the previous year.

Swiss Needle Cast, a foliage disease of Douglas-fir, is significantly affecting a portion of state forestlands on the Tillamook State Forest. Symptoms of this disease are also becoming evident in the Elliott State Forest. Federally listed species have significantly affected the management of state forestlands over the last decade. Listings for fish species also have effects on the ability of managing the resource to achieve program goals on state forest lands.

### Essential Budget Level

The 2009-11 essential budget level of $67.5 total funds is an increase of $1.5 million total funds, or 2.3% from the 2007-09 legislatively approved expenditure level and includes 299 positions (260.05 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $2.1 million total funds in special session and Emergency Board actions during Fiscal Year 2008 related to changes to employee compensation. The 2009-11 essential budget reflects phasing out $145,102 Federal Funds resulting from reductions in federal funding for this program. The 2009-11 essential budget reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including an internal realignment of two positions (0.15 FTE). It also includes an additional 12.7% increase for fuel cost increases and 1.74% increase for professional services above standard inflationary rates. A technical adjustment removing $593,961 Other Funds of double limitation of expenditure for facilities maintenance costs will be shown solely in the Facilities Maintenance program.

### Issues and Options

In its 2009-11 agency request budget, ODF requested a one-time increase of $25 million Other Funds to implement a technical accounting adjustment to comply with Generally Accepted Accounting Principles (GAAP) . This change will allow timber sales project work to be accounted for as it occurs so that the program revenues and expenditures are accurately recorded. Currently only "net" revenues are recorded; this will allow gross revenues to be recorded requiring a one-time increase in expenditure limitation.

ODF proposed a legislative concept to address protecting working forest through land acquisition. ODF proposes allowing the agency to pursue a one-time transaction in Eastern Oregon that would bring into public ownership, in exchange for limited, specific transfer of development rights, a block of forestland that otherwise would likely be divided into smaller pieces. ODF requested an increase of $1.1 million Other Funds and the establishment of one permanent position to enable the agency to capitalize on a unique, time-critical opportunity to retain approximately 240,000 acres of working forestland for the benefit of local communities. The position would be responsible for future land acquisition opportunities such as small forested parcels with special resources, unique habitat, or other values. It also requested $1.2 million Other Funds to establish 6 positions (6.00 FTE) to implement new forest management plans at the Elliott, Clatsop, and Tillamook State Forests to increase harvest levels and generate additional revenues.

The Governor recommends the budget be funded at the essential budget level with additional funding for the one-time increase of $25 million to comply with GAAP, and the $1.2 million Other Funds to establish the six positions needed to implement the new forest management plans. The Governor did not recommend the additional position and expenditure limitation to pursue land acquisitions for working forest lands.

## ODF – Urban Forestry

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 0 | 256,958 | 256,958 | 264,153 |
| Federal Funds | 0 | 794,430 | 794,430 | 884,718 |
| **Total Funds** | **$0** | **$1,051,388** | **$1,051,388** | **$1,148,871** |
| Positions | 0 | 3 | 3 | 3 |
| FTE | 0.00 | 3.00 | 3.00 | 3.00 |

### Program Description

The Urban Forestry program is a new unit realigned from the Private Forest program unit and is responsible for on-site technical, educational, and financial assistance for municipal governments, other public agencies, non-profit groups, and civic organizations. The program provides technical information on tree risk assessment, ordinances, inventories, tree care, planting, tree selection, and urban forest management. The program unit was established to place emphasis on advocating for and promoting enhancing stewardship of Oregon's urban forests and to foster public awareness of the contributions that trees make to the quality of life and the environmental and economic well-being of Oregon cities.

The Urban Forestry Program was initiated in 1991 when federal funds became available from the President's America the Beautiful Initiative. The 1993 Legislature passed a bill directing the Department to assist cities in managing the trees within their urban growth boundaries. A 2004 survey of cities showed that ODF's assistance since 1991 has resulted in an increase in the number of cities with active urban forestry programs, an increase in the number of urban forestry program elements (inventories, management plans, etc.) found in cities, and an increase in local investment in urban forest management. Cities that had received ODF assistance were more likely to be proactively dealing with their tree problems than cities that were not assisted by ODF.

### Revenue Sources and Relationships

The Urban Forestry program is funded by a combination of Other and Federal Funds. The majority of Federal Funds have been received through the U.S. Department of Agriculture's Forest Service as part of a consolidated grant program through the U.S. Forest Service State and Private Forestry Program. Match is met on a comprehensive basis. In 2008, a portion of the funds normally received by the Department were diverted to the Western Competitive Grant Process within the U.S. Forest Service State and Private Forestry budget. ODF was successful in obtaining two grants totaling $70,000 in urban forestry funds. Estimated revenues from Federal Funds in the 2009-11 biennium are $514,800 with potential to receive one or more Western Competitive Grants. Other Funds revenues include private donations, cooperative projects with utilities and other entities, and Federal Funds transferred from other state agencies. Estimated revenues from Other Funds are $100,000 for the 2009-11 biennium. In recent years, ODF received "base" urban forestry funding levels of between $400,000 and $500,000 per biennium from federal funds via the U.S. Forest Service. It has also received performance based funds, project specific funds, and competitive based funds above that level. For 2009-11, ODF has been awarded an additional project award of $257,580 that will be received and spent during the 2009-11 biennium. Based on this information, ODF is projecting a minimum of $757,580 federal revenue, which is not enough Federal Funds to fully fund the agency request.

Oregon lacks a dedicated source of tree planting revenues for local communities to access. Most funding incentives are targeted outside of urban growth boundaries, despite the fact that most salmon bearing streams pass through urban areas on the way to the Pacific.

### Budget Environment

Most cities lack the technical expertise to complete tree risk management plans. Storms often result in tree damage to public infrastructure and utility systems. Most cities are reactive rather than proactive when it comes to dealing with hazardous tree issues. In 1911 when ODF was created, 58% of Oregonians lived in rural areas; today only 21% of Oregon's population is rural; the other 79% live in urban areas. Since 1990 Oregon has experienced rapid population growth. An estimated 330,000 acres of Oregon forest, about 5% of the state's private forestland, exist inside urban growth boundaries or other development zones. Another 1.8 million acres of private forest exist within one mile of developable areas. As cities grow, they face a number of challenges with retaining forest value and benefits such as maintaining forest cover for urban streams, fish and wildlife habitat, and environmental protection. Land conversions and development pressures are trends affecting Oregon's forests. With a small staff and a large state, ODF struggles to meet the demand for urban forestry assistance across the state.

In the 2005-07 biennium, there were two field foresters covering the entire state, one from Salem and one from Prineville, leaving the southern Oregon area and the Portland metro area under served. ODF lacks sufficient staff to meet the needs of all communities in the state.

Since 1991, Oregon has received over $4.75 million in urban forestry funds from the federal government that have never been matched with a state appropriation. The federal government is considering requiring states to equally match the federal funds it receives on a program basis which means the state would need to allocate at least $400,000 per biennium in order to be eligible for federal funds. Reductions in federal funding available to the state have reduced the program by 23% in 2006 and another 23% for 2007. The reduction has necessitated the elimination of a popular grant program for local governments and non-profit organizations and in the next biennium will result in reducing field staff that provides urban forestry assistance to cities. Before its elimination, this program funded over 400 projects and provided more than $1.9 million in grants that leveraged $3.8 million in local resources.

#### Essential Budget Level

The 2009-11 essential budget level of $1.1 million total funds is an increase of $97,483 total funds or 9.3% from the 2007-09 legislatively approved expenditure level and includes 3 positions (3.00 FTE) as of December 2008. The 2009-11 essential budget reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

#### Issues and Options

In its 2009-11 agency request budget, ODF requested a reduction of one position (1.00 FTE) and $18,756 Federal Funds to support full-range landowner services in the private forests program. The Governor recommends the budget be funded at the essential budget level. Based on the revenue estimates provided by ODF, it appears the agency will be $540,000 short of resources needed to fully fund the budget at the essential budget level.

## ODF – Private and Community Forests

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 9,727,373 | 11,259,348 | 11,686,848 | 12,110,029 |
| Other Funds | 6,873,219 | 9,114,091 | 9,114,091 | 9,673,416 |
| Federal Funds | 5,009,374 | 7,099,189 | 7,099,189 | 6,684,946 |
| **Total Funds** | **$21,609,966** | **$27,472,628** | **$27,900,128** | **$28,468,391** |
| Positions | 115 | 123 | 123 | 114 |
| FTE | 113.43 | 115.80 | 115.80 | 110.67 |

#### Program Description

The Private Forests program is an integrated program that:

- Promotes forest stewardship through the Oregon Forest Practices Act and rules, and by providing training, technical, and financial assistance to forest landowners and operators.
- Promotes healthy forests through monitoring insect and disease conditions, applying integrated pest management strategies, controlling/eradicating invasive species and assisting landowners conduct stand management prescriptions through technical and financial assistance.
- Promotes increased timber production by family forest landowners through information, incentives, services, and assistance.
- Promotes a stable regulatory and investment climate by developing and promoting science-based best management practices and encouraging federal, state, and local government policies that are supportive of the Board's mission, that avoid unintended adverse consequences, and that improve efficiency of program delivery.
- Promotes the implementation of the voluntary measures under the Oregon Plan for Salmon and Watersheds through technical, cost-share, and administrative assistance.
- Conducts monitoring to ensure rules and programs are effective and efficient.

The Forest Practices Act, adopted in 1971, provides the Board of Forestry authority to regulate forest practices, including timber harvesting and reforestation on 12.3 million acres of private, state, county, and some federal owned forest lands. The statutory and program goals are to ensure the continuous growing and harvesting of forest tree species is maintained as the leading use of privately owned forestland while ensuring 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 that changed the requirements governing clear-cut size, green tree and downed wood retention, reforestation, and scenic highway corridors. As a result of the statutory changes, the Board adopted a number of rule changes from 1994 to 1996 related to water protection, chemical use, and reforestation. SB 12 (1999) provided additional direction and authority for the Board to adopt rules to manage public safety risks from rapidly moving landslides. HB 3264 (2003) removed authority for the Board of Forestry and State Forester to require prior approvals and approve written plans and directed rulemaking for conformity. Staffing includes 56 stewardship foresters across the state to provide training, technical and cost-share assistance, review operating plans, and inspect operations for compliance.

SB 496 (2005) authorized the Department to implement the federal Forest Legacy program within urban growth boundaries. The federal Forest Legacy Program provides funding to nationally selected projects that protect key forest types threatened to be converted to other uses. The 2005 legislation limits the program to lands within Urban Growth Boundaries.

Oregon has approximately 166,000 family forest landowners 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 substantial potential for increased timber productivity. Thus, the program provides family landowners with the information, incentives, services, and assistance needed to encourage voluntary stewardship and investment in their forestland. The technical and financial assistance to family landowners includes multiple resource management, forest property tax policies and options, federal cost-share programs, the Forest Resource Trust, and insect and disease prevention.

The Private Forests Program also conducts insect and disease management surveys, evaluates and monitors forest insects and diseases, and provides information, education, and advice on integrated pest management practices for non-federal forest landowners.

### Revenue Sources and Relationships

The Forest Practices subprogram 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. Oregon Watershed Enhancement Board grants provide partial funding for some cooperative research projects.

The Forestry Assistance subprogram 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. 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 Urban and Community Forestry and Forest Health monitoring activities. Other Funds revenues are phased out in the 2003-2005 biennium from a Privilege Tax from the western and eastern Oregon Timber Tax Accounts. These funds were 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. The program also receives private donations, including the Forest Resource Trust funds and Urban and Community Forest donations, for specific projects.

### Budget Environment

Forest Practices workload has increased as harvesting on private lands accelerated due to improved timber and lumber markets. For the 2009-11 biennium, the Department anticipates processing over 17,000 notifications of operations per year (intent to conduct a forest operation), plus reviewing and commenting on 3,000 written plans describing operating methods on sensitive sites. The number of on-site inspections for pre-operation planning active operations, and reforestation auditing will depend on the number of stewardship foresters remaining after potential budget reductions. On average each stewardship forester conducts over 240 inspections per year. The average number of notifications from 2005-07 (three years) was 18,635 per year. In 2008, 14,892 notifications have been processed through October 2008. Other factors affecting the Forest Practices program include continued implementation of the Oregon Plan; implementation of rules related to landslides and public safety on forestland, harvesting practices, and the use of pesticides; workload necessary to achieve reforestation and "free to grow" status; and encouraging appropriate responses by the federal government on actions and policies related to endangered species and clean water programs.

Forest health remains a critical issue for the state's economy. Sudden Oak Death (an invasive species) has infested portions of southwest Oregon. Failure to effectively manage this problem will have major economic implications for Oregon's forest products and nursery industry. About 8.2 million acres of Oregon's forests have been affected by drought, insects, disease, and fire. The state loses about 1.5 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 Swiss needle cast disease. Dead and dying forests in Eastern Oregon due to bark beetle and other insect infestations need treatment in order to reduce fire hazards and restore forest health. Many wild salmon and trout populations are under scientific scrutiny. 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.

### Essential Budget Level

The 2009-11 essential budget level of $28.5 million total funds is an increase of $568,263 total funds, or 2% from the 2007-09 legislatively approved expenditure level and includes 114 positions (110.67 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes the addition of $568,263 in special session, and Emergency Board actions during Fiscal Year 2008 related to changes to employee compensation. The 2009-11 essential budget reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. A technical adjustment removing $35,713 Other Funds of double limitation of expenditure for facilities maintenance costs will be shown solely in the Facilities Maintenance program.

### Issues and Options

In its 2009-11 agency request budget, ODF requested 3 policy packages totaling $4.9 million General Fund, $1.3 million Other Funds, and $9.2 million Federal Funds ($15.4 million total funds) to establish 26 positions (27.53 FTE). To reinvent the Private and Urban Forestry Programs, $3.2 million General Fund, $1.3 million Other Funds, and $106,503 Federal Funds were requested. It addressed the needs in urban growth boundaries and fills the gap between the existing Urban Forestry Program and the Private Forest program by helping landowners, cities, and counties in dealing with forestry issues in the wildland/urban interface issues and improves efforts aimed at retaining forest values during development. The request budget also included a reduction of one position (1.00 FTE) and $18,756 Federal Funds to support full-range landowner services in the private forests program. Four positions (4.00 FTE) to continue the aerial and ground surveying program that monitors the spread of Sudden Oak Death disease funded with $4 million Federal Funds was also requested. It relies solely on the availability of Federal Funds. The agency also requested $1.5 million General Fund to increase the capacity to continue involvement in watershed research.

ODF identified $4.6 million General Fund and $2.2 million Other Funds in reduction options. It would eliminate 33.68 FTE and 17 positions, significantly reducing technical assistance provided by field foresters to landowners and severely limit monitoring activities.

The Governor recommends the budget be funded at $26 million, funding only the $4 million Federal Funds and four positions for Sudden Oak Death disease monitoring above the essential budget level.

## ODF – Forest Nursery Program

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 3,871,147 | 4,495,808 | 4,495,808 | 0 |
| **Total Funds** | **$3,871,147** | **$4,495,808** | **$4,495,808** | **$0** |
| Positions | 45 | 45 | 45 | 0 |
| FTE | 19.11 | 19.11 | 19.11 | 0.00 |

### 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 non-industrial 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 Forest Nursery program are financed 100% from sales of seedlings and service charges. Fees charged by the nursery change depending upon costs.

#### 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.

At the direction of the 2003 Legislature, ODF formed a Nursery Review Task Force to evaluate the role of the state nursery including the nursery's financial situation. The Department was also directed to work with representatives from private nurseries and other appropriate individuals to resolve issues on privatizing production of seedlings. The work of the task force resulted in legislation adopted by the 2005 Legislature authorizing the Department to form a nursery cooperative if a sufficient number of nurseries were willing to join the cooperative and formally obligate their nurseries to produce the speculative seedlings at a reasonable cost. The Department is in the process of closing Nursery operations and selling the property anticipating private nurseries to fill the speculative niche established by the Department.

#### Essential Budget Level

The 2009-11 essential budget level assumes closure of Nursery operations for the 2009-11 biennium.

#### Issues and Options

The Governor's budget recommends closure of the Nursery.

### ODF – Facilities Maintenance and Development Program

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 1,674,895 | 3,297,762 | 3,316,796 | 4,841,063 |
| **Total Funds** | **$1,674,895** | **$3,297,762** | **$3,316,796** | **$4,841,063** |
| Positions | 1 | 1 | 1 | 1 |
| FTE | 1.00 | 1.00 | 1.00 | 0.95 |

#### Program Description

The Facilities Maintenance and Development program provides oversight and coordinates preventive maintenance, repairs, improvement, planning and construction coordination, and management for the agency's 390 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 Maintenance and Development is currently funded by utilizing the facility operation and maintenance budgets of each program. The program was established to assist in the operations, maintenance, and construction of ODF facilities by providing an additional and relatively stable source of funding to allow more effective management of ODF properties.

#### Essential Budget Level

The 2009-11 essential budget level of $4.8 million total funds is an increase of $1.5 million total funds, or 45% from the 2007-09 legislatively approved expenditure level and includes one position (1.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes the addition of $19,034 in special session, and Emergency Board actions during Fiscal Year 2008 related to changes to employee compensation. The 2009-11 essential budget reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. A technical adjustment of $1.3 million Other Funds of expenditure limitation removed from the management and operating programs is added to reflect facilities maintenance costs solely in the Facilities Maintenance program and eliminate double expenditure limitations throughout the budget.

### Issues and Options

In its 2009-11 agency request budget, ODF requested adding $881,562 General Fund to reduce the highest priority backlog of deferred facilities maintenance in the agency's aging buildings. Some of these deferred maintenance needs may be addressed in the Legislature's economic stimulus bond package.

The Governor recommends the budget be funded at the essential budget level.

## ODF – Debt Service

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 1,952,729 | 2,495,634 | 2,495,634 | 2,806,582 |
| Other Funds | 5,307,747 | 1,790,223 | 1,790,223 | 1,612,481 |
| Other Funds (NL) | 31,188 | 0 | 0 | 0 |
| **Total Funds** | **$7,291,664** | **$4,285,857** | **$4,285,857** | **$4,419,063** |

### Program Description

Debt service payments are required to pay off 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. COPs were issued in 2008 for capital construction relocation projects in John Day and Sisters, as well as for capital investment improvements in the agency's business information systems.

| Certificate of Participation | Principal Amount | Final Payment |
|---|---|---|
| | | |
| 2001 Series A, Phase 2 | $11,095,000 | May 1, 2020 |
| 2002 Series E, Phase 3 | $985,000 | November 1, 2008 |
| 2005 Series C | $5,155,000 | May 1, 2017 |
| 2007 Series B | $850,000 | November 1, 2012 |
| 2008 Series A | $907,564 | May 1, 2014 |
| 2008 Series A | $2,000,000 | May 1, 2023 |
| | | |

### 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 the forest products Harvest Tax; and the Nursery Program from product sales.

### Essential Budget Level

The 2009-11 essential budget level of $4.4 million total funds is an increase of $133,306 total funds, or 3% from the 2007-09 legislatively approved expenditure level as of December 2008. The 2009-11 essential budget reflects phasing out one-time costs of $280,000 for debt issuance and the standard adjustments for principal and interest payments expected to be paid during the biennium for existing debt.

### Issues and Options

In its 2009-11 agency request budget, ODF requested four additional packages to be financed with certificates of participation as follows:

| Certificate of Participation | Principal Amount | Debt Service | |
|---|---|---|---|
| | | General Fund | Other Fund |
| Business Improvement Initiative | $3,200,000 | $460,648 | $408,393 |
| Western Lane Office Redevelopment | $4,600,000 | $287,089 | $192,801 |
| State Forester Office Building Renovation | $2,000,000 | $68,802 | $95,543 |
| Brookings Guard Station Acquisition | $600,000 | $10,896 | $70,164 |
| **Total** | **$10,400,000** | **$827,435** | **$766,901** |

The Governor recommends the budget be funded at the essential budget level.

## ODF – Capital Improvements

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 2,553,854 | 10,402,814 | 10,402,814 | 4,114,893 |
| **Total Funds** | **$2,553,854** | **$10,402,814** | **$10,402,814** | **$4,114,893** |

### Program Description

The Department owns and maintains 390 structures statewide. Examples include mountaintop lookout facilities, fuel facilities, remote forest fire guard stations, district and unit offices, seed and seedling processing facilities, and automotive maintenance shops. Many buildings need improvement or major construction because of age, type of construction, changing building codes, and growth of the agency.

### 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 and energy conservation requirements. An architectural feasibility study of the Salem Headquarters site was completed during the 1993-95 biennium, which led to its remodeling. The Department uses a Long Range Facilities Management Plan to coordinate major maintenance, improvements, and construction projects on a statewide basis projected over a ten-year period. Site master plans prepared by private consultants are utilized for developing major construction proposals. These site master plans are coordinated with the long-range management plan in developing the agency capital budget.

### Essential Budget Level

The 2009-11 essential budget level of $4.1 million is $6.3 million total funds, or 64% less than the 2007-09 legislatively approved budget level. The 2009-11 essential budget removes $6.4 million of one-time expenditures relating to capital improvements for projects costs on timber sales. The 2009-11 essential budget reflects standard adjustments for inflation.

### Issues and Options

In its 2009-11 agency request budget, ODF requested $1.2 million General Fund to provide the matching funds to proceed with needed capital improvement projects in the Protection from Fire program at field district offices across the state. The Governor's budget recommends the budget be funded at the essential budget level.

## ODF – Capital Construction

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 0 | 2,750,000 | 2,750,000 | 0 |
| **Total Funds** | **$0** | **$2,750,000** | **$2,750,000** | **$0** |

### Program Description

The Department's Long-Range Facilities Management Plan coupled with site master plans provides details on major construction needs over the coming ten-year period. Site master plans and feasibility studies are contracted for by the Department to determine major construction needs to meet workload projections at each site. The Department works with the Capital Projects Advisory Board for review of the agency's major construction, space, and maintenance needs.

### Revenue Sources and Relationships

Capital construction projects are funded through COPs and Other Funds generated from the State Forest Management program.

### Essential Budget Level

The 2009-11 essential budget level removes $2.75 million in expenditures relating to capital construction projects approved in the six-year capital construction bill in the 2007-09 biennial budget.

### Issues and Options

In its 2009-11 agency request budget, ODF requested three capital construction projects to be funded with certificates of participation proceeds: $4.6 million for the Western Lane office redevelopment; $2 million for State Forests Office Building Renovation; and $600,000 for the Brookings Guard Station Acquisition project. The Governor recommended the budget be funded at the essential budget level.

## Department of Geology and Mineral Industries (DOGAMI) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 3,515,026 | 3,324,704 | 3,411,107 | 3,476,189 |
| Lottery Funds | 0 | 1,500,000 | 1,500,000 | 0 |
| Other Funds | 3,328,411 | 4,904,378 | 6,664,966 | 3,661,759 |
| Federal Funds | 1,377,697 | 1,915,348 | 1,945,003 | 2,045,936 |
| **Total Funds** | **$8,221,134** | **$11,644,430** | **$13,521,076** | **$9,183,884** |
| Positions | 43 | 38 | 38 | 37 |
| FTE | 39.71 | 36.20 | 36.20 | 35.20 |

### Agency Overview

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. Three small Geologic Survey offices are located in Baker City, Grants Pass, and Newport. Employees of the Department are primarily geologists and other geotechnical experts. Department revenue comes from multiple sources including the General Fund, grants from federal and other state agencies, service contracts, and fees.

## DOGAMI – Geologic Survey and Services

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 3,515,026 | 3,324,704 | 3,411,107 | 3,476,189 |
| Lottery Funds | 0 | 1,500,000 | 1,500,000 | 0 |
| Other Funds | 1,502,417 | 3,204,918 | 4,614,498 | 1,818,461 |
| Federal Funds | 1,377,697 | 1,915,348 | 1,945,003 | 2,045,936 |
| **Total Funds** | **$6,395,140** | **$9,944,970** | **$11,470,608** | **$7,340,586** |
| Positions | 33 | 28 | 28 | 27 |
| FTE | 30.22 | 26.71 | 26.71 | 25.71 |

### Program Description

The Geologic Survey and Services program gathers geologic data and maps mineral resources and hazards. 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 provides publication and library functions, administrative functions such as budgeting, accounting, and personnel services, and operates the Nature of the Northwest Information Center which provides public access to a variety of maps, brochures, books, and other materials. The Center is largely supported by sales revenue and a cooperative agreement with the U.S. Forest Service.

### Revenue Sources and Relationships

The Geologic Survey and Services program is funded by General, Other, and Federal Funds. Federal and Other Funds are largely from cooperative agreements and for services on reimbursable projects. Funding partners include federal agencies such as the U.S. Geologic Survey, U.S. Bureau of Land Management, Federal Emergency Management Agency (FEMA), U.S. Forest Service, and the National Oceanic and Atmospheric Administration, and state and local government agencies. Historically, approximately 40-45% of DOGAMI's Federal Fund monies are for grants that require matching General Fund dollars.

### Budget Environment

Oregon is a state with a wide range of geologic hazards, varied geologic conditions, and diverse geologic resources. A key agency focus is to increase knowledge about geologic hazards and risks as a strategy to help partners mitigate potential loses to property, infrastructure, and lives. Population increases along with greater interest in renewable energy sources and climate change have contributed to an increase in demand for geologic information. Increased demand combined with prior biennia General Fund reductions has resulted in DOGAMI not being equipped to keep pace with service needs. For example, 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. Support for the Seismic Rehabilitation Grant Program (SRGP), created by SB 1 (2007), is another area where demand for DOGAMI services may exceed current capacity. While the grant program is being administered by the Oregon Military Department, Office of Emergency Management, DOGAMI expects to provide technical assistance in the review of grant applications and to receive technical inquiries from potential grant applicants.

DOGAMI has invested significantly in light detection and ranging (LIDAR) data collection during the 2007-09 biennium. LIDAR produces maps far more accurate than historically available that support a number of public safety and economic development uses. Most of the funding for LIDAR has been obtained by agency staff working proactively to engage other federal, state and local government as funding partners. The LIDAR Consortium formed by DOGAMI has resulted in partners having access to LIDAR technology in a more affordable and expeditious manner. There is currently no stable future funding source for continued DOGAMI LIDAR work.

### Essential Budget Level

The Geologic Survey and Services program essential budget level of $7.3 million is comprised of $3.5 million General Fund (47%), $1.8 million Other Funds (25%), and $2 million Federal Funds (28%). Overall the essential budget level represents a $4.1 million reduction (36%) from the 2007-09 legislatively approved budget as of December 2008. This reduction is largely due to the phase out of funding for LIDAR data collection and database coordination (1.00 FTE). The 2007 Legislature approved a one-time total expenditure of $4.4 million for LIDAR, which included $0.1 million General Fund, $1.5 million Lottery Funds, and $2.8 million Other Funds.

### Issues and Options

The Governor's recommended budget of $10.8 million is comprised of $3.5 million in General Fund (32%), $5.3 million Other Funds (50%), and $2 million Federal Funds (18%), and represents a 6% reduction from the 2007-09 legislatively approved budget. This budget continues existing programs and adds $3.5 million Other Fund resources for LIDAR data collection and creates a permanent LIDAR database coordinator position (1.00 FTE).

The majority of DOGAMI's General Fund budget is committed to personal services and fixed expenses such as rent and state government service charges. Therefore, the Department's reduction options focus on staffing or shifting staff funding from General Fund to Other Funds. While the agency proactively generates Other Fund revenue from projects and grants, the increased use of Other Funds may result in additional resources being used to generate revenue instead of being used to implement projects. In addition, increased dependence on Other Funds increases projects costs which may negatively impact DOGAMI's ability to compete for future projects.

## DOGAMI – Mined Land Regulation and Reclamation

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 1,825,994 | 1,699,460 | 2,050,468 | 1,843,298 |
| **Total Funds** | **$1,825,994** | **$1,699,460** | **$2,050,468** | **$1,843,298** |
| Positions | 10 | 10 | 10 | 10 |
| FTE | 9.49 | 9.49 | 9.49 | 9.49 |

### Program Description

The Mined Land Regulation and Reclamation program is responsible for regulating the exploration, extraction, production and reclamation of geologic resources for the purposes of conservation and second beneficial uses of minded lands. The objectives are to conserve the mineral resource and protect the environment while providing for the economic uses of the mined materials. The Mined Land Regulation and Reclamation program regulates oil, natural gas, and geothermal exploration and extraction.

### Revenue Sources and Relationships

The Mined Land Regulation and Reclamation program is financed primarily from Other Funds derived from aggregate and mine, oil and gas, and geothermal permit fees. Federal funds from an Environmental Protection Agency grant have been received in the past to finance brownfields work on abandoned mined lands. No federal brownfield cleanup funds were received in the 2007-09 biennium.

### Budget Environment

The Mined Land Regulation and Reclamation program is currently administering approximately 825 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 about 220 permits under federal and state water pollution laws. The volume of aggregate and permit fees is cyclical in nature, and the current trend is toward reduced permits and fees. Oregon's economic downturn is expected to reinforce the continuation of this trend.

### Essential Budget Level

The Mined Land Regulation and Reclamation program essential budget level of $1.8 million Other Funds, which is a 10% decrease over the 2007-09 legislatively approved budget as of December 2008. The Legislature corrected a technical adjustment in September 2008 that restored approximately $0.3 million in Services and Supplies expenditure limitation that was inadvertently omitted in the legislatively adopted budget.

### Issues and Options

The Governor's recommended budget for the Mined Land Regulation and Reclamation program is $2.2 million Other Funds which represents a 7% increase over the 2007-09 legislatively approved budget as of December 2008. The Governor's recommended budget includes $0.3 million Other Funds and one position (0.67 FTE) to support geothermal activities and make adjustments to Services and Supplies expenditure totals to bring them in line with historic levels.

## Department of Land Conservation and Development (DLCD) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 13,786,288 | 15,962,581 | 21,641,468 | 16,179,286 |
| Other Funds | 759,582 | 798,687 | 861,793 | 819,845 |
| Federal Funds | 5,370,272 | 6,363,069 | 6,559,044 | 6,440,348 |
| **Total Funds** | **$19,916,142** | **$23,124,337** | **$29,062,305** | **$23,439,479** |
| Positions | 78 | 78 | 97 | 60 |
| FTE | 69.63 | 68.21 | 85.54 | 57.71 |

### Agency Overview

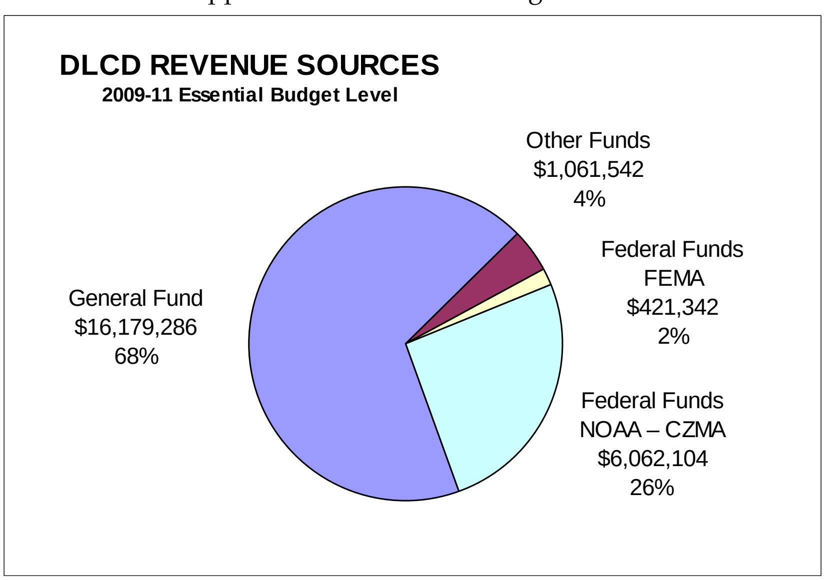
The Department of Land Conservation and Development (DLCD) is the administrative arm of the Land Conservation and Development Commission (LCDC). The Commission has seven members appointed by the Governor and confirmed by the Senate. DLCD personnel assist LCDC in adopting state land use goals, ensuring 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 expressing 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 of Oregon's cities and counties to have a comprehensive plan, as well as 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 infrequently, such as every five to fifteen years. This review can lead to extensive plan modifications or minor plan adjustments, depending on 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 Central Point, Springfield, LaGrande, Portland, Newport, and Bend. Within its budget, DLCD implements the state land use planning laws and assists local governments through two major programs: Planning and Grant.

### Revenue Sources and Relationships

Until the 2005-07 biennium, about 65% of the agency's budget had been funded with General Fund, when General Fund support rose into the 70% range due to work associated with Ballot Measure 37. The Governor's 2009-11 recommended budget (GRB) adds $6 million General Fund for Ballot Measure 49 (Ballot Measure 37's successor), which would set General Fund support at 74%.




Over the last several biennia, federal support has averaged about 25% of the budget. Federal funding comes from the U.S. Department of Commerce's National Oceanic and Atmospheric Administration (NOAA) and from the Federal Emergency Management Agency (FEMA).

NOAA funding under the Coastal Zone Management Act (CZMA) historically has provided between 20% and 30% of the overall costs of the state's land use program. The agency's ocean and coastal program activities are eligible for federal funding, as are coastal communities. Receipt of this funding requires 100% cash or in-kind match, depending on the federal subprogram. The agency expects CZMA resources of around $6 million in 2009-11, about the same level as in 2007-09.

FEMA funds, which are used to operate the Floodplain Management Program, require a 25% state match and are restricted to use in floodplain management activities. Overall revenues available from this source are expected to be $0.7 million in 2007-09; spending the full amount will require approval of a policy package.

Other Funds revenue sources are primarily federal transportation funds from the Oregon Department of Transportation (ODOT) for support of the Transportation Growth Management (TGM) program. DLCD projects a transfer from ODOT of about $0.8 million in 2009-11, approximately the same level as 2007-09. The agency also receives small amounts of Other Funds revenue from the sale of publications, subscriptions to plan amendment and periodic review notices, and public record duplicating services.

A new source of revenue for the agency included in the Governor's recommended budget is $326,969 Other Funds from the *New Carissa* case settlement, which is used to prepare a state ocean wave energy plan.

### Budget Environment

Continued population growth and the resulting pressures on transportation systems, land management, and development increase DLCD's workload. Growth presents challenges to coastal development, urban growth boundary expansion, and development of agricultural and rural lands, preservation of natural resources, and maintenance and development of adequate infrastructure.

The agency has faced significant funding challenges over the past several years. DLCD has no fee-supported revenue or access to alternate sources of Other Funds, placing it in a position to be reliant on general purpose tax revenues and federal resources.

The latest fiscal challenges come from two voter initiatives regarding landowner compensation for losses due to land use regulations. Measure 37, which voters passed in November 2004, required state and local governments to compensate landowners whose property values were negatively impacted by land use laws or regulations. DLCD was responsible for coordinating the state's response to Measure 37 and taking the lead on handling claims for compensation. The agency received some additional resources in 2005-07 for these efforts, which involved extensive policy and process development. Court decisions first suspending (2005) and then reinstating the law (2006) made it difficult for the agency to implement an efficient and timely process for resolving claims. DLCD was further challenged by the volume of claims filed, especially a large number of claims in early December 2006. As a result, the 2007 Legislature approved HB 3546 which increased the number of days to take action on Measure 37 claims by adding 360 days to the 180-day time frame for claims received after November 1, 2006.

The 2007 Legislature also referred a measure (Measure 49) to voters that would modify Measure 37; voters approved the measure in November 2007. The original law required landowner compensation to be in the form of direct payments or land use regulation waivers. Ballot Measure 49 replaced those compensatory remedies with provisions for a specific number of home site approvals. It also established different criteria for claims filed after June 28, 2007.

With passage of Measure 49, DLCD was required to send notice to all eligible claimants (more than 10,000 representing approximately 6,500 claims) who had filed claims under Measure 37 within 120 days of December 7, 2007. Claimants had to choose whether or not to proceed with a claim under the law's new provisions by filing a form provided by DLCD. In addition, claimants choosing to proceed had to select an option, or election, for their claim. Possible elections include the "express" path (Section 6 of the measure) which allows building up to three homes if previously allowed when they acquired their properties and the "conditional" path (Section 7 of the measure) which allows 4-10 homes if claimants can document reductions in property values to justify additional homes.

For the 2007-09 biennium, DLCD received just under $10 million General Fund and 35 positions (27.83 FTE) to process claims and administer the program. At this resource level and assuming corresponding support in

2009-11, DLCD indicates the agency will be on track to complete the review and resolution of these claims by December 31, 2010. This time frame is consistent with legislative direction given during the 2008 special session. Most program positions and budget have been historically approved as limited duration, so meeting the deadline will require approval of a 2009-11 policy package.

Finally, adding to the demands on the agency has been an ongoing interest in evaluating, streamlining, and modifying the overall 33-year-old statewide land use program. During the 2005 session, the Legislature passed SB 82, which established the Oregon Task Force on Land Use Planning. The task force, consisting of 10 members, is charged with conducting a comprehensive review or "big look" of the Oregon Statewide Planning Program. The group has been asked to make recommendations on any needed changes to land use policy to the 2009 Legislature.

Over the last two biennia, DLCD has received General Fund to support the task force and its efforts. Funding and work were suspended early in the 2007-09 biennium, but were then restored during the 2008 special session. The agency's future resource needs for this effort will depend on the Task Force's actual legislative recommendations and any corresponding actions taken by the 2009 Legislature.

### Essential Budget Level

The agency's essential budget level (EBL) is 19.4% below the 2007-09 legislatively approved budget at December 2008. The reduction is primarily due to the phase-out of Measure 49 costs that were treated as one-time for 2007-09; the Governor's recommended budget includes a policy package to continue this work. EBL includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, uniform rent, and state government service charges.

### Issues and Options

The Governor's recommended budget funds the Department at 18% above its essential budget level, primarily due to the continuation of Measure 49 claim processing efforts. Without the increase, the agency would likely fail to resolve all claims by the end of 2010. The agency's budget reduction options include decreasing assistance to local governments and eliminating some permanent Measure 49 positions. If Measure 49 remains a legislative priority for funding, the Legislature may be able to reduce 2009-11 expenditures if such action is supported by updated numbers for cost projections and claim processing progress. The agency is very sensitive to getting claims resolved sooner, rather than later, as some claims have been on file since December 2004.

As noted previously, DLCD is dependent on General Fund for core program activities. As the budget is being reviewed, the Legislature will need to weigh DLCD's program needs within the context and priorities of the statewide budget.

## DLCD – Planning Program

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 11,713,686 | 13,241,949 | 18,920,836 | 13,382,476 |
| Other Funds | 759,582 | 798,687 | 861,793 | 819,845 |
| Federal Funds | 3,833,456 | 4,741,306 | 4,937,281 | 6,440,348 |
| **Total Funds** | **$16,306,724** | **$18,781,942** | **$24,719,910** | **$20,642,669** |
| Positions | 78 | 78 | 97 | 60 |
| FTE | 69.63 | 68.21 | 85.54 | 57.71 |

### Program Description

Along with certain program services, this budget unit includes agency administrative functions (14.52 FTE). The ***Office of the Director*** oversees day-to-day operations and agency policy. The ***Operations Services Division*** provides financial and information systems services to the agency.

The Landowner Notification program is also handled by the Operations Services Division. Oregon law (1998's Ballot Measure 56) 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 must reimburse local governments for the notification costs when the proposed ordinance changes are related to changes in state law or policy; DLCD manages the local government claim and reimbursement process.

The ***Planning Services Division*** (12.08 FTE) provides technical assistance and policy consultation services in specific planning areas, such as economic development, urban growth boundary expansion, farm and forest protection, natural resource management, mineral and aggregate resources, and floodplain management. Services are provided to, among others, the agency's regional representatives in the *Community Services Division* and, in some cases, directly to Oregon communities. This Division also includes the agency's Economic Development Planning Team, which is a cross-divisional, intra-agency group of employees that works with other staff and agencies to implement HB 2011 (2003). This bill created the Economic Revitalization Team in the Governor's Office and directs various state agencies, including the Department to assist local governments in identifying potential sites and amending plans, taking final action on certain amendments to comprehensive plans within 180 days of their submission, and focusing on issues related to economic growth.

This Division also includes the Transportation and Growth Management (TGM) Program and the Natural Hazards and Floodplains Program. The TGM Program is a joint effort with the Oregon Department of Transportation (ODOT). This program focuses on helping communities manage urban growth, planning an efficient transportation network, and protecting the function of state highway facilities. The Division provides technical assistance and manages grants to special districts, cities, and counties. Federal funding received through ODOT is this program's primary revenue source. The Natural Hazards and Floodplains Program include helping flood-prone communities maintain eligibility for participation in the National Flood Insurance Program. Federal funding from the Federal Emergency Management Agency (FEMA) supports this program.

The ***Community Services Division*** (15.00 FTE) assists local governments in the implementation of the statewide land use program through technical assistance, administration of grants, periodic review of local plans and land use regulations, and plan amendment review. Regional representatives in the agency's field offices are part of this Division and work directly with local governments' elected officials and planners. Key issues for urban areas include affordable housing, urban growth boundaries, transportation planning, public facilities and services, and industrial land. Key issues for rural areas include conservation of farm and forestland, flooding and natural hazards, rural and community development, and protection of natural resources.

The ***Ocean and Coastal Services Division*** (11.11 FTE) 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 Division contains two programs: the federally approved Oregon Ocean and Coastal Management Program (OCMP) and the Oregon Ocean Resources Management Program. The Division provides services such as periodic review, plan amendment review, technical assistance, administration of coastal grants, coordination of state and federal programs in the coastal zone, and support to the Ocean Policy Advisory Council. Federal dollars are used to provide grants to coastal communities for coastal planning implementation and special projects. Key issues and projects for the coastal zone 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. The OCMP is funded primarily with federal funds under the Coastal Zone Management Act (CZMA).

The Department established the ***Measure 49 Development Services Division*** (5.00 permanent FTE) to process claims for compensation made under provisions of ballot measures approved in 2004 and 2007. Additional, but limited duration, positions have also been approved in each of the last two biennia. In the 2007-09 biennium a total of 30 limited duration positions were authorized. This staffing level includes actions taken in the 2008 special session that shifted some initial claim administration responsibilities from the Department of Administrative Services to DLCD. Over half of the Division's budget, or about $5.7 million in 2007-09, is spent on Attorney General costs paid to the Department of Justice (DOJ). DOJ reviews claims for DLCD and assists with litigation and other legal activities. This Division is supported entirely by General Fund.

### Essential Budget Level

The program unit's EBL is 21.6% lower than the 2007-09 legislatively approved budget at December 2008. The reduction is primarily due to the phase-out of Measure 49 costs and limited duration map modernization program expenditures. The essential budget level includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, uniform rent, and state government service charges.

#### Issues and Options

In its 2009-11 agency request budget for this program, DLCD asked for $14.8 million General Fund, $0.3 million Federal Funds, and 46 positions (39.47 FTE) in eight policy packages. About $4 million General Fund would support the agency's new Sustainable Communities Initiative, which proposes to improve the capacity of communities for addressing issues related to having sustainable environments, employment, and housing. General Fund dollars were also requested for anticipated work on land use policy changes related to recommendations from the Oregon Task Force on Land Use Planning and for development of an ocean wave energy plan. The largest request for General Fund was for $9.5 million and 26 positions (19.75 FTE) to continue work on Measure 49 claims.

The only General Fund approved in the Governor's recommended budget was just under $6 million and 27 positions (19.25 FTE) for Measure 49. Funding was reduced from the agency's request due to General Fund constraints, to account for lower than expected legal costs, and to reflect a change in the handling of appraisal activities. Based on current information, the package at this level would still allow DLCD to meet the claim resolution deadline of December 31, 2010.

The Governor's recommended budget modified the agency's request for resources to develop an ocean wave energy plan. Instead of $0.5 million General Fund and two positions, the budget includes $0.3 million Other Funds and 1 limited duration position (1.00 FTE) to work on the plan. Other Funds from the Department of State Lands funds the position; the source of funding is monies from the *New Carissa* settlement.

The agency requested $0.3 million Federal Funds and 2 limited duration positions (1.25 FTE) to continue its map modernization project, supported with FEMA dollars. Another package adds about $68,000 Federal Funds to bring a permanent part-time position up to full-time for the coastal management program. Both of these requests are included in the Governor's recommended budget.

### DLCD – Grant Program

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 2,072,602 | 2,720,632 | 2,720,632 | 2,796,810 |
| Federal Funds | 1,536,816 | 1,621,763 | 1,621,763 | 0 |
| **Total Funds** | **$3,609,418** | **$4,342,395** | **$4,342,395** | **$2,796,810** |

#### Program Description

DLCD awards grants to local jurisdictions for maintaining, improving, and implementing comprehensive land use plans and regulations as well as assisting local governments in meeting the statutory obligation for periodic review of these plans. This program is intended to ensure compliance with the statewide planning goals.

Grants awarded have included those for periodic review, technical assistance, planning assistance, regional problem-solving, dispute resolution, economic development, and small city and county grants. This program is managed by staff in DLCD's Planning Program. No staff positions are included in the Grants budget.

#### Revenue Sources and Relationships

Prior to the 2009-11 Governor's recommended budget, this program unit included Federal Funds for grants provided to local coastal governments. The budget history and current request for federal-supported activity has been moved to the Planning Program to better align with services delivered by the Ocean and Coastal Services Division.

General Fund is used to provide grants to local governments to complete projects to update and modernize comprehensive plans, land-use ordinances, development codes and other planning regulations. For 2007-09, $0.5 million General Fund was earmarked to provide grants to local governments for planning issues related to service delivery in unincorporated urbanized areas.

#### Budget Environment

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. 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 grant awards require a match equal to the amount award by DLCD.

The Department uses a standing Grants Advisory Committee to make recommendations to LCDC and DLCD on the allocation of the agency's General Fund for grants and technical assistance. This group, which is composed of various stakeholders, also provides guidance on grant policy, priorities, and administration.

### Essential Budget Level

The program unit's EBL is 2.8% higher than the 2007-09 legislatively approved budget at December 2008. The increase is due to application of a standard inflation factor on Special Payments (grants) to local governments.

### Issues and Options

In its 2009-11 agency request budget for this program, DLCD asked for a total of $5.7 million General Fund to support the agency's Sustainable Communities Initiative. The funding would increase land use planning assistance grants, create technical tools to better access land use plan information, and add new grant funding for purposes related to climate change adaptation and mitigation.

The Governor's recommended budget maintains the Grant Program at the essential budget level.

## Land Use Board of Appeals – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 1,315,100 | 1,403,105 | 1,554,792 | 1,599,580 |
| Other Funds | 62,644 | 75,066 | 77,054 | 81,546 |
| **Total Funds** | **$1,377,744** | **$1,478,171** | **$1,631,846** | **$1,681,126** |
| Positions | 6 | 6 | 6 | 6 |
| FTE | 6.00 | 6.00 | 6.00 | 6.00 |

### Agency Overview

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. 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. LUBA only has jurisdiction to review appeals of local government decisions for consistency with local and state land use laws. LUBA decisions 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.

LUBA's mission is to decide appeals quickly and consistently, and to disseminate its opinions to create a body of land use law that allows for consistent land use decision making. The Board consists of three hearings referees, appointed by the Governor with Senate confirmation, who are members of the Oregon State Bar. Other staff includes two support positions and one staff attorney. LUBA's offices are located in the Public Utility Commission (PUC) building, with the PUC providing accounting, personnel, and other administrative support to LUBA through an inter-agency service agreement.

### Revenue Sources and Relationships

LUBA generates Other Fund revenue from the sale of *LUBA Reports*, which are issued to meet the agency's statutory obligation to publish its opinions. LUBA estimates it will issue five volumes that will be sold to 73 subscribers at $175 per volume for Other Fund revenues of $63,875 for the 2009-11 biennium.

LUBA also collects an appeal filing fee, which is transferred to the General Fund. The current filing fee of $175 was last increased in 1997 (HB 2642). The Board anticipates receiving 458 appeals which equates to $80,150 in General Fund revenue for the 2009-11 biennium.

### 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. At current staff levels, LUBA can manage between 420-450 appeals per biennium, depending upon complexity and timing of the appeals, and still meet performance targets. LUBA anticipate receiving 497 appeals for the 2007-09 biennium, hence, the agency currently has a slight backlog in written cases. The volume of appeals is most influenced by economic activity and population growth, thus, Oregon's current economic downturn is expected to influence future appeals volume. The timing and extent of the reduction in appeals volume is not known at this time.

LUBA's budget does not take into consideration the potential impacts to the agency resulting from Ballot Measure 49 (2007), which modified Ballot Measure 37 (2004). Claims filed under these Measures have the potential to ultimately lead to an appeal being filed with LUBA. In addition, these appeals are generally more complex than a typical appeal. In the last year, the agency has received approximately 15 such appeals.

### Essential Budget Level

The essential budget level of $1.7 million is comprised of 95% General Fund and 5% Other Fund and represents a 3% increase over the 2007-09 legislatively approved budget as of December 2008. It maintains LUBA's current level of operations, and reflects standard increases, inflation adjustments, and a special General Fund increase of $9,256 to cover increased service fees paid to the PUC.

### Issues and Options

The Governor's recommended budget funds the agency at the essential budget level.

LUBA's General Fund budget is largely committed to personal services (87%) and other fixed expenditures such as rent and state government service charges.  General Fund reduction options thus require the Board to reduce the staff attorney and/or support staff positions, which would impact the agency's ability to issue timely written opinions and *LUBA Reports*.

## Department of State Lands (DSL) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 186,656 | 221,481 | 226,906 | 244,741 |
| Other Funds | 16,567,751 | 38,280,805 | 40,548,218 | 21,064,730 |
| Federal Funds | 2,227,353 | 4,789,715 | 4,929,187 | 2,399,608 |
| Other Funds (NL) | 772,445 | 1,602,450 | 1,602,450 | 1,602,450 |
| **Total Funds** | **$19,754,205** | **$44,894,451** | **$47,306,761** | **$25,311,529** |
| Positions | 104 | 111 | 111 | 93 |
| FTE | 96.11 | 108.75 | 108.75 | 91.50 |

### Agency Overview

The Department of State Lands (DSL) is the administrative arm of the State Land Board. The Board, created under the Oregon Constitution, consists of the Governor, the Secretary of State, and the State Treasurer. The Board is responsible for managing the assets of the Common School Fund. These assets include equity investments managed by the Oregon Investment Council and the State Treasurer on behalf of the Board and over two million acres of state lands deeded at statehood in trust for education; other lands designated by statute, and escheated and forfeited property. In managing these assets, the Board 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, wetlands and unclaimed property, are assigned to the Department. The agency also manages the South Slough National Estuarine Research Reserve and provides support to the Natural Heritage Advisory Council.

## DSL – Common School Fund Programs

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 159,487 | 196,029 | 201,454 | 218,392 |
| Other Funds | 14,620,902 | 35,095,541 | 35,798,052 | 18,577,420 |
| Federal Funds | 576,780 | 1,308,497 | 1,359,593 | 571,588 |
| Other Funds (NL) | 772,445 | 1,602,450 | 1,602,450 | 1,602,450 |
| **Total Funds** | **$16,129,614** | **$38,202,517** | **$38,961,549** | **$20,969,850** |
| Positions | 85 | 92 | 92 | 84 |
| FTE | 79.57 | 90.25 | 90.25 | 82.50 |

### 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 divisions – Land Management, Wetlands and Waterways Conservation, Finance and Administration, and the Director's Office.

- ***Land Management*** *(formerly **Field Operations**) (22.50 FTE)* provides services related to land ownership and property and building management. The Division is responsible for approximately 632,000 acres of range and agricultural lands in eastern Oregon; roughly 131,000 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 695 acres of industrial, commercial, and residential lands including management of the State Lands headquarters building in Salem. The agency contracts with the Oregon Department of Forestry for management of state-owned forest lands. Land Management staff issue leases, easements, rights-of-way, and licenses for use of state-owned uplands and waterways and they administer about 400 waterway leases for log raft storage, marinas, houseboat and barge moorage, and various commercial operations. This Division currently prepares the agency's Asset Management Plan, which provides broad policy direction on the uses of state land, rates of return objective, and policies for the purchase and sale of state assets. This Division is also responsible for determining the navigability of waterways.

- ***Wetlands and Waterways Conservation*** **(***formerly* ***Policy and Planning)*** **(***26.00 FTE***)** approves wetlands delineations and provides permitting, technical 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 Department on removal and fills of less than 50 cubic yards in essential salmonid habitats. All removal-fill activities within the designated state scenic waterways must receive Department review and approval.
- ***Finance and Administration*** *(28.00 FTE)* provides budgeting, general administrative support, accounting, purchasing, information systems, rule-making, audit, legislative coordination, and oversight of the Oregon Natural Heritage Program. Included in this Division is the Estate Administration Program that manages forfeited property and probates estates for persons who die without wills and known heirs. The Finance and Administration Division also includes the Unclaimed Property Section. This Division provides geographic information systems services for the agency.
- The ***Director's Office*** *(6.00 FTE)* provides overall agency direction under the jurisdiction of the State Land Board. This office includes the communications, human resources and internal audit functions of the agency.

### 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; and removal-fill permit fees. Constitutional revenue is generated from periodic land sales and other revenue generated from property holdings. Income from these sources is expected to remain fairly stable from 2007-09 to 2009-11. Investment income is derived from the interest, dividends, and capital gains earnings from funds invested by the State Treasurer according to Oregon Investment Council guidelines. Fluctuations in the investment marketplace prompted a change in investment strategy in the early part of the 2007-09 biennium which enabled the fund to leverage higher-yield opportunities in conjunction with the PERS fund and other larger investment pools. The huge drop in the housing and stock markets in the last half of calendar year 2008 has had a negative impact on investment income gained during the biennium causing a decline from a market value of over $1.1 billion in June 2008 to $765 million on November 30, 2008; a decline of more than 28% in five months time. Investment advisors at the State Treasury do not expect investments to rebound in the short-term to make up these losses.

Revenue from land management activities is projected to show a slight increase during the 2009-11 biennium. Common School Fund revenues also include receipts from timber harvests on Common School Forest land. The Department of Forestry projects $31 million in timber receipts for 2009-11 which is about $6 million more than expected for the 2007-09 biennium. These revenues are based on projected sale prices, harvest dates, 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.

Common School Fund distributions to the Department of Education by the Department of State Lands are anticipated to be $39 million in 2009-11, a decrease for K-12 schools of about $56 million from the 2007-09 distribution estimated to be just under $95 million. Distributions are 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 a three year rolling average of the annual growth in the Common School Fund's market value.

The 2007 Legislature approved a fee increase for its removal-fill permitting program; annually adjusted to the Portland-Salem, OR-WA Consumer Price Index; which is projected to provide $582,000 in 2009-11 biennium. The revised fee schedule moves the program to being approximately 20% funded by fees with other funding provided by federal grants and a minimal amount of General Fund revenue. Originally, permit revenues covered 67% of the program's costs. In addition to the removal-fill permit fees, the 2007 Legislature established a nonrefundable $350 fee for review of wetland delineation reports. The fee is expected to generate $267,890 in Other Fund fee revenue for the 2009-11 biennium.

Federal Funds are received by the Common School Fund Programs primarily for U.S. Environmental Protection Agency support of the wetlands program, and permit streamlining efforts.

### Budget Environment

In September 2005, DSL reorganized its functions to streamline service delivery and permitting and align the management structure to focus efforts on revenue generation for the Common School Fund. The Department has identified developing and implementing strategies for improving efficiency and effectiveness of daily operations as a key initiative for the 2007-09 biennium.

Various legal and environmental factors can adversely affect DSL'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. General economic conditions affect lease rates tied to market prices or other indices.

DSL is the depository of record for unclaimed and presumed abandoned property and funds. The Unclaimed Property program collects approximately $50 million annually; approximately $11 million is returned to owners. Remaining unclaimed funds are placed in trust in the Common School Fund. All unclaimed property, or the proceeds from the sale of the property, is available for claim by the owners forever. The investment earnings generated from the unclaimed property are part of DSL's semi-annual distribution to schools. The State Land Board proposed in 2005 and in 2007 to move the Unclaimed Property program to the State Treasurer's Office. A number of other states house their Unclaimed Property programs with the Treasury Department. Legislation was not adopted during those two legislative sessions. The State Land Board is again proposing that the program be moved to the State Treasurer's Office. The only change in the proposed legislation is the effective date, which would be in 2011, at the beginning of the 2011-13 biennium.

DSL continues its regulatory streamlining efforts for the process of administering removal and fill permits included working with the U.S. Army Corps of Engineering to eliminate duplicate federal-state permitting. Recent efforts emphasize non-regulatory tools and incentives for wetland and watershed restoration.

### Essential Budget Level

The 2009-11 essential budget level of $20.9 million total funds is a decrease of $17.2 million, or 46% from the 2007-09 legislatively approved expenditure level and includes 84 positions (82.50 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $759,032 total funds in special session and Emergency Board actions during Fiscal Year 2008 for increased compensation for employees. The 2009-11 essential budget level reflects phasing out $18 million in one-time expenses related to removal of the New Carissa shipwreck, and $105,500 Federal Funds associated with limited duration positions and standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including the removal of 8 positions (7.25 FTE) related to phasing out limited duration grant-funded positions.

### Issues and Options

In its 2009-11 agency request budget, the Department requested seven policy packages totaling $3.4 million Other Funds, $402,308 Federal Funds, and 14 positions (13.88 FTE) phased in over the biennium for the following activities:

- $540,462 Other Funds and $401,308 Federal Funds to re-establish six limited duration positions (5.38 FTE). Two of the positions would be paid for by the Oregon Department of Transportation for expedited removal-fill reviews on OTIA projects; three positions would be federally funded for EPA-funded water permit application streamlining of the removal-fill program, voluntary wetlands restoration projects, and a joint study of wetland mitigation efforts with the Oregon Watershed Enhancement Board.

- $10,622 Other Funds for the reclassification of an Executive Support Specialist 1 position to a Facility Operations Specialist 1 position to facilitate more efficient building management responsibilities; and reclassification of a Program Analyst 1 to Program Analyst 2 position to place the position on par with an equivalent position in the Unclaimed Property Program.
- $266,728 Other Funds to add two positions (2.00 FTE) to address increased workload and responsibilities to perform data entry, budget analysis, budget preparation, and respond to program staff with data and analysis for operations. These positions are funded from Common School Fund assets.
- $1.5 million Other Funds to add a position to manage, develop, and coordinate proprietary and planning actions within the State of Oregon territorial sea. This position would manage all proprietary actions including authorizations for wave energy development and fiber optic telecommunications and the development of marine reserves. The agency request budget originally proposed $1.2 million General Fund be used to contract with Oregon State University for a sea floor mapping project. In the Governor's recommended budget, resources for the sea floor mapping project would come from unspent balance of settlement funds for removal of the New Carissa. The position would be funded with Common School Fund assets.
- $418,217 Other Funds to add two permanent positions and increase a seasonal half-time position to permanent full-time (2.50 FTE). One management position would manage the Western Region land assets, a range technician would focus on communicating with grazing rights leaseholders to improve land management, coordinate developing annual operating plans, wildfire rehabilitation and rangeland improvement, field inspections and noxious weed surveys and mapping; and an increase in a seasonal archaeologist position to full-time to address a backlog of archaeological analysis required for the land program. DSL believes the addition of these positions are necessary to allow the agency to make sufficient improvements that will enable more lands to be leased providing increased revenues for the Common School Fund. The positions would be funded with Common School Fund assets.
- $424,297 Other Funds to add three permanent positions (3.00 FTE) to increase DSL capacity in permit processing, compliance, and enforcement and GIS mapping in the removal-fill and wetland program. Funding for the position is partially offset by fee revenue and the balance from Common School Fund assets.
- $276,000 Other Funds to implement the Department's IT Replacement plan by providing resources to replace five servers, 25 workstations, 29 monitors, and three printers and to add two new servers to meet demands for electronic backup and imaging and to replace Office 2000 software with Office 2007 software.

The Governor's recommended budget would fund these initiatives and also recommends an additional $1.5 million of the $2.95 remaining balance of unspent settlement funds for removal of the New Carissa be used to finance a wave energy project and marine reserve project in the Oregon Department of Fish and Wildlife ($1,182,000) and to finance ocean planning in the Department of Land Conservation and Development ($329,000). Approximately $1.3 million is proposed to be used in place of Common School Funds for the Department of State Lands, leaving a balance of $153,952 unallocated in the Governor's recommended budget.

## DSL – Oregon Wetlands Revolving Fund

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | (37,204) | 708,883 | 2,215,473 | 584,460 |
| **Total Funds** | **$(37,204)** | **$708,883** | **$2,215,473** | **$584,460** |
| Positions | 0 | 1 | 1 | 0 |
| FTE | 0.00 | 1.00 | 1.00 | 0.00 |

### Program Description

The Oregon Wetlands Mitigation Bank Revolving Fund Account was established by the 1987 Legislature to provide financial resources to acquire wetlands banking and wetlands mitigation sites; to accomplish wetlands 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 wetlands site created or restored by a public or private entity to establish wetlands 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 State Land Board.

### Revenue Sources and Relationships

The Wetlands 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 wetlands 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 wetlands creation, restoration, or enhancement. As of November 30, 2008, the fund balance is $2 million.

### Budget Environment

Since establishment of the Wetlands Mitigation Bank Revolving Fund, DSL has disbursed funds for approximately 30 wetland and waterway restoration projects statewide. DSL is currently assessing about a dozen projects that may qualify for funding from the wetland revolving fund. In 1995, the Legislature expanded the Mitigation Banking Act to allow private mitigation banks. The Legislature made additional changes to the program in 1997 and again in 2003 to make the program more flexible and useful to the public. As of June 2008, there are 14 approved private banks, plus the city of Eugene's wetland bank program. There is high demand for the credits offered by these banks as many banks are sold out shortly after the credits are approved. The federal Environmental Protection Agency and the U.S. Army Corps of Engineers developed new federal mitigation rules that call for higher standards to improve mitigation success. In 2006 DSL began working toward federal approval of use of the mitigation bank revolving fund program for payment in-lieu mitigation for mitigation of federally regulated wetlands to compensate for wetland impacts regulated by federal agencies. Since July 1 2007, $984,475 has been committed toward wetland projects that, in combination with matching fund sources may result in a net gain of more than 115 acres of wetlands and just over four credits were purchased from private mitigation banks. In May 2008, the Corps of Engineers issued a public notice for a statewide in-lieu fee program sponsored by DSL. This program is expected to be approved in early 2009.

### Essential Budget Level

The 2009-11 essential budget level of $584,460 total funds is a decrease of $1.6 million, or 74% from the 2007-09 legislatively approved expenditure level and includes 1 limited duration position (1.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes the addition of $1.5 million in one-time expenses related to Oregon Wetlands Mitigation Bank wetland mitigation projects in special session and Emergency Board actions during Fiscal Year 2008 for increased compensation for employees. The 2009-11 essential budget level reflects the phasing out of $1.6 million in one-time expenses related to Oregon Wetlands Mitigation Bank wetland mitigation projects and the limited duration position to manage fund performance. At the time the limited duration position was authorized, DSL believed the associated workload would be completed by the end of the 2007-09 biennium. The 2009-11 essential budget level also reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

In its 2009-11 agency request budget, the Department requested that the limited duration position be restored as a permanent, full-time position (1.00 FTE) to address what is now believed to be an ongoing workload given the growing demand for wetland mitigation options, need to actively mange the fund, and coordinate with the Army Corps of Engineers and other state and federal agencies on mitigation issues. DSL is also proposing legislation to change the name of the Wetland Mitigation Bank Revolving Fund to the Oregon Mitigation Fund to allow for accepting payment-in-lieu of mitigation dollars for impacts to waters of the state other than wetlands. This would allow for banking of mitigation credits for impacts to streams for stream restoration projects. DSL also requested that $1 million expenditure limitation for mitigation projects be continued to allow projects to occur as they develop.

The Governor's recommended budget would fund this initiative and increase the amount for mitigation projects by $500,000 for a total of $1.5 million expenditure limitation allocated for mitigation projects.

## DSL – South Slough National Estuarine Research Reserve

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 1,152,234 | 1,838,870 | 1,897,182 | 1,593,924 |
| Federal Funds | 1,163,415 | 2,601,052 | 2,689,428 | ,1,694,209 |
| **Total Funds** | **$2,315,649** | **$4,439,922** | **$4,586,610** | **$3,288,133** |
| Positions | 19 | 18 | 18 | 9 |
| FTE | 16.54 | 17.50 | 17.50 | 9.00 |

### 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. 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 30,000 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 employees provide technical and logistical support to visiting scientists and scholars conducting research.

Services are provided at the SSNERR by nine 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.

### Essential Budget Level

The 2009-11 essential budget level of $3.2 million total funds is a decrease of $1.3 million, or 28% from the 2007-09 legislatively approved expenditure level and includes 9 positions (9.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes the addition of $146,688 in Emergency Board actions during Fiscal Year 2008 for increased compensation for employees. The 2009-11 essential budget level reflects the phasing out of $1.3 million services and supplies and nine limited duration positions (8.50 FTE) related to one-time grant programs. The 2009-11 essential budget level also reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

#### Issues and Options

In its 2009-11 agency request budget, the Department requested $153,822 Other Funds and $703,528 Federal Funds to renew six limited duration positions and a permanent full-time position (6.08 FTE) to implement federal and other agency grants related to research, education, and stewardship at the SSNERR. It also requested $314,819 Other Funds and $115,546 Federal Funds to establish one full-time and two half-time, six month seasonal positions (1.00 FTE) to address seasonal workload relatedto an increase in visitations during the summer and "shoulder" seasons of spring and fall. Three seasonal positions are requested to allow for staggering schedules to maximize coverage. These additional seasonal positions are expected to reduce risks to visitors and to the state. It also requested renewal of a limited duration as a permanent Information Specialist position (1.00 FTE) to provide IT support to nine existing permanent positions and the proposed limited duration positions.

The Governor's recommended budget would fund these initiatives, but would make all positions limited duration.

### DSL – Natural Heritage Program

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 27,169 | 25,452 | 25,452 | 26,349 |
| Other Funds | 68 | 1,382 | 1,382 | 1,421 |
| Federal Funds | 487,158 | 880,166 | 880,166 | 133,811 |
| **Total Funds** | **$514,395** | **$907,000** | **$907,000** | **$161,581** |

#### 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. 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. Areas used in commodity production are avoided. Landowner written permission is required before any private land can be added to the register. 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 Board. Public agencies can dedicate lands, following public notice and hearing. The State Land Board, Board of Forestry, Fish and Wildlife Commission, Transportation Commission, Board of Higher Education, and the Parks and Recreation Commission are required to establish procedures for the dedication of lands owned by the State of Oregon as natural heritage conservation areas, 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. DSL is the designated agency to receive federal funds for invertebrate species under Section 6 of the federal Endangered Species Act.

DSL is responsible for providing administrative support to the NHAC. Previously, the Department 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. HB 2179 (2003) transferred statutory responsibility for maintenance of the data bank to Oregon State University (OSU).

### Revenue Sources and Relationships

The Natural Heritage Program receives General Fund for DSL'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 January 2008, the statewide register of natural heritage resources contained 98 sites, including 8 dedicated as natural heritage conservation areas. This is an increase of 27 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 1999-2001 interim, the Emergency Board directed the Department to investigate options for moving the data bank function from a contract with The Nature Conservancy to a state agency, preferably the Department or OSU. In June 2002, responsibility and funding for management of the function was transferred to the Natural Resources Institute at OSU through an interagency agreement. As noted earlier, HB 2179 (2003) statutorily transferred that responsibility.

### Essential Budget Level

The 2009-11 essential budget level of $161,581 total funds is a decrease of $745,419, or 82% from the 2007-09 legislatively approved expenditure level as of December 2008. The 2009-11 essential budget level reflects the phasing out of $750,000 Federal Funds related to one-time grant programs for distribution to non-profit organizations. The 2009-11 essential budget level also reflects standard adjustments for inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

In its 2009-11 agency request budget, the Department requested transferring the responsibility for grant management, purchasing, and maintaining financial statements and records of the Natural Heritage Program to the Oregon Parks and Recreation Department (OPRD). The program mission is to conserve Oregon's native plants, animals, and ecosystems through voluntary and cooperative action. The proposal assumed the program would continue receiving General Fund to support the mission. DSL based their proposal on a Natural Heritage Advisory Council 25 year review of the program mission to record and maintain a data bank of natural heritage site areas to guide land use planning and other state agencies to determine if the program was still relevant and, if so, from the perspective of DSL where administrative responsibilities were best aligned. DSL's review concluded that the program is still important and that OPRD would most likely be the best agency to manage the program.

The Governor's recommended budget does not move the function because funding and non-mission issues were not addressed in the DSL review. Furthermore, OPRD does not have sufficient resources to absorb the function within its existing funding streams.

## DSL – Capital Improvements/Common School Fund

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 831,751 | 636,129 | 636,129 | 307,505 |
| **Total Funds** | **$831,751** | **$636,129** | **$636,129** | **$307,505** |

### Program Description

The Department owns and manages property as assets of the Common School Fund. The State Land Board adopted its second Asset Management Plan in 2006 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, weed control, land rehabilitation, and response to environmental hazards.

### Revenue Sources and Relationships

Capital improvement expenditures are financed by Common School Fund revenues.

### Budget Environment

As a property manager, the Department 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. For example, to maintain a viable rangeland leasing program, problems such as noxious weed invasion must be controlled. The Department reports that currently it is at risk of violating state law regarding control of noxious weeds such as Medusa head and pepper weed, and adjacent landowners have expressed concerns about invasion of these weeds into their lands.

### Essential Budget Level

The 2009-11 essential budget level of $307,505 total funds is a decrease of $328,624, or 52% from the 2007-09 legislatively approved expenditure level as of December 2008. The 2009-11 essential budget level reflects the phasing out of $337,000 Other Funds related to one-time rangeland management activities. The 2009-11 essential budget level also reflects standard adjustments for inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

In its 2009-11 agency request budget, the Department requested capital improvements to be funded at the essential budget level. The Governor's recommended budget made no changes to the agency request.

## Marine Board (OSMB) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 22,453,222 | 25,236,866 | 25,397,723 | 25,949,147 |
| Federal Funds | 4,880,114 | 8,583,133 | 8,588,830 | 8,710,980 |
| **Total Funds** | **$27,333,336** | **$33,819,999** | **$33,986,553** | **$34,660,127** |
| Positions | 40 | 40 | 40 | 40 |
| FTE | 39.00 | 39.00 | 39.00 | 39.00 |

### Agency Overview

The Oregon State Marine Board (OSMB) 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 (37%); marine fuel taxes (34%); and federal funds (26%). The agency receives no General Fund support or Lottery Fund allocations. A small amount (3%) of revenue is received from outfitter and guide registration, mandatory education, and late penalties. The 2009-11 essential budget level provides an ending balance of $1.1 million, or approximately one month of operating costs. The following table summarizes the Department's major sources of revenue.

| Revenues | 2005-07 Actual | 2007-09 Legislatively Adopted | 2009-11 Agency Request |
|---|---|---|---|
| Other Funds | | | |
| Registration/Title Fees | $ 11,266,026 | $ 11,425,753 | $11,291,577 |
| Mandatory Education Fees | 659,348 | 450,000 | 320,000 |
| Guides/Outfitter/Charter Fees | 238,478 | 210,000 | 215,000 |
| ODOT Gas Tax | 11,172,267 | 11,190,974 | 11,000,508 |
| Fines/Forfeitures/Other Rev. | 814,045 | 737,000 | 718,000 |
| OR Dept of Fish and Wildlife | 89,000 | 89,000 | 89,000 |
| Federal Funds | | | |
| Coast Guard Federal Funds | 3,264,635 | 4,320,989 | 4,441,978 |
| Boating Infrastructure Grant | 749,976 | 3,157,634 | 1,395,371 |
| Clean Vessel Act | 453,621 | 1,104,629 | 1,104,629 |
| **Total** | **$28,707,396** | **$32,685,979** | **$30,576,063** |

The motorboat fuel tax revenue is estimated to be $11.2 million during the 2009-11 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 last survey was completed in spring 2006. The survey indicates total consumption has increased by 2% in turn resulting in a slight increase in fuel tax transfer to OSMB. The next survey will be conducted in the fall of 2009 and is expected to be completed in spring 2010.

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 2003 Legislature adopted new fees based on a flat fee of $3/foot for two years; one time title fees were adjusted to $30, which enabled the agency to restore funding levels for programs eroded by inflation, flat registration counts, and drought conditions. The agency projects total fee revenue at $11.8 million, an 3.5% increase from 2007-09 revenue levels. The Department of Fish and Wildlife uses Sport Fish Restoration funds to pay the Marine Board for technical assistance on cooperative projects.

The agency anticipates Federal Funds for 2009-11 received from the U.S. Coast Guard's Recreation Boating Safety (RBS) grant program ($4,441,978) and the Clean Vessel Act (CVA) program ($1,104,629). The Boating Infrastructure Grant (BIG) program grants ($1,395,371) 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 annually at $100,000 per state and Tier 2 grants are competitive, with approximately $4 million available nationally each year.

### Essential Budget Level

The essential budget level is a 2% increase from the 2007-09 legislatively approved budget. This increase includes standard increases to state government services charges, personal service costs, and legal fees.

### Issues and Options

The Governor's recommended budget is a 3.1% decrease from the 2009-11 essential budget level and a 3.2% decrease from the 2007-09 legislatively approved budget. This decrease takes into account the net effect of the discontinuation of a one time federal grant program and increases in state government service charges, personal service costs, and legal fees.

## OSMB – Administration and Education

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 4,723,065 | 5,389,749 | 5,452,921 | 5,830,620 |
| Federal Funds | 298,465 | 431,094 | 431,094 | 443,166 |
| **Total Funds** | **$5,021,530** | **$5,820,843** | **$5,884,015** | **$6,273,786** |
| Positions | 26 | 26 | 26 | 26 |
| FTE | 23.84 | 23.84 | 23.84 | 23.84 |

### 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. Boater registration has declined since its peak of 194,715 boats in 2002. Currently, over 190,000 boats are registered with projections indicating boater use of the state's waterways will continue close to this level in the 2009-11 biennium. As evidenced by the latest boater use survey, even though boater registration has decreased, boater use on the water has increased by 2% since 1998. The current economic downturn and the closing of the Ocean salmon fishing season will temper overall boat usage, the recent decline in fuel prices may help moderate this expected decline if fuel prices maintain their current levels. Other non-traditional boating activities, such as personal watercraft (jet skis) and sail boarding are expected to bring additional challenges to waterway management. Boating safety is the number one priority of the program unit. Over 90% of all boating fatalities involve persons who do not wear a life jacket. Human impact on waterways is a challenge for the Oregon State Marine Board. The Mandatory Education law took effect January 1, 2001. The phase-in will continue over the next year until all motorboat operators are certified by 2009.

### Essential Budget Level

The essential budget level is a 6.6% increase from the 2007-09 legislatively approved budget. This increase includes standard increases to state government service charges, personal service costs, and legal fees.

### Issues and Options

The Governor's recommended budget decreases the Administration and Education budget by 1% to reflect changes in the standard inflation rate.

## OSMB – Law Enforcement Program

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 9,408,774 | 9,810,837 | 9,840,522 | 10,143,856 |
| Federal Funds | 3,125,115 | 3,889,895 | 3,889,895 | 3,998,812 |
| **Total Funds** | **$12,533,889** | **$13,700,732** | **$13,730,417** | **$14,142,668** |
| Positions | 4 | 4 | 4 | 4 |
| FTE | 4.83 | 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 with the Department of 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 database 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 reauthorized and will increase slightly over the next several years.

### Budget Environment

Law enforcement contracts are continued at the current level with a standard inflation adjustment for county contracts. Increases in the cost of personnel, benefits, fuel, insurance, and other items outpace the standard rate of inflation by an estimated 3%. In the past, some county's contributions have increased to maintain services at the local level. It will be very difficult for counties that are dependent on timber payments to continue to make up the difference in the standard inflation adjustment and the increases in personnel costs and unstable fuel process. Without an increase in funding for marine law enforcement, services will be reduced or reductions will need to be made in other programs. Complaints and requests for rules relating to non-motorized boating are increasing and impacting law enforcement services. In recent years, more than half of Oregon boating fatalities were attributed to non-motorized boaters. Reauthorization of the U.S. Coast Guard's (USCG) Recreational Boating Safety (RBS) grant program in 2005 provided an additional $1 million over the 2005-07 legislatively approved level. The USCG's RBS grant program is up for reauthorization in 2009. The continuation of RBS funding appears likely, but the recent economic turmoil and competing federal priorities make the continuation less than certain. Federal aid contributes approximately $4 million to support the marine law enforcement program.

### Essential Budget Level

The essential budget level is a 3% increase from the 2007-09 legislatively approved budget. This increase includes standard increases to state government services charges, personal service costs, and legal fees.

### Issues and Options

The Governor's recommended budget decreases the Law Enforcement Program budget by 1% to reflect changes in the standard inflation rate.

## OSMB – Facility Programs

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---:|---:|---:|---:|
| Other Funds | 8,321,383 | 10,036,280 | 10,104,280 | 9,974,671 |
| Federal Funds | 1,456,534 | 4,262,144 | 4,267,841 | 4,269,002 |
| **Total Funds** | **$9,777,917** | **$14,298,424** | **$14,372,121** | **$14,243,673** |
| Positions | 10 | 10 | 10 | 10 |
| 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 $156 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 2009-11. 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 BIG program totaling approximately $1.4 million, which are also authorized on a 75-25 match ratio. Due to the timing of the construction season and permit timelines, some facility grants may be awarded in one biennium, but not fully expended until the following biennium. The total amount of the grants in any one biennium is not the total amount of the grants that will be awarded in that biennium. For example, most of the projects approved for 2005-07 funded by BIG for non-trailerable boating facilities did not actually begin until sometime in the 2007-09 biennium due to permit timelines. Out of $1 million in BIG funds budgeted for 2007-09, less than $600,000 is estimated for new grants.

### Budget Environment

This is one of the few discretionary areas where the Board can 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. The CVA, the BIG, and the Sportfish Restoration Program are all subject to federal reauthorization.

### Essential Budget Level

The essential budget level is approximately a 1% decrease from the 2007-09 legislatively approved budget and reflects program phase-outs and one-time costs in addition to increases in state government service charges, personal service costs, and legal fees.

### Issues and Options

The Governor's recommended budget decreases the Facility Program budget by 12.4% to reflect a decrease in federal grant funding for a one-time grant program.

## Parks and Recreation Department (OPRD) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Lottery Funds | 87,520,218 | 99,626,808 | 107,475,928 | 95,043,951 |
| Other Funds | 92,163,590 | 106,890,569 | 112,285,196 | 114,105,658 |
| Federal Funds | 7,363,360 | 8,706,180 | 9,420,900 | 8,153,759 |
| Other Funds (NL) | 0 | 0 | 215,734 | 0 |
| **Total Funds** | **$187,047,168** | **$215,223,557** | **$229,397,758** | **$217,303,368** |
| Positions | 866 | 888 | 888 | 884 |
| FTE | 571.22 | 602.20 | 602.20 | 600.94 |

### Agency Overview

The State Parks and Recreation Department (OPRD) is under the direction of a seven-member Commission. The Department operates the state's system of 235 recreational properties including ocean shores protection; scenic waterways; the Willamette River Greenway; recreational trails; all-terrain vehicles program; recreation grants to counties and local governments; state park land use and outdoor recreation planning; and management, operations, and maintenance of the Oregon State Fair programs. The Department is also designated as the State Historic Preservation Office and oversees activities of the Oregon Heritage Commission and Oregon Commission on Historic Cemeteries. In addition, the Department manages Natural Resource Lottery Funds programs including local park development grants; state park land acquisition; operations and maintenance; the parks-prisons inmate work program; state park facilities; and development projects.

The Department manages parks lands covering 99,440 acres. These include 50 campgrounds, 175 day-use areas, 500 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. Half of the fund is allocated to OPRD; the remainder is allocated to the Oregon Watershed Enhancement Board. The 2009-11 essential budget assumes $98.3 million Lottery Funds revenue will be generated for the State Parks and Recreation Department sub-account in the biennium. For 2009-11, these Lottery Funds represent 46% of total revenue in the Department's budget, an increase of 1% from the 2007-09 legislatively adopted budget. At the close of the 2007 legislative session, Lottery Fund receipts for OPRD were projected at $98.7 million. The current forecast for the 2007-09 biennium projects Lottery Fund receipts for OPRD will be slightly more than originally forecasted by approximately $.4 million. Lottery Fund receipts for the 2009-11 biennium are expected to remain flat or be slightly lower than receipts in 2007-09 beinnium.

Park user fees represent 14% of the total revenues. User fees are expected to generate $34 million in 2009-11 without a fee increase. The other major source of Other Funds revenue is from recreational vehicle (RV) registration fees. RV fees are currently shared 35% by the counties and 65% by the state. The 2007 Legislature temporarily modified the distribution in SB 29 adding 5% to the county distribution and decreasing the state distribution by 5%. The modified distribution will revert to the original distribution (30% counties, 70% state) on July 1, 2015. For 2009-11, the RV fee is expected to produce $34.2 million, $22.2 million for the state parks system and $12 million for transfer to counties, including $1.3 million for county opportunity grants. The current estimate reflects an increase of approximately $681,000. The Legislature also created a "salmon" license plate that has a premium surcharge above the standard license plate fees. OPRD anticipates receiving $575,694 in the 2009-11 biennium from the salmon license plate. OPRD expends its share of proceeds from the sale of these plates on salmon habitat restoration needs and related projects.

Other dedicated revenue sources include $4.5 million from the Oregon Department of Transportation State Highway Fund for roadways and rest area maintenance, $1 million from the Marine Board for boater facility maintenance and rehabilitation, and $11.8 million from the All-Terrain Vehicle (ATV) fuel tax revenues and fees for ATV operator permits and safety courses. 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 $7.8 million in Federal Funds from the Land and Water Conservation Fund/National Park Service (LWCF/NPS) ($1.1 million), Historic Preservation ($1.5 million), the Recreational Trails Program ($2.2 million, part of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: a Legacy for Users – SAFETEA-LU), and $3 million from miscellaneous other sources of Federal Funds for project grants. Federal funding from NPS and Historic Preservation is decreased from prior biennia.

### Budget Environment

The Department is challenged to balance rates and fees for park users at an affordable level for a diverse population with the rising costs of doing business. The constitutionally dedicated Lottery Funds revenue guarantees the Department a solid source of funding. Recent economic forecasts predict a slight decline in revenue through 2011 with an increase corresponding to the rebounding economy after 2011.

The infusion of dedicated Lottery Fund resources has created pressures from a number of factions to not only focus resources on maintaining existing parks and operations, but to expand land acquisitions, maintain new unplanned state parks, manage and develop the struggling Oregon State Fair, undertake special historical projects, develop new recreation programs and keep parks accessible and affordable for all its visitors. In addition, the Parks and Recreation Commission, Executive Branch, and constituent groups have varying ideas of what the Department should be doing under its statutory mission.

Oregon's population is expected to continue growing and the Department is planning for both an increase in the number of Oregonians and for changing demographics such as the aging of the baby boomers. Changing demographics may result in promoting different forms of recreational activity than camping. The Department continues to invest in facility maintenance and repair, land acquisitions, and local park grants. Differing opinions about how much new parkland is needed and what criteria should be used for acquisitions has been a challenge. Also, as new parks and recreation sites have been developed, ongoing operational and maintenance costs are incurred.

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. User fees have long been a primary source of funding for state park operations. User fee revenues have remained static over time, while costs are increasing at higher rates due to inflation and labor cost increases, opening new parks, and added responsibilities by the Legislature without new sources of revenue. In addition, mandated fee waivers have increased to approximately $1 million in 2007-09. Park user fees have not increased since 1997. Park user fee revenues have been a primary source of funding for state park operations. In 1997, they covered 72% of the cost of operations; non-dedicated Other Fund resources and Lottery Funds made up the 28% difference. In the 2007-09 legislatively adopted budget, park user fees accounted for 55%, while 45% came from other non-dedicated resources and Lottery Funds. Inflation is a major factor in the increasing dependence on other non-dedicated resources and Lottery Funds for basic park operational needs. Since implementing Measure 66 which dedicated Lottery Funds revenue for park purposes, the Department was able to maintain flat user fee rates using Lottery Funds to make up differences created by rising costs. Lottery Funds increased 137% since first receiving a full biennium of the dedicated resource in 1999-2001. Today, campers and day use visitors cover 55% of the cost of operations. Since 1999, the Department has invested over $81.6 million in maintenance, repair, and upgrades to existing state parks, acquired over 3,600 acres of additional park land, and issued more than 160 local park grants. OPRD provided a report to the Legislature during the February 2008 special session to alert members of a projected shortfall in Other Fund revenues. This shortfall in Other Fund revenues necessitated a realignment of expenditure limitation to backfill the shortfall with Lottery Funds. Dedicated Other Funds revenues include the All-Terrain Vehicle (ATV) fuel tax revenue; trusts and sinking funds; Recreational Vehicle (RV) registrations for county grants; state highway funds for specific rest area operations and maintenance; and state fair revenues. Dedicated program revenues have sufficient resources to cover planned expenditures for the biennium. Non-dedicated Other Fund resources include RV registrations, excluding county payments and grants; one-time donations and grants; salmon license plate revenues; park user fees; and miscellaneous income.

### Essential Budget Level

The 2009-11 essential budget level of $210 million total funds is an increase of $11.8 million, or 5% from the 2007-09 legislatively approved expenditure level and includes 884 positions (600.94 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $14 million total funds in special session and

Emergency Board actions during Fiscal Year 2008 for emergency repair work related to winter storm damage, increased compensation for employees, and adjustments to realign program expenditure with current revenue streams. The 2009-11 essential budget level includes a reduction of $9 million to phase out one-time expenditures related to a federal grant for land acquisition, new park development at seven State Parks, and one time costs associated with new park operations and maintenance. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including the removal of 4 limited duration positions (1.26 FTE).

### Issues and Options

During the 2007-09 interim, the Emergency Board approved a realignment of Lottery Fund resources to cover Other Fund expenditure shortfalls. In its 2009-11 agency request budget, OPRD requested a further realignment of Lottery Funds to cover expenditures historically covered by Other Funds resources. It proposed park user fee increases to provide an additional $4.75 million Other Funds resources during the 2009-11 biennium and $9 million in future biennia. It also proposed reductions in land acquisition and grant programs to cover operating expenses historically covered by park user fees. OPRD requested 9 policy packages, totaling an increase of $6.3 million Lottery Funds and a decrease of $17.4 million in Other Fund programs. Specific information about the request will be described in programs below. The 2007-09 legislatively adopted budget provided a limited duration position to continue work on Ocean Shore management, Habitat Conservation for Western Snowy Plover and Rocky Shores Plans, and the Ocean Policy Advisory Council due to concerns about limited resources. OPRD proposes that this position and program be made a permanent part of their budget with a permanent full-time position.

In addition, the Governor's recommended budget proposes combining the "Main Street Program" currently managed by the Oregon Economic and Community Development Department (OECDD) with OPRD's Historic Programs.

## OPRD – Administration

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Lottery Funds | 10,655,568 | 10,109,339 | 10,741,125 | 10,544,069 |
| Other Funds | 14,538,407 | 14,024,476 | 13,925,303 | 15,363,965 |
| Federal Funds | 0 | 993 | 993 | 0 |
| **Total Funds** | **$25,193,975** | **$24,134,808** | **$24,667,421** | **$25,908,034** |
| Positions | 88 | 79 | 79 | 79 |
| FTE | 81.23 | 72.85 | 72.85 | 73.52 |

### Program Description

The Administration program includes six divisions:

- ***Directors Office*** (3.00 FTE) consists of three positions including the Director, an Executive Assistant, and a communications staff person. 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.
- ***Human Resources*** (5.00 FTE) supports the Department on all personnel and labor relations including recruitment, training, and collective bargaining. The Division provides safety services through risk management, workers' compensation, safety awareness, and property and visitor liability.
- ***Financial Services*** (18.00 FTE) is responsible for the biennial budget development and execution, coordination of Secretary of State audits, centralized accounting, and payroll. This area also includes the Assistant Director for Administration and the internal auditor.
- ***Procurement*** (7.00 FTE) provides centralized contracting, procurement services, and fleet management.
- ***Information Systems*** (14.00 FTE) provides planning, development, and support for the Department's business applications including the installation, standardization, and operation of the Department's desktop and laptop computers, network and internet/intranet connections, geographic information system, and

operation of the automated reservation system. It also provides technical management of the Department's financial interface to the Statewide Financial Management System.

- ***Reservations Northwest*** (26.52 FTE) is a reservation booking service that started operations in January 1996. The call center books reservations for 27 Oregon state parks and 20 Oregon state special facility areas. 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 staff also support 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.

The funding for these programs is from park user fees and Lottery Funds.

### Budget Environment

Parks operate in every region of the state. The Administration Program Unit provides the Department's centralized business functions. The budget also includes the department-wide state government service charges. Growing local populations and increasing tourism bring demands to state parks. Increased demands for services on the agency have increased stress on its business infrastructure for accounting services, reporting, personnel, and management. Retirement of experienced managers and staff turnover is exhausting its ability to absorb and adapt to the changing conditions.

### Essential Budget Level

The 2009-11 essential budget level of $26 million total funds is an increase of $1.2 million total funds, or 5% from the 2007-09 legislatively approved expenditure level and includes 79 positions (72.85 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $532,613 total funds in special session and Emergency Board actions during Fiscal Year 2008 related to increased compensation for employees, and adjustments to realign program expenditure with current revenue streams. The 2009-11 essential budget reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including an internal realignment of 0.67 FTE. An additional increase above standard inflation is reflected for rent costs associated with the Reservations Northwest office ($9,913 Other Funds) and inflation for Department of Administrative Services (DAS) real property leasing and increases in Treasury transactions ($16,616).

### Issues and Options

In its 2009-11 agency request budget, OPRD requested a reduction of $11 million Other Funds and 23 positions (17.52 FTE) reflecting a revenue shortfall in the Other Funds revenue and an $11 million Lottery Fund increase to restore reductions of Other Funds and positions. The request would be paid for by reducing non-operating expenditures in Acquisitions, Local Government grants, and Facility Investment programs. By reducing the non-operating programs funded by Lottery Funds, the Department is able to maintain basic park operations. In addition, OPRD requested $104,172 Lottery Funds to reclassify four positions and add one new permanent full-time position to address issues arising from a review of positions which found instances of mismatched classifications, obsolete classifications, mismatched alignment of full-time-equivalent counts, double fills, and desk audit requests. OPRD also requested that debt service for a Lottery backed revenue bond for the State Fair be paid from non-dedicated Lottery Funds to free up dedicated Lottery Funds for other park operating purposes.

The Governor's recommends funding this program as requested by the agency, but would fund debt service costs from dedicated Lottery Funds.

## OPRD – Heritage Programs

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Lottery Funds | 2,938,968 | 3,379,794 | 3,492,765 | 3,230,027 |
| Other Funds | 287,094 | 547,549 | 415,549 | 480,976 |
| Federal Funds | 1,400,905 | 1,987,516 | 1,987,516 | 1,871,859 |
| **Total Funds** | **$4,626,967** | **$5,914,859** | **$5,895,830** | **$5,582,862** |
| Positions | 18 | 19 | 19.00 | 19 |
| FTE | 18.00 | 19.00 | 19.00 | 19.00 |

### Program Description

The Heritage Programs Division (19.00 FTE) consists of three primary programs: The State Historic Preservation Office, the Oregon Heritage Commission, and the Oregon Commission on Historic Cemeteries.

- ***The State Historic Preservation Office*** (SHPO), which consists of 17 positions (17.00 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. Staff administer the federal grant-in-aid program and seven other federal programs under the National Historic Preservation Act. SHPO also manages two state programs: the Archeological Permit program and the Special Assessment of Historic Properties program.
- The ***Oregon Heritage Commission*** (1.00 FTE) is the primary organization 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 administers local museum and heritage grant programs.
- The ***Oregon Commission on Historic Cemeteries*** (1.00 FTE) is one of the few commissions of its type in the United States. It is charged with the preservation of tribal and pioneer-era cemeteries throughout Oregon. It provides grants, education, and technical assistance. The Department Director appoints commissioners.

### Revenue Sources and Relationships

Approximately 20% of the Department's Federal Funds are received through the State Historic Preservation Office. About a third of the Federal Funds are provided to local governments in the form of grants to operate local historic preservation programs. Grants are awarded on a reimbursable basis and require at least a 50% 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 special assessment application fees 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, indicates 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.

Heritage Programs workload is driven primarily by external constituents; by the number of applicants for listings on the National Register, applicants for the grant-in-aid program, technical assistance requests from local governments and heritage organizations, archaeological permits, tax incentives, and by the number of federal projects requiring annual review (3,000/year in 2005-07) for potential impacts on historic and cultural resources.

### Essential Budget Level

The 2009-11 essential budget level of $5.6 million total funds is a reduction of $331,997 total funds, or 5.3% from the 2007-09 legislatively approved expenditure level and includes 19 positions (19.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes a reduction of $19,029 total funds in special session and Emergency Board actions during Fiscal Year 2008 related to increased compensation for employees; and adjustments to realign program expenditure with current revenue streams. The 2009-11 essential budget reflects the phasing out of funding for the Oregon Sesquicentennial planning ($419,000 total funds); empty Federal Funds expenditure limitation ($268,000); and standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

#### Issues and Options

In its 2009-11 agency request budget, OPRD requested a reduction of $317,081 Federal Funds due to a decline of available federal heritage funds. The reduction impacts special payments to local governments for heritage programs. In addition, OPRD requested $134,884 Lottery Funds to reclassify two positions and add one permanent position to address issues arising from mismatched position and incumbent classification reviews; and $52, 598 Other Funds to enhance and continue the historic building property tax incentive program. OPRD requested legislation to reauthorize the property tax incentive program beyond its June 30, 2010 sunset date and make modifications and improvements to it, including reducing tax credit application fees, simplifying the application process, changing the tax credit to a simple property tax reduction, eliminating redundant review processes, and focusing on external building features and enhanced inspection capacity. The measure would reduce local revenues.

The Governor recommends funding this program as requested by the agency and proposes increasing the Lottery Fund expenditure limitation by $706,790 to add one position (1.00 FTE) to administer the “Main Street Program” to assist communities currently managed by the Oregon Economic and Community Development Department (OECDD) with OPRD’s Historic Programs. The “Main Street Program” has historically been funded through OECDD with non-dedicated Lottery Funds in the form of grants ($514,000) to communities to stimulate business investment by restoring and retaining the historic character of their downtown areas and historic commercial districts; assist in retaining existing small businesses, and promote new businesses in those areas; strengthen the local tax base; create employment opportunities in community downtown areas and historic commercial districts; stimulate heritage tourism; and generally enhance the economic viability of downtown areas and historic commercial districts. The Governor proposes shifting the responsibility to OPRD and funding the program with dedicated Measure 66 Lottery Funds to manage the program as part of a reorganization effort by OECDD. This same proposal was made during the 2007 legislative session, but was not approved by the Legislature because legal counsel advised that dedicated Measure 66 Lottery Funds may not be used for this purpose and the program does not align well with OPRDs primary mission. If the Legislature chooses to expand OPRDs role, it will need to determine a different source of funding for the shift.

### OPRD – Grants

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Lottery Funds | 6,622,053 | 15,785,391 | 15,301,045 | 16,304,935 |
| Other Funds | 6,889,909 | 11,265,962 | 19,323,934 | 11,642,786 |
| Federal Funds | 3,832,282 | 3,183,655 | 3,898,375 | 3,265,732 |
| **Total Funds** | **$17,344,244** | **$30,235,008** | **$38,523,354** | **$31,213,453** |
| Positions | 9 | 10 | 10 | 10 |
| FTE | 9.00 | 10.00 | 10.00 | 10.00 |

#### 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) grants program, the Land and Water Conservation Fund, the Local Grant Program, the Recreational Trails Grant Program, and the Recreational Vehicle Grant Program. Funding for these programs is from ATV permit fees, recreational vehicle registration fees, 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 is expected to decrease during the biennium. The Local Grant program was increased to $8.5 million for 2005-07 and to $15.8 million for 2007-09.

#### Essential Budget Level

The 2009-11 essential budget level of $31.2 million total funds is a reduction of $7.3 million total funds, or 19% from the 2007-09 legislatively approved expenditure level and includes 10 positions (10.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes an increase of $8.3 million total funds in special session and Emergency Board actions during Fiscal Year 2008 related to increased ATV Grants program activity; adjustments to realign program expenditure with current revenue streams; and increased compensation for employees. The 2009-11 essential budget includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

#### Issues and Options

In its 2009-11 agency request budget OPRD requested:

- A reduction of $6.3 million Lottery Funds to provide resources to restore reductions in Other Fund resources in park operations and administration programs. The reduction affects grants to local communities to acquire, develop, and rehabilitate outdoor recreation and open spaces and puts it closer to the 2005-07 funding levels.
- $800,000 Federal Funds for a transportation enhancement grant for the Rogue Valley that has been awarded to OPRD with the funds available early in the new biennium. The funds will come directly to OPRD and be administered like a Recreation Trails grant.
- $4.3 million Other Funds and one permanent position (1.00 FTE) to implement improved safety training for ATV users implementing SB 101 (2007).

The Governor recommends funding this program as requested by the agency.

### OPRD – Property Acquisitions

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Lottery Funds | 7,382,821 | 22,139,224 | 21,145,556 | 22,767,824 |
| Federal Funds | 0 | 600,000 | 600,000 | 0 |
| **Total Funds** | **$7,382,821** | **$22,739,224** | **$21,745,556** | **$22,767,824** |
| Positions | 0 | 1 | 1 | 1 |
| FTE | 0.00 | 0.88 | 0.88 | 1.00 |

#### Program Description

The Property Acquisitions program is responsible for direction and management of all real property functions of the Department. The program was increased by $3 million to a total of $7 million for the acquisition and development of new park properties in the 2003-05 biennium. In 2005, the Legislature increased the program to $7.5 million and to $22.1 million in 2007. Since 1999, the Department has acquired a total of 6,012 acres of property through direct purchase and donation.

#### Essential Budget Level

The 2009-11 essential budget level of $22.8 million total funds is an increase of $1 million total funds, or 4.7% from the 2007-09 legislatively approved expenditure level and includes 1 position (1.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes a decrease of $993,668 Lottery Funds in special session and Emergency Board actions during Fiscal Year 2008 related to adjustments to realign program expenditures with current revenue streams, and increased compensation for employees. The 2009-11 essential budget phases out $600,000 Federal Funds for a one-time federal grant to purchase land and standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including phasing in a position approved in the 2007-09 budget of 0.12 FTE.

#### Issues and Options

In its 2009-11 agency request budget, OPRD requested a reduction in the Lottery Fund acquisitions program of $12.2 million to restore reductions in Other Funds for park operations and administration. The reduction puts the program at $3 million more than the 2005-07 actual expenditure level.

The Governor recommends funding this program as requested by the agency.

## OPRD – Operations

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Lottery Funds | 12,690,165 | 12,615,223 | 21,909,589 | 13,203,868 |
| Other Funds | 60,228,989 | 63,435,997 | 59,137,935 | 68,294,352 |
| Federal Funds | 631,308 | 1,387,351 | 1,387,351 | 1,426,196 |
| **Total Funds** | **$73,550,462** | **$77,438,571** | **$82,434,875** | **$82,924,416** |
| Positions | 675 | 686 | 686 | 686 |
| FTE | 417.35 | 426.47 | 426.47 | 426.92 |

### Program Description

The Operations program has responsibility for daily operation of the state park system. Five activity areas make up the Operations program:

- ***Assistant Director for Operations*** (2.00 FTE) consists of the Assistant Director and support staff to provide overall direction for Operation program activities.
- ***Risk and Safety Program*** (3.00 FTE) provides safety services through risk management, workers' compensation safety awareness, and property and visitor liability, plus beach safety programs.
- ***Park Operations*** (404.10 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 four 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 registration services, collect fees, enforce park rules, provide information, and interpretive services and programs. Other duties include maintenance of trail systems, Willamette Greenway sites, and the Deschutes River Scenic Waterway Recreation Area.
- ***Property and Natural Resource Management*** (8.00 FTE) provides technical expertise and support to field staff on resource management issues. The Natural Resource Management unit 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. In addition, Natural Resource Management also prepares natural resource plans for individual park areas. The unit also administers the Department's land acquisition and concession programs and manages leases of park land for agricultural use.
- ***Engineering*** (8.20 FTE) provides survey and engineering services for park projects not funded through the Facilities Investment Program.

### Budget Environment

Growth in Oregon's population and economy has increased 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. Nearly 42 million visitors a year come to Oregon State Parks, making them among the most heavily used parks in the nation. Statistics to support this statement include: Oregon parks rank 28$^{th}$ nationally in state park acres per 1,000 population; Oregon ranks 2$^{nd}$ nationally in number of state park visitors (413) per acre; visitors per state park acre ratio of 438:1 far exceeds the national average of 75:1; and Oregon ranks 6$^{th}$ in the nation in the number of campsite rentals per year.

### Essential Budget Level

The 2009-11 essential budget level of $83 million total funds is increased by $489,541 total funds, or 0.6% from the 2007-09 legislatively approved expenditure level and includes 686 positions (426.92 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes a decrease of $4.3 million Other Funds and an increase of $9.3 million Lottery Funds in special session and Emergency Board actions during Fiscal Year 2008 related to adjustments to repairs for winter storm damage, realign program expenditures with current revenue streams, and increased compensation for employees. The 2009-11 essential budget phases out $327,017 in one-time costs associated with new state parks including the State Capitol, Cougar Valley, Depoe Bay, Golden, Kam Wah Chung, Stub Stewart, and Prineville State Parks. It phases in $105,253 associated with ongoing expenses that were not budgeted for a full 24 months in the 2007-09 biennium, including 0.45 FTE and standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

In its 2009-11 agency request budget, OPRD requested:

- A reduction of $15.7 million Other Funds and 1 permanent full-time position (1.00 FTE) reflecting a revenue shortfall in the Other Funds revenue and an $11.4 million Lottery Fund increase to restore reductions of Other Funds and the position. The request would be paid for by reducing non-operating expenditures in Acquisitions, Local Government grants, and Facility Investment programs. By reducing the non-operating programs funded by Lottery Funds, the Department is able to maintain basic park operations.
- $298,756 Other Funds and a reduction of $27,315 Lottery Funds to reclassify two positions and add two permanent positions (2.55 FTE) to address issues arising from mismatched position and incumbent classification reviews; and
- $237,184 Lottery Funds and $711,551 Other Funds to complete projects related to winter storm damage that will not be completed before the end of the current biennium in Cape Look Out State Park and the Spring Valley landslide.

In addition, it requested an adjustment in park fees closer to market rates to generate approximately $8.4 million in total biennial revenue as follows:

| Proposed Fee Increase | | |
|---|---|---|
| | Current Fee | New Fee |
| Recreational Vehicle Sites | $20 | $24 |
| Tent Sites | $16 | $20 |
| Yurts | $27 | $36 |
| Cabins | $35 | $39 |
| Boat Moorage | $7 | $10 |
| Reservation Transactions | $6 | $8 |
| Day Use | $3 | $5 |
| Annual Day Pass | $25 | $35 |
| Day Use 24 Month Pass | $40 | $50 |

During 2009-11 the agency would collect approximately $4.3 million in total revenue and proposes the revenue be used to restore temporary appointments and services and supplies in state parks.

The Governor recommends funding this program as requested by the agency.

## OPRD – Facility Investments

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Lottery Funds | 38,997,949 | 24,561,730 | 23,683,770 | 17,781,370 |
| Other Funds | 3,535,679 | 3,838,882 | 3,838,882 | 4,071,210 |
| Federal Funds | 1,498,865 | 1,546,665 | 1,546,665 | 1,589,972 |
| **Total Funds** | **$44,032,493** | **$29,947,277** | **$29,069,317** | **$23,442,552** |
| Positions | 18 | 16 | 16 | 16 |
| FTE | 17.17 | 15.50 | 15.50 | 16.00 |

### Program Description

The Facility Investments includes the following two activity areas:

***Parks and Prisons*** (3.00 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.

***Facility Investments*** (13.00 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.

### Budget Environment

In 1999, the Legislature authorized the issuance of $15 million lottery backed bonds to address overdue repairs from deferred maintenance. The bonds were repaid during the 2005-07 biennium. Ongoing investments in repairs and renovations from Lottery Funds were increased in the 2005-07 biennium to $20 million per biennium. Of this amount, an average of $10.6 million is applied directly to reduce the maintenance backlog to a manageable level by the year 2014; $12.8 million is applied to enhancing state parks, $2.5 for historic and cultural restorations and $2.8 million for restoration. An additional $7 million is utilized to improve and expand parks for the future. The 2007-09 legislatively adopted budget increased the amount to be applied for reducing the backlog to $13 million; reducing enhancements and historic and cultural restorations by $6 million. Administration – which includes project management, yurts and cabins, and the Parks and Prison Program – was increased $310,000, or 11%.

Small grants are often available for facility investments from local governments, other state agencies, or the federal government.

### Essential Budget Level

The 2009-11 essential budget level of $23.4 million total funds is a decrease of $5.6 million total funds, or 19.4% from the 2007-09 legislatively approved expenditure level and includes 16 positions (16.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes a decrease of $877,960 Lottery Funds in special session and Emergency Board actions during Fiscal Year 2008 related to adjustments to realign program expenditure with current revenue streams, and increased compensation for employees. The 2009-11 essential budget phases out $7.5 million Lottery Funds in one-time costs associated with new state parks including the Stub Stewart, Crissey Field, and Tseriadun State Parks. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including an adjustment of 0.50 FTE.

### Issues and Options

In its 2009-11 agency request budget OPRD requested a reduction of $3.9 million Other Funds reflecting a revenue shortfall in the Other Funds revenue and a $3.9 million Lottery Fund increase to restore reductions of Other Funds services and supplies. The request would be paid for primarily by not replacing the $7.5 million one-time expenditure for park improvements with new projects. The Legislature will need to determine if this level of funding achieves the results of eliminating the backlog of maintenance and repair desired. This reduction would put Facility Investments well below the 2005-07 actual expenditure level, but $3 million above the 2003-05 expenditure level. It also requested $15,155 Lottery Funds to reclassify three positions to address issues arising from mismatched position and incumbent classification reviews.

The Governor recommends funding this program as requested by the agency.

## OPRD – Recreation Programs and Planning Program

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Lottery Funds | 0 | 3,291,796 | 3,414,189 | 3,434,073 |
| Other Funds | 0 | 3,182,283 | 3,182,283 | 3,242,731 |
| **Total Funds** | **$0** | **$6,474,079** | **$6,596,472** | **$6,676,804** |
| Positions | 0 | 22 | 22 | 20 |
| FTE | 0.00 | 21.50 | 21.50 | 19.50 |

### Program Description

The Recreation Programs and Planning Program was a new unit in 2007-09 realigned from assets in other parts of the Department and is responsible for planning, implementation, and outreach regarding outdoor recreation in Oregon. The program unit was established to place emphasis on advocating for and promoting outdoor recreation in Oregon. This includes planning for future recreational needs and providing interpretive programs that educate visitors about the natural resources, history, and culture of the areas surrounding the parks and throughout Oregon. Additionally, public services and marketing such as development and printing of brochures, media contact, and maintenance of the Department webpage is part of the program. Five activity areas make up the Recreation Programs and Planning Program:

- ***Recreation Programs*** (6.00 FTE) plans, develops, and directs services to enrich visitor experiences by providing oversight for park interpretive programs, managing motorized and non-motorized recreational trails programs, and providing technical assistance to field staff regarding trail development in state parks, developing water-based recreation, implementing a statewide bicycle recreation program, overseeing more than 31,000 park volunteers each year, establishing and monitoring Friends Groups, and developing State Parks Policies and Procedures.
- ***Planning*** (4.50 FTE) is responsible for development of the Statewide Comprehensive Outdoor Recreation Plan which documents statewide and regional recreation demands and trends, the supply of recreation opportunities, facilities and settings, and identifies emerging needs of Oregon residents and visitors. The Planning unit creates plans for development, protection, and public enjoyment of state park properties and regional recreation corridors; identifies natural, cultural, and scenic resources, opportunities, and constraints; directs the master planning process; and provides direction on planning and development of sites and facilities. The Planning unit also coordinates with park units and other governmental agencies planning for ocean shore use and protection.
- ***Public Services*** (7.00 FTE) is responsible for internal and external communications, marketing, paid media campaigns, website content, public relations, coordination of media relations, statewide special event management, graphic design and production, publications, map production, exhibit creation and fabrication, consultation on signage, interpretive writing, and visual identity.
- ***Grant Administration –*** Although part of this new program area, it is discussed in a separate section of this analysis.
- ***Recreation Administration*** (2.00 FTE) provides oversight and communication with the Oregon Parks and Recreation Commission; park providers at the local, county, state, and federal levels; and recreation stakeholders including the Oregon Outdoor Recreation Council, Oregon Recreation Trail Advisory Council, All-Terrain Vehicle Account Allocation Committee, and the Oregon State Parks Trust.

### Budget Environment

A wide range of public and private sector recreation organizations provide outdoor recreation opportunities for the general public in Oregon. The major land and water recreation resources are owned and managed by the federal government with 93.9% of the land and 46.2% of water recreation areas under federal management. The state owns 5.1% of the land and 29.6% of water recreation areas. Growth in Oregon's population and economy has increased the demand on current resources and facilities and created a need for new parks and recreational programs. Demographic changes over the past 10 years include a recreating public that is older, more highly educated, with higher income levels, increasingly urban living, and increasing in ethnic diversity. In addition, people have become less physically active.

The public is asking public land managers to protect streams, fish, wildlife habitat, and threatened and endangered species. They are also seeking amenities including quiet, natural places, natural appearing settings, and information and education. The recreating public wants family-oriented activities, and to travel closer to home with more frequent but shorter stays. There is also a growing demand for motorized and non-motorized trail facilities, alternative camping facilities such as yurts and cabins, and RV camping especially at the coast.

Biking vacations attracted more than 27 million travelers in the past five years and they rank as the third most popular outdoor vacation activity in America. An ad-hoc partnership of bicycle enthusiasts, including Cycle Oregon, the Bicycle Transportation Alliance, the Oregon Tourism Commission, Oregon Department of Transportation (ODOT), the Governor's office, and OPRD, formed in 2004 to unify Oregon's bicycle tourism strategy. The group has been working to promote recreational bicycling in the state. The effort has been on-going for three years. A recent accomplishment of this group was the creation of the Willamette Valley Scenic Bikeway from Champoeg State Park to Armitage County Park. During 2005, Cycle Oregon, OPRD, Travel Oregon, and the ODOT Bicycle Pedestrian Program have taken a leadership role in moving the effort forward. The bicycle partnership's effort is to position Oregon as a premier bicycle tourism and recreation destination. The partnership is proposing that bicycle tourism-related work that is now done by ODOT, OPRD, Cycle Oregon, Portland Oregon Visitors Association, League of American Bicyclists, Oregon Tourism Commission, and various bike shops be coordinated through OPRD. The primary tool for the program would be an interactive website from which users can find information needed to create their own itinerary based on their preferences.

### Essential Budget Level

The 2009-11 essential budget level of $6.7 million total funds is an increase of $80,332 total funds, or 1.2% from the 2007-09 legislatively approved expenditure level and includes 21 positions (20.50 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes an increase of $122,393 Lottery Funds in special session and Emergency Board actions during Fiscal Year 2008 related to increased compensation for employees. The 2009-11 essential budget phases out two positions (2.00 FTE) in one-time costs associated with the bicycle recreation and ocean shore management planning. These positions were approved for funding from Other Fund resources as limited duration to insure dependence on Lottery Funds was not an issue in future biennia. The essential budget also reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

In its 2009-11 agency request budget, OPRD requested a reduction of $885,999 Other Funds reflecting a revenue shortfall in the Other Funds revenue and a $885,999 Lottery Fund increase to restore reductions of Other Funds services and supplies. The request would be paid for from reductions in Lottery Funds for the Land Acquisitions, Local Grant, and Facility Investments programs It also requested $162,163 and one position (1.00 FTE) to restore the limited duration position and make it permanent to continue work on the Ocean Shore Management Plan, Habitat Conservation Plan for Western Snowy Plover, Rocky Shores Plan, and to support the Ocean Policy Advisory Council. OPRD intends to incorporate the duties of the Bicycle Coordinator positions into a future vacant position.

The Governor recommends funding this program as requested by the agency.

## OPRD – Oregon State Fair

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Lottery Funds | 3,997,460 | 3,509,241 | 3,552,819 | 3,684,776 |
| Other Funds | 6,683,512 | 10,595,420 | 12,461,310 | 11,009,638 |
| **Total Funds** | **$10,680,972** | **$14,104,661** | **$16,014,129** | **$14,694,414** |
| Positions | 58 | 55 | 55 | 53 |
| FTE | 28.47 | 36.00 | 36.00 | 35.00 |

### Program Description

The Oregon State Fair conducts an annual state fair that is typically 11 days in length and provides services for ongoing exposition activities including recreational vehicle and organization meetings, concerts, and consumer products and services shows. The purpose of the Fair is to provide information and encourage the growth and prosperity of all agricultural, stock raising, horticultural, mining, mechanical, artistic, and industrial pursuits in the state. The Fair represents Oregon's agricultural, industrial, artistic, and cultural heritage. The Fair responds to the needs and interests of visitors, participants, exhibitors, concessionaires, vendors, and facility users.

### Revenue Sources and Relationships

The Fair receives 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. The budget is supplemented with Lottery Funds from the Parks and Natural Resource Fund.

### Budget Environment

Since 1997, the Oregon State Fair has experienced significant difficulty in meeting its operating and debt service requirements out of existing revenue. The 2005 Legislature determined that the best option was to combine the Fair with OPRD since the statute for OPRD already includes fairs and heritage programs as part of its mission. OPRD has experience with managing state property, providing entertainment, and collecting revenue, and has the resources to provide operational support to the Fair.

In January 2006, OPRD hired a professional market research firm to conduct a survey and facilitate a series of meetings with community, business, and elected officials from eight geographically distinct regions across the state to gather ideas for the vision and future direction of the Fair and its facilities. Overall themes that emerged from the conversations included high expectations of strong fiscal management and clear accountability and that the Oregon State Fair should be for and about Oregon; more inclusive of regions of the state; have a greater educational role for youth and adults; and continue its traditional ties to agriculture, but expand its connection to industry, manufacturing, cultural heritage, history, and resources within Oregon.

As a result of these meetings, a business plan has been developed to clarify the mission and business objectives of the annual state fair and usage of fairgrounds between annual state fairs. The plan outlines strategies to:

- Revitalize the annual state fair by showcasing the best of Oregon.
- Provide leadership to counties, areas, regions, municipalities, and organizations across the state to create local venues for events and activities that build up to and culminate at the annual state fair.
- Address methods to improve the quality of the experience (both annual state fair and interim activities on the fairgrounds) – including facility and land improvements, and customer service from vendors, contractors, and staff.
- Meet all expenses for the Fair including operations and maintenance from revenue generated by the enterprise.
- Provide an "exit strategy" for decision-makers to take action on the future of the enterprise.
- Address business systems and management policies to ensure efficient operation and accountability.
- Identify a role for the State Fair Foundation, partnerships with other enterprises, and an expanded role for sponsorships.

### Essential Budget Level

The 2009-11 essential budget level of $15 million total funds is a decrease of $1.3 million total funds, or 8.2% from the 2007-09 legislatively approved expenditure level and includes 55 positions (36.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes an increase of $1.9 million Other Funds in special session and Emergency Board actions during Fiscal Year 2008 related to increased state fair event activities and increased compensation for employees. The 2009-11 essential budget phases out two positions (1.00 FTE) in one-time costs associated with seasonal activities. The essential budget also reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

In its 2009-11 agency request budget OPRD requested an increase of $14,545 total funds to reclassify two positions to address issues arising from mismatched position and incumbent classifications.

The Governor recommends funding this program as requested by the agency.

## OPRD – Oregon State Fair Debt Service

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Lottery Funds | 4,235,234 | 4,235,070 | 4,235,070 | 4,093,009 |
| Other Funds (NL) | 0 | 0 | 1,391 | 0 |
| **Total Funds** | **$4,235,234** | **$4,235,070** | **$4,236,461** | **$4,093,009** |

### 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 $2,611,346. The debt service cost for 2003-05 was $3.7 million. This cost increased to $4.2 million in 2005-07. The increase reflects the full debt service cost for all of the Lottery-backed bonds.

### Revenue Sources and Relationships

Lottery Funds revenue from the Parks and Natural Resources Fund is used to repay debt service on the capital construction and improvement bonds.

### Essential Budget Level

The 2009-11 essential budget level of $4 million total funds is a decrease of $143,452 total funds, or 3.4% from the 2007-09 legislatively approved expenditure level as of December 2008. The essential budget reflects standard adjustments for debt service payments.

### Issues and Options

In its 2009-11 agency request budget OPRD requested the debt service be paid from non-dedicated Lottery Funds to free up resources for other park operating programs.

The Governor's recommended budget maintained the current funding from dedicated Lottery Funds.

## Water Resources Department (WRD) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 21,254,080 | 24,103,527 | 27,240,281 | 25,451,601 |
| Other Funds | 4,045,553 | 7,021,101 | 7,233,243 | 7,168,086 |
| Federal Funds | 551,585 | 1,176,003 | 1,184,828 | 1,079,877 |
| Other Funds (NL) | 1,521,457 | 1 | 1 | 0 |
| **Total Funds** | **$27,372,675** | **$32,300,632** | **$35,658,353** | **$33,699,564** |
| Positions | 140 | 149 | 151 | 144 |
| FTE | 138.13 | 146.60 | 147.60 | 142.42 |

### Agency Overview

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.

### Budget Environment

Continued growth in population and industry will intensify demands on scarce water resources throughout the state. Surface waters in most of the state are fully appropriated by existing out-of-stream and in-stream uses, except during periods that fall outside of the irrigation season when stream flows are generally higher. There are also a number of areas in Oregon that are experiencing reductions in ground water supplies.

The 2007 Legislative Assembly approved the Oregon Water Supply and Conservation Initiative, a project comprised of community grants, a water demand forecast, and inventories of water supply opportunities. Further, with funding approved in SB 1069 (2008), WRD provides grants and direct services for feasibility studies related to water conservation, water reuse, and water storage. The 2008 grant program, established at $1.75 million General Fund, helps pay the costs of planning studies needed to evaluate the feasibility of developing water conservation, reuse, or storage projects. Grants made by the program are limited to up to half the cost of the proposed study and capped at $500,000 per individual grant. General Fund resources of $750,000 were also provided to conduct an aquifer recovery assessment in the Umatilla Basin. Funding for these projects was approved on a one-time basis.

## WRD – Administrative Services Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 3,446,715 | 2,898,994 | 4,697,216 | 3,273,687 |
| Other Funds | 152,001 | 554,337 | 566,915 | 602,165 |
| **Total Funds** | **$3,598,716** | **$3,453,331** | **$5,264,131** | **$3,875,852** |
| Positions | 11 | 12 | 14 | 12 |
| FTE | 9.63 | 10.42 | 11.42 | 10.63 |

### 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. The Division also provides 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 some Other Funds revenue from charges for services and sales of publications and surplus property.

### Budget Environment

The need for administrative and support service activity within the Water Resources Department rises or falls as external demands on agency programs change, programs are either added or removed, or programs undergo restructuring or add new processes.

### Essential Budget Level

The essential budget level of $3.88 million total funds is $1.39 million (26.3%) lower than the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The significant decrease reflects a reduction of two positions and $1.75 million General Fund for one-time costs associated with implementing SB 1069 (2008).

### Issues and Options

Funding and staffing resources to support direct services for feasibility studies related to water conservation, water reuse, and water storage were approved on a one-time basis during the 2007-09 biennium. The agency request budget proposed to continue this program supported through issuance of Lottery Revenue Bonds. The Governor's recommended budget proposes to generate $2.5 million in Lottery Revenue Bond proceeds which would require $224,354 Lottery Funds debt service during the biennium.

## WRD – Field Services Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 8,277,032 | 9,559,540 | 9,851,042 | 10,416,493 |
| Other Funds | 1,136,934 | 2,234,748 | 2,320,257 | 2,005,010 |
| Federal Funds | 84,901 | 125,538 | 134,363 | 0 |
| Other Funds (NL) | 0 | 1 | 1 | 0 |
| **Total Funds** | **$9,498,867** | **$11,919,827** | **$12,305,663** | **$12,421,503** |
| Positions | 64 | 69 | 69 | 65 |
| FTE | 63.50 | 68.30 | 68.30 | 65.00 |

### Program Description

The Field Services Division administers water laws, including dam and well inspections, and water right regulation and enforcement. The Division regulates water use in order to protect senior water rights for both in-stream and out-of-stream purposes. The Department organized the state's 20 watermaster districts into four regions for more efficient use of field personnel. Field staff includes region managers, watermasters, technicians, and locally-funded assistants. Field staff responsibilities include dam inspections, enforcing water distribution among water right holders, processing water right transfers, hydrologic data gathering, well construction inspections, well monitoring, water right record maintenance, and responses to other requests from outside and within the Department. In addition, field staff act as liaisons with Watershed Councils, municipal water suppliers, local governments, and irrigation districts to explain Commission and Department policies, review water management plans, provide information on water availability and water rights, and bring regional policy issues back to the Department.

### Revenue Sources and Relationships

Field Services Division activities are primarily supported by the General Fund. Revenue from Start Card fees (well drilling) comprises about 45% of the Division's Other Funds. Additional Other Funds sources include interest earnings and revenue from the U. S. Geological Survey, Bureau of Reclamation, and various county and state agencies for contracted services. Federal Funds from the Bureau of Reclamation are used for water related data gathering, analysis, and other projects.

### Budget Environment

As the demands for water to support economic development, agriculture, restoration of natural fish populations, 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 December 2008, 14 assistant watermasters and nine technicians and clerical support were funded locally. This represents a 62% decrease in local funding for watermasters since the early 1980s.

The Field Services Division is responsible for processing water right permit transfers. Final decisions were made on 264 transfer applications in 2007. However, 221 new transfer applications were received. As of May 2008, there was a backlog of 440 transfer applications awaiting final decisions. WRD has implemented procedures to allow for expedited transfers which applied to 42 applications during 2007.

### Essential Budget Level

The essential budget level of $12.42 million total funds is a $0.12 million (1%) increase over the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The essential budget level also eliminates four limited duration positions which had been approved to support assistant watermaster, streamflow data collection, and ground water rights responsibilities.

### Issues and Options

To address workload backlog and to maintain an adequate field presence, the agency request budget proposed the addition of 24 positions including watermaster and assistant watermaster resources; hydrogeologists to complete work on backlogs for groundwater review, transfers, and registrations; and to develop water supply banks. The Governor's recommended budget does support adding $200,000 General Fund for conservation planning grants; adding $100,000 Lottery Funds for water measurement equipment; converting two limited duration positions to permanent positions for an assistant watermaster in the South Central Region and a hydrotech in the East Region; and establishing two Other Funds positions to support workload for water right transfers and groundwater registrations. However, the GRB also includes a 10% General Fund reduction of $1.04 million and eliminates six field positions to assist in balancing the statewide budget. If taken, services would be reduced in the areas of Oregon Plan, water measurement, and review of permits for municipal or irrigation district water management and conservation plans.

## WRD – Technical Services Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 5,744,519 | 7,012,690 | 7,959,483 | 6,562,762 |
| Other Funds | 768,119 | 2,420,211 | 2,456,946 | 2,655,022 |
| Federal Funds | 466,684 | 1,050,465 | 1,050,465 | 1,079,877 |
| **Total Funds** | **$6,979,322** | **$10,483,366** | **$11,466,894** | **$10,297,661** |
| Positions | 36 | 39 | 39 | 38 |
| FTE | 36.00 | 38.88 | 38.88 | 37.79 |

### 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 ground water and surface water resources. Technical Services consists of Engineering Services, Measurement Services, Well Construction and Enforcement, Information Services, and the Ground Water/Hydrology Section. Programs include hydrologic analysis, ground water investigations, surface water availability, hydrographics, dam safety, stream gauging, geographic and water rights information systems, well construction and enforcement, water use reporting, and coordination with other agencies on surface and ground water issues.

### Revenue Sources and Relationships

General Fund supports the majority of Technical Services Division activities. Revenue from Start Card fees (well drilling) provides nearly 38% of the Division's Other Funds. Given the current economic trend in building, WRD expects a lower beginning cash balance due to fewer start cards issued. The agency request and Governor's recommended budgets have proposed a fee increase to $225 from $125 per start card which is estimated to generate $875,000. However, revenues still may not be adequate to sustain the well inspection program at current staffing levels.

Other Funds sources also 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 water related data gathering, analysis, 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 is generating additional workload and demands for technical services activities.

### Essential Budget Level

The essential budget level of $10.48 million total funds is $1.17 million (10.2%) lower than the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The essential budget level reflects a reduction of $0.75 million General Fund for one-time costs associated with implementing SB 1069 (2008); elimination of two limited duration positions and $0.75 million General Fund which were approved to support the Oregon Water Supply and Conservation Initiative; and a reduction of $50,000 for water studies conducted by tribes in Umatilla and Walla Walla.

### Issues and Options

The agency request budget proposed the addition of 15 positions to support processing ground water applications, consulting with local governments on water-level data and storage, measuring and reporting surface water use, conservation, and climate change. The Governor's recommended budget does not support any additions to this program and incorporates a $0.27 million General Fund reduction to ground water studies and water-use reporting to assist in balancing the statewide budget.

## WRD – Water Rights and Adjudications Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 2,176,007 | 2,581,269 | 2,641,768 | 2,853,225 |
| Other Funds | 1,507,387 | 1,440,123 | 1,508,188 | 1,511,980 |
| **Total Funds** | **$3,683,394** | **$4,021,392** | **$4,149,956** | **$4,365,205** |
| Positions | 22 | 22 | 22 | 22 |
| FTE | 22.00 | 22.00 | 22.00 | 22.00 |

### Program Description

The Water Rights and Adjudications Division is responsible for evaluating both in-stream 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 rights 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 164 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 has received more than 5,600 legal contests to 731 claims. The Department continues to schedule contested case hearings for all contests not resolved through an alternative dispute resolution process. Adjudication staff members assists with hearings, conduct 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 prepares and issues the associated water right certificates. As of November 2006, about 96% of all the legal contests to claims to water rights in the Klamath Adjudication process were resolved; however, those remaining are some of the most difficult to resolve due to their complexity and the entities involved, including the federal government.

### Revenue Sources and Relationships

The Water Rights and Adjudications Division receives General Fund support for program functions conducted in the public interest such as processing in-stream water right applications. The primary Other Funds revenue sources include water right application fees, water right transfer fees, and hydroelectric licensing fees. The Klamath Adjudication process has received additional General Fund appropriations since the 1999-2001 biennium.

### Budget Environment

The agency is using an alternative dispute resolution process in an effort to settle protests before taking the cases to the more costly hearing process. Water right applications are expected to remain stable for 2009-11; however, as less water is available for appropriation, the application review process is becoming more complex. The agency anticipates roughly 100 protests to water right claims for the biennium. The alternative dispute resolution process successfully resolves approximately 90% of the protests, thereby greatly reducing the need for expensive contested case hearings.

### Essential Budget Level

The essential budget level of $4.37 million total funds is $0.22 million (5.2%) higher than the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

The agency request budget proposed the addition of six positions in order to eliminate certificate and protest backlogs and to process water rights applications rather than contract for services. Further, the agency is concerned with the cost of adjudication costs associated with Klamath and requested $300,000 General Fund.

The Governor's recommended budget does support adding three positions for $0.42 million Other Funds to process water rights applications. However, the GRB reduces $50,000 General Fund from the Attorney General line-item.

## WRD – Director's Office

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 1,609,807 | 2,051,034 | 2,090,772 | 2,345,434 |
| Other Funds | 273,392 | 27,350 | 28,444 | 28,067 |
| **Total Funds** | **$1,883,199** | **$2,078,384** | **$2,119,216** | **$2,373,501** |
| Positions | 6 | 6 | 6 | 6 |
| FTE | 6.00 | 6.00 | 6.00 | 6.00 |

### Program Description

The Director's Office is responsible for the oversight of all policy-related functions of the agency. The Office coordinates the development of administrative rules, provides citizen response and information services, supports the Water Resources Commission activities, develops legislative proposals, and provides oversight of agency activities related to the Oregon Plan for restoration of salmon and watersheds, the Global Warming Commission, Government-to-Government tribal activities, and Sustainability and Streamlining Efforts.

### 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 the General Fund.

### Budget Environment

The Director's Office was created 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 the time and cost of formal hearings or further litigation.

### Essential Budget Level

The essential budget level of $2.37 million total funds is $0.25 million (12%) higher than the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

The agency request budget proposed the addition of three positions to develop Oregon's Integrated Water Resources Strategy and funding for a grant to the Oregon State University Sea Grant program to support education programs on sustainable water supplies. The Governor's recommended budget includes $0.28 million General Fund and two positions to develop Oregon's Integrated Water Resources Strategy.

## WRD – Water Development Loan Program

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 207,720 | 344,332 | 352,493 | 365,842 |
| Other Funds (NL) | 1,521,457 | 0 | 0 | 0 |
| **Total Funds** | **$1,729,177** | **$344,332** | **$352,493** | **$365,842** |
| Positions | 1 | 1 | 1 | 1 |
| FTE | 1.00 | 1.00 | 1.00 | 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 last application for a loan from the Water Development Loan Fund was submitted in December 1990.

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 and no new loan applications have been received since 1990.

### Revenue Sources and Relationships

The limited Other Funds expenditures are for administrative costs, including the program's one staff, agency loan management, and contracts for financial services. These costs are financed from sinking fund interest earnings. Nonlimited expenditures included past debt service and bond sale costs. A General Fund appropriation has been used in prior biennia to supplement Other Funds revenue to maintain solvency in the program by covering administrative costs and debt service shortfalls.

### Budget Environment

The state retains responsibility for all administrative costs and for any debt service shortfalls until the loans are retired. The program is established in the Constitution and therefore the possibility for issuing new bonds still exists; however, no new loans are anticipated for the 2009-11 biennium.

### Essential Budget Level

The essential budget level of $0.37 million total funds is about $13,000 (3.8%) higher than the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

Only two current loans remain and the workload to service those loans, maintain and archive loan files, and support information requests has significantly declined. The sole staff member has been partially reassigned to other administrative work. The agency request budget and Governor's recommended budget support transferring a portion of the position to the Administrative Services Division.

## Oregon Watershed Enhancement Board (OWEB) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Lottery Funds | 50,561,621 | 84,665,059 | 84,871,878 | 21,863,785 |
| Other Funds | 753,210 | 2,094,862 | 2,094,862 | 2,136,718 |
| Federal Funds | 21,870,571 | 21,948,668 | 22,001,679 | 21,541,600 |
| **Total Funds** | **$73,185,402** | **$108,708,589** | **$108,968,419** | **$45,542,103** |
| Positions | 27 | 30 | 30 | 23 |
| FTE | 26.38 | 30.00 | 30.00 | 23.00 |

### Agency Overview

The Oregon Watershed Enhancement Board (OWEB) was established in 1999 by the legislation implementing Ballot Measure 66, which established the framework for the full allocation of the measure's constitutionally dedicated lottery revenue. Ballot Measure 66, passed by the voters in November 1998, amended Section 4, Article XV of the Oregon Constitution to dedicate 15% of net lottery proceeds to be split between state parks and salmon, watershed, and habitat restoration. OWEB was designated as the single state agency charged with administration of the salmon and watershed portion of the dedicated lottery revenues. 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 (1999) 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 (WIGF) was designated to receive these funds. The bill also established a Watershed Improvement Operating Fund (WIOF) to receive the 35% of lottery revenues able to be used for non-capital expenditures.

## OWEB – Operations

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Lottery Funds | 7,762,238 | 17,171,661 | 17,378,480 | 18,363,785 |
| Other Funds | 753,210 | 2,094,862 | 2,094,862 | 2,136,718 |
| Federal Funds | 21,870,571 | 21,948,668 | 22,001,679 | 21,541,600 |
| **Total Funds** | **$30,386,019** | **$41,215,191** | **$41,475,021** | **$42,042,103** |
| Positions | 26 | 30 | 30 | 23 |
| FTE | 25.38 | 30.00 | 30.00 | 23.00 |

### Program Description

The agency's operations are funded through the Watershed Improvement Operating Fund (WIOF) which receives 35% of the Measure 66 dedicated Lottery Funds. 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; and watershed improvement grants that are not capital expenditures such as funding for education and technical assistance. 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.

### Revenue Sources and Relationships

The December 2008 Lottery forecast assumes $98.3 million Lottery Funds revenue will be generated for the Restoration and Protection Subaccount in the 2009-11 biennium. This is nearly identical to the amount forecasted for the 2007-09 legislatively adopted budget (May 2007). In addition to the December 2008 forecasted amount for 2009-11, $0.7 million of Lottery Funds for non-capital expenditures and $1.3 million of Lottery Funds for capital expenditures are projected to remain unallocated at the end of the 2007-09 biennium caused by slight increases in Lottery forecasts above the May 2007 forecast used to set the 2007-09 adopted budget levels. Inclusion of these carryover amounts increases the total Measure 66 Lottery Funds available for expenditure in 2009-11 to a total of $100.3 million. Based on the constitutional split between operations and capital expenditures, $35.1 million of this total can be used for non-capital expenditures such as grants and other agency operational costs, during the 2009-11 biennium. After many years of continuous growth in Lottery revenues, total revenues are projected to hold steady through the 2009-11 biennium and are projected to decline overall in the 2011-13 biennium.

Federal Funds are derived primarily from National Oceanic and Atmospheric Administration – Fisheries, an agency within the U.S. Department of Commerce, which administers the Pacific Coastal Salmon Recovery Fund (PCSRF). PCSRF monies were authorized by Congress in 2000 and are for salmon habitat restoration, stock enhancement, and research. Through Federal Fiscal Year (FFY) 2008, Oregon has been awarded $103 million in PCSRF funding, with $10.5 million of this total being earmarked by Congress for specified expenditures. NOAA Fisheries approved $8.2 million for FFY 2008 during the interim. This amount included no earmarks for the first time since the initial PCSRF funding was received in 2000. The Govenor's budget for 2009-11 assumes that OWEB will receive a total of $15 million Federal Funds, after any earmarks, from the Pacific Coastal Salmon Recovery Fund.

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. The license plate funds are used primarily for road-related fish passage grants.

### Budget Environment

There is uncertainty over the continued availability of PCSRF monies from the federal government and Oregon has already experienced a significant reduction in PCSRF funding. For example, the $8.2 million approved for FFY 2008 compares to $13.1 million approved for FFY 2004. While recent grants have shown a slight increase there is still opposition to the program from some in Congress. This trend of lower grant amounts from the highs of FY 2001-2005 are likely to become the standard size of the PCSRF grant the state can expect to receive from the federal government. In the past, significant portions of Oregon's PCSRF grants have been used to replace General Fund in other natural resource agencies' budgets to support salmonid recovery and watershed enhancement and protection activities, which made the freed up General Fund available for other statewide needs. Because of concerns over the likelihood that these much lower levels of federal funding will continue, which would make these past fund shifts unsupportable, in the 2007-09 biennium the legislatively adopted budget reversed these shifts in the Departments of Agriculture, Fish and Wildlife, and Environmental Quality budgets by adding back $7.1 million General Fund to support this work in 2007-09 instead of continuing to use PCSRF monies.

### Essential Budget Level

The essential budget level for the Operations program unit is $985,305 Lottery Funds (5.7%) and $41,856 Other Funds (2%) more than the 2007-09 legislatively approved budget as of December 2008. These increases are caused by standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. In addition, Lottery Funds grew $600,000 due to an increase in the amount of Measure 66 operations Lottery Funds expenditure limitation allowed as carry-forward for grant payments that are obligated in the prior biennium but not spent. The Federal Funds essential budget level is $460,000 (2.1%) lower than the 2007-09 legislatively approved level due to phase-out of limited duration positions funded on the administrative allowance for the PCSRF grants, which more than offset standard increases.

### Issues and Options

The agency requested adding back 7 positions that phased out in the essential budget level because they were limited duration positions in 2007-09. This allows the agency to continue current levels of service in 2009-11.

Six of the positions would be added back as permanent positions and one is continued as limited duration. These positions include Office Specialist 2 (grant information tracking and database entry); Policy Analyst 1 (oversee grant process and supports electronic applications); Information Specialist 7 (maintain grant databases); Accountant 1 ( grant payment specialist); NRS 3 (data management and performance reporting); a Public Affairs Specialist 2 (external communications coordinator); and NRS 2 (federal performance reporting required by NOAA) which is added back as limited duration. The cost for the positions is funded with $830,000 of PCSRF Federal Funds administrative allowance, while $285,000 is funded using Measure 66 operations Lottery Funds. The Governor also proposed using even more administrative allowance on PCSRF grants to add 4 new positions to the program. These positions include one NRS 4 (permanent) as the regional program representative for a new 7th grant region for eastern Oregon. Currently all of eastern Oregon is one region which would now be split into two separate regions to ease workload and better serve grantees. The proposed budget also adds one NRS 4 position (permanent) to oversee grants made outside regular grant cycles; one NRS 3 position (limited duration) to help implement grants outside regular grant process; and one Office Specialist 2 position (permanent) to provide administrative support to the monitoring program.

## OWEB – Capital Construction Projects

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Lottery Funds | 42,000,000 | 59,500,000 | 59,500,000 | 0 |
| **Total Funds** | **$42,000,000** | **$59,500,000** | **$59,500,000** | 0 |
| Positions | 1 | 0 | 0 | 0 |
| FTE | 1 | 0.00 | 0.00 | 0.00 |

### Program Description

Capital Construction Projects 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. 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. Because capital project expenditures typically cross biennia and projects can take years to close out, OWEB is provided 6-year expenditure limitation for Measure 66 capital Lottery Funds in this program unit much like other agency capital budgets are provided 6-year expenditure limitation. During budget development the previous biennium's 6-year Lottery Funds expenditure limitation is phased-out during calculation of the essential budget level and new capital expenditures are proposed in a policy package.

### Revenue Sources and Relationships

The December 2008 lottery forecast assumes $63.9 million Lottery Funds revenue would be generated for the Watershed Improvement Grant Fund (WIGF) in the 2009-11 biennium based on the constitutional split of 65%/35% between capital and operations. In addition to this amount, $1.3 million of Lottery Funds from revenue in excess of the amount included in the close-of-session forecast is projected to remain unallocated at the end of the 2007-09 biennium, and is available for expenditure during the 2009-11 biennium. Inclusion of this carryover amount increases the total Measure 66 Lottery Funds constitutionally dedicated to capital expenditures to $65.2 million.

### 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. OWEB has two grant cycles annually for consideration of capital project funding.

### Essential Budget Level

As mentioned above, all capital expenditures in this program area are phased-out during development of the essential budget level and then added back for the new biennium as a policy package. This has the function of reducing the Capital Construction Projects program unit 2009-11 essential budget level to zero.

#### Issues and Options

The governor has proposed a total of $54.8 million in Measure 66 capital Lottery Funds for capital project grants in 2009-11.

## OWEB – Research and Development

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Lottery Funds | 799,383 | 7,993,398 | 7,993,398 | 3,500,000 |
| **Total Funds** | **$799,383** | **$7,993,398** | **$7,993,398** | **$3,500,000** |

#### 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 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 credited to the Restoration and Protection Research Fund.

#### 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. The Attorney General has 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. This means only interest on the Operation Fund can be used for expenditures that are not considered to be capital type expenditures of a research project. For example scientific equipment has been funded in the past from interest on the WIGF, but staff time to analyze the data collected using the equipment would have to be paid using interest from Lottery Funds deposited in the WIOF.

#### 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.

#### Essential Budget Level

Because few grant funding timelines are limited to a single biennium's expenditures, the essential budget level for 2009-11 includes $3.5 million in carry-forward expenditure limitation for monies obligated in 2007-09, that will be expended in the following biennium.

#### Issues and Options

The Governor's budget assumes approximately $5.4 million in new Research and Development Fund monies will be available for use during 2009-11. This amount includes $1.9 million for non-capital research and $3.5 million for capital-related research projects.

# TRANSPORTATION

## Department of Aviation (ODA) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 6,886,659 | 4,621,625 | 9,508,576 | 6,826,725 |
| Federal Funds | 2,863,075 | 8,962,132 | 10,443,166 | 970,000 |
| **Total Funds** | **$9,749,734** | **$13,583,757** | **$19,951,742** | **$7,796,725** |
| Positions | 19 | 17 | 17 | 16 |
| FTE | 17.92 | 8.92 | 17.00 | 16.00 |

### Agency Overview

The Department of Aviation's (ODA) mission is to support Oregon communities by preserving and enhancing aviation. 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.

The Department's six-year plan goals include: a) protect public-use airports, b) leverage technology to enhance general aviation programs, c) support communities through economic development, d) improve safety and operating condition of state-owned/operated airports, and e) protect and enhance aviation. Key areas of the responsibilities include:

- Develop and implement the Oregon Aviation Plan and related policies
- Conduct continuous aviation system planning and provide technical assistance on airport planning and development
- Administer the federal General Aviation Entitlement grant, pavement maintenance, and financial aid to municipalities (FAM) programs
- Register approximately 4,200 aircraft annually
- Register approximately 2,545 pilots annually
- Conduct airport safety inspections on state-owned and other Oregon public airports; investigate proposed airport and heliport sites; provide technical safety advice on facilities siting and feasibility issues
- Maintain 27 state-owned airports (and one under operating agreement) to federal and safety standards including routine and preventive maintenance such as mowing, obstruction removal, pavement preservation, and navigational aid maintenance

### Revenue Sources and Relationships

The Department is supported entirely by Other and Federal Funds with total estimated revenue for the 2009-11 essential budget level of $8.61 million. This reflects a decrease of $13.4 million (61%) from the 2007-09 legislatively approved budget. A reduction in federally funded capital construction accounts for most of the decline.

<u>Fuel Tax</u>

- ***Jet fuel tax*** remains at $0.01 per gallon as approved by the 1999 Legislature. Of the $0.01 tax, one half supports the Department's operating budget and the other half is dedicated to pavement maintenance for all public owned and public use airports. The 2009-11 estimated revenue totals $4.65 million, or an increase of 2% from the 2007-09 legislatively approved budget.
- ***Aviation fuel tax*** remains at $0.09 per gallon as approved by the 1999 Legislature. Of the $0.09 tax, $0.03 supports the Department's operating budget and $0.06 is dedicated to pavement maintenance. The 2009-11 estimated revenue totals $0.82 million, or an increase of 2% from the 2007-09 legislatively approved budget.

<u>Fees</u>

- The Department registers and collects fees from an estimated 2,545 pilots, deducts for administrative costs, and passes the dedicated funds to the Military Department's Oregon Emergency Management Search and Rescue program. The initial registration fee is $8 (good until the pilot's birthday) and $16 for renewals which are for a two-year period. The 2009-11 estimated revenue totals $70,000. Both the agency request and Governor's recommended budgets propose a fee increase to $12 for initial registration and $24 for renewals generating an estimated $40,000 in additional revenue with a net increased transfer to Search and Rescue of $20,000.

- Approximately 4,200 aircraft are registered with the Department. Fees are based on the class of the aircraft and range from $25 for ultralight to $187 for ex-military multi-engine or turbo/jet. The Department also annually licenses 25 aircraft providers for a fee of $250 each. These fees are used to fund operations. The 2009-11 estimated revenue totals $0.52 million. Both the agency request and Governor's recommended budgets propose fee increases which range from $5 to $188 generating an estimated $0.13 million in additional revenue.
- ODA also generates revenues through hangar and site leases and charges for services.

Federal Funds

- Funds from the Federal Aviation Administration Airport Improvement Program (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, eight of which the Department has administered under the GA Entitlement Program since 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.

### Essential Budget Level

The essential budget level of $6.83 million Other Funds and $0.97 million Federal Funds reflects a decrease of $12.1 million (61%) total funds from the 2007-09 legislatively approved budget. The 2007-09 legislatively approved budget included $11.88 million total funds for capital construction projects which carry six-year expenditure limitations and do not need to be re-established in the new biennium. Standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges are included in the essential budget level.

### Issues and Options

During the development of ODA's 2007-09 budget, the Department identified several accounting errors that required a complete reconciliation of all accounts leaving in question the actual beginning balance and amount of revenue the agency would have available for expenses during the 2007-09 biennium. The 2007-09 legislatively adopted budget provided 12 months expenditure limitation for the Operations Program and no resources were included for FAM grants. ODA provided an update on cash balances and account reconciliation during the February 2008 special session and received an increase in expenditure limitation to support the second fiscal year of the biennium; however, funding for FAM grants was not restored at that time.

The FAM discretionary grant program may provide up to $25,000 per fiscal year per airport in order to prevent future deficiencies and preserve existing facilities; eliminate existing deficiencies; modernize the airport by exceeding state or federal minimum standards; leverage available state and federal funds for airport planning and capital improvements; or contribute to the airport's financial self-sufficiency. The recipient airport must provide matching funding in the form of either cash or in-kind services. The level of match is dependant on the airport's category and ranges from 5% for low activity to 50% for commercial primary. The Governor's recommended budget (GRB) includes $100,000 Other Funds in FAM funding.

In January 2007, ODA entered into an interagency agreement with the Port of Portland to acquire the Mulino Airport to incorporate the airport into its system of general aviation airports. Before ODA assumes ownership, the Port of Portland has agreed to pay for the construction of two rows of T-Hangars at a cost not to exceed $1.4 million and a taxi lane/access road at a cost not to exceed $0.8 million. The agreement requires ODA to be responsible for project management and oversight of the project construction. The agency request budget proposed the addition of two permanent positions to provide maintenance support and $800,000 Other Funds (provided by the Port of Portland) to purchase a private hangar development in order to make the airport self-sustaining. The GRB adds the two positions, but not the expenditure limitation to support the purchase, and incorporates $0.32 million in new revenues generated by 40 hangers. However, 14 of those hangers are part of the private development. The GRB also includes $1.58 million capital construction total funds to construct safety-related improvements at the Joseph Airport.

The 2009-11 essential budget level for Operations totals $4.73 million Other Funds with an estimated ending cash balance of $0.69 million, or approximately 3.5 months of operating expenditures. The statewide standard for Other Funds programs is to maintain the cash equivalent of three to six months operating expenditures. The GRB for Operations totals $5.34 million Other Funds with an estimated ending cash balance equivalent to 2.6 months of operating expenditures. Given the GRB includes several fee increases and assumption of a new airport, adequate and sustainable cashflow continues to be of concern.

## Department of Transportation (ODOT) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 8,626,167 | 4,504,713 | 4,504,713 | 4,630,845 |
| Lottery Funds | 22,819,711 | 46,559,957 | 46,559,957 | 92,782,785 |
| Other Funds | 2,578,623,284 | 3,317,879,105 | 3,410,949,059 | 3,397,274,712 |
| Federal Funds | 50,690,562 | 79,226,052 | 81,066,942 | 82,510,966 |
| Other Funds (NL) | 220,324,825 | 17,663,632 | 17,663,632 | 18,158,214 |
| **Total Funds** | **$2,881,084,549** | **$3,465,833,459** | **$3,560,744,303** | **$3,595,357,522** |
| Positions | 4,657 | 4,624 | 4,639 | 4,607 |
| FTE | 4,544.69 | 4,526.24 | 4,532.62 | 4,512.72 |

### Agency Overview

The Oregon 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 alternatives to 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 and bond revenue that is supported by increases in licenses and fees. The State Highway Fund is shared among ODOT, counties, and cities. Out of $4.4 billion to be collected for 2009-11, $709 million is projected to accrue to other state agencies and local governments, leaving $3.8 billion available for expenditure on transportation programs. The most recent revenue forecast at the essential budget level projects gross highway fund collections to increase by about 1.6% from the 2007-09 estimates. Total state motor fuel tax receipts at the essential budget level are forecast to increase 5.43%. Despite high gasoline prices faced by Oregonians during the 2007-09 biennium, fuel consumption is not forecast to decline through fiscal year 2013. Compared to the prior forecast, the current forecast shows fuels tax revenue will be about 1.8% higher on average per fiscal year. Most of this increase relates to the impact of HB 2210, which mandated the blending of gasoline with 10% ethanol for sale throughout the state. While presumably less polluting, ethanol blends may result in poorer fuel efficiency and, therefore, consumers will need to increase the number of gallons they purchase if they wish to maintain their current driving habits.

The current forecast for Driver and Motor Vehicles Division (DMV) revenues projects a decline of $11 million at the 2009-11 essential budget level or minus 2.24% from the 2007-09 legislatively approved budget (LAB). The DMV response to the changing economy occurs because DMV revenues are driven primarily by demographics rather than the pace of economic activity. The overall outlook for DMV is for about a $1.7 million, or 0.6%, reduction in annual revenues. Weight-mile use taxes are projected to increase at the 2009-11 essential budget level by $23 million; about 4.74% more than the 2007-09 LAB. Because many aspects of the national and state economies are predicted to weaken during the next few years, Motor Carrier revenues are expected to be lower than previous long-term projections anticipated. Motor fuels usage taxes are projected to be $47.8 million more than the 2007-09 LAB, about 5.4% higher.

The Transportation Operating Fund was established by the 2001 Legislature (HB 3882) 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 are 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 and ODOT oversee surveys conducted by Oregon State University to estimate the amount of taxes paid on motor vehicle fuels for non-road uses. Based on the most recent survey and current demographic information, it is estimated that approximately 17 million gallons of fuel is used per year in this category for non-road uses. After accounting for valid refund claims, about $8.2 million in the 2009-11 biennium is expected to be available for non-highway uses. These revenues can be used for expenses ineligible for payment from constitutionally restricted Highway Funds.

The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) was enacted August 10, 2005, authorizing federal surface transportation programs for highways, highway safety, and transit for the 5-year period 2005-2009. These funds are received and reported as Other Funds. The total amount of Federal Funds in this category for the 2009-11 biennium is over $928 million. The amount of Federal Funds projected for the 2009-11 biennium is based on the anticipated payment of contracts eligible under the current SAFETEA-LU legislative authorization. The current federal legislation expires September 30, 2009 and is expected to be renewed by Congress. In early January 2009, Congress is expected to consider an economic stimulus package of "ready-to-go" public works projects, that is, projects that can be under contract within 180 days. ODOT has identified projects that could be eligible if such a program is established. Expenditure authority for a federal economic stimulus program would need to be established. 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 $2.8 million in Lottery Funds to make the final bond installment payment for the Westside Light Rail Line, construction of which is now complete. The Westside Light Rail bonds are scheduled to retire in 2010. The 2001 Legislature authorized the sale of $35 million in Lottery Bonds to participate in the South Metro Commuter Rail Project during the 2001-03, 2003-05, and 2005-07 biennia. The bonds were sold in the 2005-07 biennium with no debt service payments until 2007-09. In 2003, the Legislature authorized the sale of $2 million in bonds to capitalize the Short-Line Premium Credit Account, and the sale of $8 million in bonds for Industrial Spur projects. The 2005 Legislature authorized $100 million in bonds to fund multi-modal transportation infrastructure projects. The 2007 Legislature authorized the sale of $250 million in bonds for the Southeast Portland light rail extension project, $20 million in bonds for the Street Car Grant Program, and another $100 million for Multi-modal transportation infrastructure grant and loan projects. Bonds for the Southeast Portland light rail extension project are expected to be sold by June 30 2009; and bonds for the Street Car Grant Program are proposed for the 2009-11 biennium. Lottery Funds allocated to pay the debt service on these bonds are estimated at $86.4 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.

| OREGON DEPARTMENT OF TRANSPORTATION SOURCES OF REVENUE | | | |
|---|---|---|---|
| **Revenue Source** | **2007-09 LAB** | **2009-11 Essential Budget Level** | **Percent of Total Revenue** |
| Beginning Balance | 390,710,078 | 382,132,066 | 8.71% |
| **General Fund** | 4,504,713 | 4,630,845 | 0.11% |
| **Federal Revenue** | 79,724,275 | 82,264,157 | 1.88% |
| **Federal Revenues as Other** | 783,754,249 | 928,115,578 | 21.16% |
| **Other Funds:** | | | |
| Charges for Services | 2,169,235 | 9,852,929 | 0.22% |
| Drivers' Licenses | 77,933,779 | 72,972,973 | 1.66% |
| Interest Income | 15,866,881 | 46,114,079 | 1.05% |
| Lottery Funds | 46,510,709 | 86,382,535 | 1.97% |
| Motor Vehicle Fuels Tax | 881,471,428 | 929,292,268 | 21.19% |
| Other Licenses and Fees | 71,637,418 | 74,663,969 | 1.70% |
| Other State and Federal | 18,301,733 | 21,510,148 | 0.49% |
| Revenue Bonds | 908,614,960 | 630,339,800 | 14.37% |
| Sales Income | 19,811,516 | 21,691,608 | 0.49% |
| Vehicle Licenses | 423,323,045 | 417,078,174 | 9.51% |
| Weight Mile Tax & Fees | 506,071,428 | 530,064,104 | 12.09% |
| Transportation Operating Account | 8,300,000 | 8,236,478 | 0.19% |
| Transfers In (Revenue, etc.) | 135,019,557 | 140,670,830 | 3.21% |
| **Subtotal Revenues** | **4,373,725,004** | **4,386,012,541** | 100.00% |
| Transfers to Other Agencies | (71,909,413) | (76,486,156) | |
| Transfers to Cities and Counties | (607,881,105) | (632,396,282) | |
| **Revenues Available for Expenditure** | **3,693,934,486** | **3,677,130,103** | |

### Budget Environment

According to ODOT's June 2008 Transportation and Economic and Revenue forecast for Fiscal Year 2008 through Fiscal Year 2013, while the current economic downturn in Oregon's jobs and real personal income will result in lower revenues, the expenditures by ODOT that are necessary to maintain, preserve, and modernize the State Highway System will not materially change with weaker travel demands going forward. The funding gap with diminished user tax revenues is compounded by construction cost escalation. 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 repair, preservation, and maintenance as its highest priority. Local governments face equally critical transportation issues. Pressure on property taxes and local general funds combined with no increase in state funding other than the Oregon Transportation Investment Acts (OTIA), 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 eight years.

The agency General Fund component partially funds the Willamette Valley Passenger Rail. The essential budget requires $4.6 million in General Fund to support the passenger rail service. A portion of the budget that had been previously General Fund was offset by the 2007 Legislature's action to dedicate the revenue from custom license plates to fund one round-trip daily between Eugene and Portland.

### Essential Budget Level

The 2009-11 essential budget level of $3,594.7 million total funds is an increase of $34 million, or 0.9% from the 2007-09 legislatively approved expenditure level and includes 4,607 positions (4,512.72 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $62.7 million total funds in special session and Emergency Board actions during Fiscal Year 2008 for emergency repair work related to winter storm damage, increased compensation for employees, increased debt service on refinanced bonds, and adjustments for contractor payments. The 2009-11 essential budget level; a reduction of $501 million to phase out one-time expenditures related to research, technology projects, and contractor payments and an increase of $325.7 million to adjust contractor payments for highway projects that are expected to pay out during the 2009-11 biennium. and $82 million for standard inflation, Attorney General, and state government service charges. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges, and includes the removal of 32 positions (19.90 FTE) either limited duration or temporary in nature. The essential budget is increased by $46 million Lottery Fund and $97 million Other Funds to reflect increases in principal and interest payments due to revenue bond sales during the 2007-09 biennium. It also reflects technical adjustments to realign positions across programs resulting in a net zero fiscal impact and a fund shift of $791,586 from Other Funds to Federal Funds.

### Issues and Options

In November 2008, the Governor announced a plan to increase fuel taxes and fees that, if adopted by the Legislature, will generate an additional $772.5 million for the 2009-11 biennium, an increase of 39.4%. Of this amount, $341 million is proposed for distribution to local governments. Included in the plan is a proposal for an additional $150 million in revenue bonds backed by Lottery Funds for multi-modal transportation infrastructure projects and a shift of flexible federal highway funds previously used to fund highway construction projects to public transit programs. For the 2009-11 biennium this would be $5 million.

In its 2009-11 agency request budget, ODOT requested increasing resources to address the cost of fuel and materials, multi-modal transportation infrastructure, driver and identification card issuance, and continued improvement on business system technology. A fee increase, up to $10 would be required for issuance, renewal, or replacement of a driver's license, permit, or identification card to provide sufficient resources to continue work on the federal "Real ID" mandate. The agency also requested an increase of $1.50 per record for driving records obtained through on-line access. These two fee increases are requested to fund administrative costs of initiatives proposed in the agency request budget by the Driver and Motor Vehicles Division (DMV). In addition ODOT requested a number of staffing changes to address issues related to building technical expertise to sustain core competencies within the organization. These increases will be explained in the programs below. In addition, ODOT requested $75 million in revenue bonds backed by highway trust funds for ODOT's share of the Oregon Wireless Interoperability Network (OWIN) project and resources for the construction phase of renovating the Transportation Building to meet health, safety, seismic, and efficiency standards. In addition, an increase in Custom License Plate Fees is proposed to reduce passenger rail's dependence on General Fund resources by $3.45 million.

## ODOT – Highway Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 2,005,136,432 | 2,541,858,822 | 2,589,766,926 | 2,478,189,163 |
| **Total Funds** | **$2,005,136,432** | **$2,541,858,822** | **$2,589,766,926** | **$2,478,189,163** |
| Positions | 2,702 | 2,648 | 2,647 | 2,641 |
| FTE | 2,649.32 | 2,597.84 | 2,596.84 | 2,589.83 |

### 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 derives its mission and activities 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 a planning process that involves local and regional governments, transportation agencies, and the interested public. It is updated every two years through a public hearing process. ODOT is responsible for delivering projects associated with OTIA, as well as other STIP projects. Enacted by the Legislature in 2001-2003, OTIA authorized bonding to fund modernization projects, pavement preservation, and bridge repair and replacement.

Organizationally, the Highway Division is administered through the five regional offices and the headquarters office. In the past, the agency had completed most engineering and design work in-house while contracting with private companies for the actual construction of projects. During the 2003-05 biennium, the Highway Division reorganized to contract out most engineering and design work, as well as construction. To facilitate the implementation of this new business model and to ensure efficient project delivery, more than 300 Technical Services headquarter staff have been redeployed in the five Highway regions. In addition, the Oregon Innovative Partnerships Program has identified possible projects for long-term public-private partnership and has solicited information and statements of interest from potential private sector partners. Agency staff performs much of the maintenance and part of the preservation work for which ODOT is responsible. The categories of the Highway Division budget are Maintenance, Preservation, Bridge, Safety, Operations, Modernization, Special Programs, and Local Government.

### 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, primarily derived from federal SAFETEA-LU funds. State funds include fuel tax receipts, weight mile taxes, vehicle registration, and highway user revenue bonds. Local funds are provided by cities and counties for projects funded by the local entity in whole or in part, as well as projects for which the local entity is paying ODOT to do some or all of the project work. The following table shows how funding levels have changed since 2001-03. The 2009-11 essential budget level includes a total of $535 million bond financing for the three OTIA .

| Funds | 2001-03 Actual | 2003-05 Actual | 2005-07 Actual | 2007-09 Legislatively Adopted | 2009-11 Essential Budget Level |
|---|---|---|---|---|---|
| Beginning Balance | $ 131,731,496 | 411,353,739 | 143,598,974 | 324,834,197 | 199,689,704 |
| Federal as Other | 578,997,272 | 643,917,034 | 651,748,119 | 730,558,790 | 874,920,119 |
| State Other | 743,033,733 | 854,235,501 | 897,217,547 | 812,316,589 | 867,711,475 |
| State Revenue Bonds | 226,190,078 | 321,959,221 | 929,124,507 | 813,275,160 | 535,000,000 |
| **Total Funds** | **$1,679,952,579** | **$2,231,465,495** | **$2,621,689,147** | **$2,680,984,737** | **$2,450,324,298** |

## Budget Environment

The Highway Division budget includes the portion of the 2008-11 STIP to be expended during the 2009-11 biennium. The STIP encompasses a four-year construction period based on a federal fiscal year; it is updated every two years. The first two years of the STIP contain the updated projects from the previous two years. The last two years include the new projects that are scheduled to begin in those years. The current STIP covers the period 2007-10. A draft 2010-13 STIP has been prepared and a public review had started on October 1 and was scheduled to continue through the end of November. Changes in the economy over the past year have impacted driving patterns, which has impacted ODOT's revenue estimates. The most recent transportation forecast shows revenues over the 2009-13 time frame that are substantially lower than the estimates used a year ago to set program targets through 2013. State highway fund sources (gas tax, weight-mile taxes, and vehicle registration fees) have not, with the exception of investments authorized by OTIA, increased in more than a decade. State and federal fuel tax revenues supporting highway programs have failed to keep pace with needs.

Compounding the declining revenue are increased costs, although in the short term some costs are leveling out, still impacts over the last year make the funding situation worse. ODOT projects a $230 million deficit by 2013 from previous revenue projections. Increased costs for the State Data Center, personal services costs, and an increase in the estimated costs for renovation of the Transportation Building add another $85 million over the 2009-13 period raising the deficit to $315 million by 2013. Due to this uncertainty and to allow for many of the variables to stabilize, the agency decided to suspend work on the 2010-13 STIP until the middle of 2010. By the middle of 2010, variables impacting current economic conditions, the federal transportation stimulus package; congressional reauthorization of federal transportation funding; and the Oregon Legislature's decisions on state transportation funding will be known. Federal regulations require that the STIP include only projects for which the state can reasonably expect adequate funding.

The OTIA program authorized ODOT to issue a total of $2.4 billion in bonds for modernization, preservation, and bridge projects, including $300 million to be distributed as grants to local governments. Approximately 43% of these funds have been expended. In addition to OTIA projects, the 2007-10 STIP contains over $1.4 billion in traditionally funded projects and programs. Approximately 71% of the funding for these additional projects ($992 million) comes from federal sources. State highway funds contribute $409 million. In addition, the STIP contains about $284 million Federal Funds for local government projects.

ODOT operates and maintains nearly 8,147 miles of highways in every corner of Oregon. The highway system is as diverse as the state itself. It ranges from six-lane, limited-access freeways with metered entrances to a graveled rural highway. Oregon's economy depends on a sound highway system. Local, regional, and national industries – including agriculture, timber, tourism, and technology – rely on our transportation infrastructure. Commercial trucks rely on state highways for both short and long haul freight movements. State highways make up less than 10% of total road and street miles in the state, but carry 61% of the traffic – more than 56 million vehicle miles per day. Even though current economic conditions have changed people's driving patterns, it is anticipated that more people will be driving more cars for more miles over the long term. Roughly 73% of commuters drive alone to and from work. Congestion is worsening, especially on urban freeways. Despite a 24% increase in miles traveled over the past decade, Oregon's road mileage has grown by only 2%. Oregon's population is also aging. Ensuring mobility for older citizens requires creative transportation solutions, such as more visible pavement markings, traffic signals, and signing. Environmental concerns have prompted many changes to ODOT practices. Often, additional work is required to deliver projects and programs in the most environmentally responsible manner.

## Essential Budget Level

The 2009-11 essential budget level of $2,478 million Other Funds is a decrease of $111.6 million, or 4.3%, from the 2007-09 legislatively approved expenditure level and includes 2,641 positions (2,589.83 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $58.7 million Other Funds in special session and Emergency Board actions during Fiscal Year 2008 for emergency repair work related to winter storm damage, increased compensation for employees, and adjustments for contractor payments. The 2009-11 essential budget level includes a reduction of $481 million to phase out one-time expenditures related to contractor payments and a one-time payment to counties; and an increase of $313.5 million Other Funds to adjust contractor payments for highway projects that are expected to pay out during the 2009-11 biennium and includes $2.1 million to align fleet acquisition with usage. It reflects standard adjustments for personal services costs; including the removal of 2 positions (2.00 FTE), inflation, rate increases for the Attorney General, and state government service charges. It also reflects technical adjustments to realign positions across programs resulting in an agency-wide net zero fiscal impact, but an $830,612 Other Funds increase and 7 positions (7.00 FTE) within the Highway Division.

### Issues and Options

In its 2009-11 agency request budget, the Highway Division proposes adding 50 positions (50.00 FTE) funded by utilizing resources from Services and Supplies to address the need to sustain core technical competency within Highway Programs. Personal Service costs for the 2009-11 biennium would be $6,058,582. The requested positions would be funded through redirecting dollars from outsourcing programs. The proposal is split across multiple program units to mitigate loss of technical quality due to staff retiring or leaving to pursue employment elsewhere. The agency believes the proposal will result in addressing a perceived need to sustain core technical competency with the Highway Division and establish and grow a pool of technically proficient early career employees to assume progressively responsible technical assignments as they mature in their roles and work. The fiscal policy for the Legislature to address is whether this shift from outsourcing professional services to permanent staff is the highest and best use of these dollars. The Legislature's prior direction has been to purchase the professional services from private contractors, creating jobs, that in turn pay income taxes. While inflation for services and supplies typically increases at a rate of between 2% and 4%, personnel costs increase at approximately 10% to 12%.

## ODOT – Highway/Maintenance and Emergency Relief

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 342,316,126 | 352,292,298 | 394,832,463 | 399,861,521 |
| **Total Funds** | **$342,316,126** | **$352,292,298** | **$394,832,463** | **$399,861,521** |
| Positions | 1,402 | 1,359 | 1,359 | 1,364 |
| FTE | 1364.96 | 1322.36 | 1,322.36 | 1325.35 |

### Program Description

The purpose of the Highway Maintenance and Emergency Relief program is to maintain, repair, and extend the service-life of the 8,147-mile state highway system. Program activities include surface patching and bridge repair; upkeep of roadway shoulders, drainage, landscape, and rest areas; snow removal; sanding of roads; emergency repairs to roadways following natural disasters; and maintenance of ODOT buildings and equipment. Maintenance projects may include the replacement of necessary safety materials (such as road signs), but do not generally include reconstruction. Department personnel perform much of the Highway Maintenance work, in contrast with construction and engineer/design work, which is primarily contracted out to private companies. The ODOT Wireless Group is also supported with Highway Maintenance funds. The Wireless Group performs operational, maintenance, engineering, construction, and customer support work for the ODOT two-way radio and microwave networks, the network wireless LAN infrastructure, and Intelligent Transportation Systems (ITS) wireless support. The Maintenance program also provides testing and inspecting of 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.

### Budget Environment

ODOT estimates it would need an additional $44 million per year to fully meet maintenance needs. The Highway Maintenance budget has experienced steady upward pressure as Oregon's highways age and the vehicle miles traveled on them increase. The Department routinely surveys all roads, bridges, and connecting surfaces under its maintenance jurisdiction and grades their condition. Increased traffic volume has caused faster than expected deterioration and driven up the costs of maintenance work sites. Inflation in the price of materials used to maintain and preserve the state's roadways is another significant cost driver. New environmental regulations and restrictions require costlier practices and materials. An aging highway system demands larger, more expensive, and more complex maintenance projects. Lacking sufficient funding, roads have not been maintained in the condition called for in the Department's planning statements. Deferring necessary preservation projects further increases future maintenance needs.

Future maintenance costs are estimated on the basis of current expenditures and assume that current maintenance practices will continue into the future. This assumption does not consider the intensification of maintenance activities required by the system's increasing use and age or by catastrophic natural events. Preventive maintenance that would minimize potential damage from natural disasters is restricted by limited resources. The Federal Highway Administration Emergency Relief program supplements state resources in case of damage to the Federal Highway System caused by a natural disaster. Application for these federal funds requires a declaration of emergency by the Governor and damage must generally exceed $700,000 from a single event.

### Essential Budget Level

The 2009-11 essential budget level of $399.8 million Other Funds is an increase of $5 million, or 1.3%, from the 2007-09 legislatively approved expenditure level and includes 1,364 positions (1,325.35 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $42.5 million Other Funds in special session and Emergency Board actions during Fiscal Year 2008 for emergency repair work related to winter storm damage, OWIN federal grant match, increased compensation for employees, and adjustments for contractor payments. The 2009-11 essential budget level includes an increase of $3.6 million Other Funds to adjust contractor payments for construction projects that are expected to pay out during the 2009-11 biennium and includes $2.1 million to align fleet acquisition with usage. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. It also reflects technical adjustments to realign positions across programs resulting in an agency-wide net zero fiscal impact, but a $74,586 Other Funds increase and 7 positions (7.00 FTE) within the Highway Maintenance Program.

### Issues and Options

In its 2009-11 agency request budget, the Highway Maintenance program requested $2.2 million to add a position (0.50 FTE) to implement a pilot program in Lane County to study the amount of funding, resource requirements, and other implications that would be required to manage vegetation without the use of herbicide shoulder spraying. There are two primary techniques to manage vegetation: manual/mechanical or chemical. Managing vegetation along roadside shoulders with very limited use of herbicides will require a significant shift in practices and culture. The agency believes the pilot will provide valuable information in order to address the Governor's direction to reduce toxins and reduce the impact that spraying has on humans and the environment.

In addition, ODOT requested that $2 million Other Funds be shifted from the Maintenance Services and Supplies budget to the Motor Carrier Transportation Division (MCTD) unit to provide resources necessary for MCTD to address deferred maintenance issues at Oregon's weigh stations.

The Governor's recommended budget would fund both of these initiatives and invest $52.5 million in the 2009-11 biennium under the "Jobs and Transportation Act of 2009" (JTA-2009) goal to "Take Care of the System" by improving winter driving safety and the condition of the state highway infrastructure. With the proposed new revenues, the Governor proposes investing an additional $35 million annually for maintaining transportation systems. The 2009-11 investment would cover 1.5 years of the biennium.

## ODOT – Highway/Preservation

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 2,737,678,739 | 242,085,137 | 243,449,915 | 355,010,301 |
| **Total Funds** | **$2,737,678,739** | **$242,085,137** | **$243,449,915** | **$355,010,301** |
| Positions | 206 | 199 | 199 | 147 |
| FTE | 206.00 | 199.00 | 199.00 | 147.00 |

### Program Description

The Preservation program rehabilitates existing roadways and facilities to extend their service life. Preservation projects add useful life to the highway system without increasing capacity. The program strives to conduct resurfacing treatments at the most cost-effective time in the life cycle of a pavement, which typically entails resurfacing at eight- to fifteen-year intervals. This approach allows highways to be resurfaced while they are still in "fair or better" condition and require only relatively thin paving. Costs escalate as road conditions deteriorate into the "poor" category. To sustain the most cost-effective pavement program, the 1999 Oregon Highway Plan established a long-term goal of having 90% of state highway miles in fair or better condition.

### Budget Environment

In 1976, the first year pavement condition information was collected by ODOT, Oregon's highways were in poor condition with only 51% of state highway miles rated "fair or better." In 1984, a Preservation program was established in the STIP to improve long-term pavement condition. Pavement condition peaked at 83% "fair or better" in 1993. Conditions then declined to 78% "fair or better" in 1999, as resurfacing costs increased and fewer miles could be treated. For the last ten years, STIP preservation funding has been relatively constant (after adjusting for inflation). Funding from other sources, as well as changes in the manner in which funds are applied, has helped to improve pavement conditions.

ODOT altered its preservation strategy for some low traffic volume highways in 1999 by switching to thin, maintenance-only treatments. While these treatments typically have shorter life and must be applied more frequently than conventional preservation treatments, this strategy reduced the resurfacing cost per mile and is largely responsible for improvements in statewide pavement conditions. This improvement is reflected in the 2004 pavement condition rating of 85% "fair or better." However, this improvement is a short-term phenomenon and pavement conditions will decline through 2010 as these thinner treatments wear out.

Preservation projects funded with OTIA I and II bond proceeds also improved pavement conditions, although higher volume and higher classification highways did not receive OTIA funds. To make the best use of available funds, preservation treatments over the last several years have primarily focused on highways with lower per-mile resurfacing costs. Keeping up with deteriorating pavement conditions has become increasingly difficult as the Department completed most of these lower cost projects. Highways in poor condition, which need extensive rehabilitation or which require costly upgrades to meet current standards, are typically too expensive to include in the STIP in the current fiscal environment. Many of these highways are in high volume urban areas. Until additional funds become available, these highways will receive only patching and a disproportionate level of maintenance funds will need to be devoted to keeping them drivable.

### Essential Budget Level

The 2009-11 essential budget level of $399.8 million Other Funds is an increase of $111.5 million, or 1.3%, from the 2007-09 legislatively approved expenditure level and includes 1,364 positions (1,325.35 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $1.3 million Other Funds in special session and Emergency Board actions during Fiscal Year 2008 for increased compensation for employees. The 2009-11 essential budget level includes an increase of $112.9 million Other Funds to adjust contractor payments for construction projects that are expected to pay out during the 2009-11 biennium. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. It also reflects technical adjustments to realign positions across programs resulting in an agency-wide net zero fiscal impact, but a decrease of $8.9 million Other Funds and a reduction of 50 positions (50.00 FTE) within the Highway Preservation Program.

### Issues and Options

In its 2009-11 agency request budget, the Highway Preservation Program proposes adding five positions (4.00 FTE) in the Highway Preservation Program funded by utilizing resources from Services and Supplies to address the need to sustain core technical competency within Highway Programs.

The Governor's recommended budget would fund this initiative and invest $37.5 million in the 2009-11 biennium under the "Jobs and Transportation Act of 2009" Goal to "Take Care of the System" by improving the condition of the state highway infrastructure. With the proposed new revenues, the Governor proposes investing $15 million annually for pavements in general plus an additional $5 million annually for high volume highways in urban areas. The agency estimates that an additional $15 million per year will allow ODOT to resurface about 40 more lane miles of state highway at today's high asphalt and fuel costs. ODOT has identified about 85 miles of high volume urban highways that have deteriorated to "poor" and "very poor" condition requiring extensive rehabilitation and reconstruction to restore the highways to "good" condition. The 2009-11 investment would cover 1.5 years of the biennium.

## ODOT – Highway/Bridge

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 505,321,643 | 932,378,170 | 900,005,637 | 698,771,709 |
| **Total Funds** | **$505,321,643** | **$932,378,170** | **$900,005,637** | **$698,771,709** |
| Positions | 161 | 149 | 149 | 145 |
| FTE | 160.22 | 148.50 | 148.50 | 145.00 |

### Program Description

The Bridge program is responsible for preserving more than 2,600 bridges, tunnels, and culverts on the state highway system. There are three generations of bridges in Oregon: those built prior to the 1950s, those built between 1950 and 1970, and those built since the 1970s. Only those bridges built since the 1970s were constructed using current capacity and seismic standards. Program activities include repairing structural deterioration; repairing and replacing bridge decks; 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 from corrosion damage; upgrading electrical and mechanical systems in movable bridges; and safety improvement work, such as upgrading bridge railings and widening bridges.

### Budget Environment

The Oregon Transportation Commission, the Governor, and the Legislature have increasingly prioritized Oregon's bridge program. In 2003, the Legislature passed HB 2041, which provided $1.3 billion for the replacement and repair of bridges on state highways. More than 300 state bridges are included in the OTIA III State Bridge Delivery Program. This program will address problems at bridges that need to be open to heavy and oversized truck traffic; load-restricted bridges; Interstate 84 and Interstate 5 bridges; and other key transportation links critical for freight mobility. In spite of this significant investment in state bridges, there remain a large number of bridges that 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. In 2008, ODOT reported 179 bridges that are "structurally deficient." Of these, 38 bridges are structurally deficient due to just the condition of the deck. An average of 12 bridges are rated as structurally deficient each year.

Bridge projects are more costly and variable than highway work of comparable length. ODOT estimates that needs related to structurally deficient bridges 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.

### Essential Budget Level

The 2009-11 essential budget level of $698.9 million Other Funds is decrease of $201 million, or 22.3%, from the 2007-09 legislatively approved expenditure level and includes 145 positions (145.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes a reduction of $32.3 million Other Funds in special session and Emergency Board actions during Fiscal Year 2008 to reflect contractor payment adjustments and increased compensation for employees. The 2009-11 essential budget level includes a decrease of $250.6 million Other Funds to adjust contractor payments for construction projects that are expected to pay out during the 2009-11 biennium. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. It also reflects technical adjustments to realign positions across programs resulting in an agency-wide net zero fiscal impact, but an increase of $151,463 Other Funds and a 0.50 FTE increase within the Highway Bridge Program.

### Issues and Options

In its 2009-11 agency request budget, the Highway Bridge Program proposes adding eight positions (9.00 FTE) in the Highway Bridge program funded by utilizing resources from Services and Supplies to address the need to sustain core technical competency within Highway Programs.

The Governor's recommended budget would fund this initiative and invest $15 million in the 2009-11 biennium under the "Jobs and Transportation Act of 2009" Goal to "Take Care of the System" by improving the condition of the state highway infrastructure. With the proposed new revenues, the Governor proposes investing $10 million annually to extend the life of existing bridge decks currently in "satisfactory" or "fair" condition. The agency estimates that an additional $15 million per year will allow ODOT to resurface about 40 more lane miles of state highway at today's high asphalt and fuel costs. ODOT has identified about 85 miles of high volume urban highways that have deteriorated to "poor" and "very poor" condition requiring extensive rehabilitation and reconstruction to restore the highways to "good" condition. The 2009-11 investment would cover 1.5 years of the biennium.

## ODOT – Highway/Safety

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 58,386,574 | 52,028,686 | 62,273,499 | 62,042,873 |
| **Total Funds** | **$58,386,574** | **$52,028,686** | **$62,273,499** | **$62,042,873** |
| Positions | 37 | 34 | 34 | 56 |
| FTE | 37.00 | 34.00 | 34.00 | 56.00 |

### Program Description

The Highway Safety Program identifies sections of state highway with the highest number of fatal and serious injury crashes and takes steps to improve safety on these roadway segments. ODOT uses a management system called the Project Safety Management System (PSMS) to improve decision-making and safety on Oregon's highways. The Safety Priority Index System (SPIS) is used to identify highway locations with high crash histories. The Safety Investment Program (SIP) prioritizes segments of highway for corrective action based on a history of fatal and serious injury crashes. SIP indicates where safety investments should be incorporated into preservation projects. Crash patterns are analyzed to determine the optimal corrective actions that can be undertaken by the Department, and corrections are selected based on estimated best return. Corrections often include the addition of passing lanes, roadway realignments, turning refuges, shoulder widening, rumble strips, guardrail additions, sign changes, pedestrian islands, or access control measures. Currently, there are over 650 high crash locations identified on the state highway system and approximately 1,540 miles of roadway with a significant number of fatal and severe injury crashes.

### Budget Environment

Increases in population have created more traffic, which in turn has created more congestion and, consequently, an increased number of crashes. Highway Safety funds target high crash locations. Corrective actions are often combined with preservation projects, although stand-alone safety projects may address specific crash types or high crash locations. To free up funds for safety improvements in the maximum number of critical areas, preservation projects with no significant history of crashes may be scaled down to minimum design standards.

In 2004, 456 reported traffic fatalities occurred. Oregon's highway death rate has declined to 1.25 people killed per 100 million vehicle miles traveled from 2001's rate of 1.4. The ODOT Safety Division and the Oregon Transportation Commission have set a goal to reduce this fatality rate to 0.99 per 100 million vehicle miles traveled by 2010. This equates to lowering the statewide fatality count to 370 by 2010.

### Essential Budget Level

The 2009-11 essential budget level of $62 million Other Funds is a decrease of $230,626 or -0.37% from the 2007-09 legislatively approved expenditure level and includes 56 positions (56.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes an increase of $10.2 million Other Funds in special session and Emergency Board actions during Fiscal Year 2008 to reflect contractor payment adjustments and increased compensation for employees. The 2009-11 essential budget level includes an increase of $4.3 million Other Funds to adjust contractor payments for construction projects that are expected to pay out during the 2009-11 biennium. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. It also reflects technical adjustments to realign positions across programs resulting in an agency-wide net zero fiscal impact, but an increase of $3.2 million Other Funds and an increase of 18 positions (18.00 FTE) within the Highway Safety Program.

## ODOT – Highway/Operations

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 50,152,650 | 48,418,206 | 69,444,816 | 69,004,040 |
| **Total Funds** | **$50,152,650** | **$48,418,206** | **$69,444,816** | **$69,004,040** |
| Positions | 151 | 161 | 161 | 121 |
| FTE | 147.37 | 158.62 | 158.62 | 119.34 |

### Program Description

Highway Operations includes planning, development, and implementation of improvements to relieve or prevent traffic congestion and to improve safety. Programs include Intelligent Transportation Systems (ITS); transportation system management, such as interconnected traffic signal systems, new traffic signals, ramp metering, and electronic variable message signs; illumination; rock fall and slide repairs; and demand management, which includes ride share, van pool, and park and ride programs. Highway Management performs work related to speed zone studies, signal timing, and traffic investigations, including crash sites. The TripCheck Program operates and maintains ODOT's traveler information systems, including the TripCheck website, 5-1-1 phone system, and cable TV systems. These systems provide the public with information about road and weather conditions, incidents, construction, restrictions, and closures. Operational projects like these are one way to maximize the efficiency of the state highway system with limited funding, while also improving system safety and reliability.

### Budget Environment

A growing population and limited funding have increased the state's reliance on system efficiency tools, like those mentioned above, to manage congestion and improve safety. ODOT estimates current funding is $20 million less than needed to replace signs, signals, and lighting; to conduct work to prevent slides and rock falls; and to deploy technological solutions that will ease congestion and improve safety. Highway Operations activities are prioritized through the use of several tools, including the Rockfall Hazard Rating System, Statewide ITS Strategic Plan, Regional ITS Deployment plans, and the Information Technology Tactical Plan. Enhanced prioritization tools are currently under development.

### Essential Budget Level

The 2009-11 essential budget level of $69 million Other Funds is a decrease of $440,776 or -0.63% from the 2007-09 legislatively approved expenditure level and includes 121 positions (119.34 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes an increase of $24.8 million Other Funds in special session and Emergency Board actions during Fiscal Year 2008 to reflect contractor payment adjustments and increased compensation for employees. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. It also reflects technical adjustments to realign positions across programs resulting in an agency-wide net zero fiscal impact, but a decrease of $6.9 million Other Funds and a reduction of 39 positions (38.54 FTE) within the Highway Operations Program.

### Issues and Options

In its 2009-11 agency request budget, the Highway Operations Program proposes adding 11 positions (10.00 FTE) funded by utilizing resources from Services and Supplies to address the need to sustain core technical competency within Highway Programs.

The Governor's recommended budget would fund this initiative and invest $33 million in the 2009-11 biennium under the "Jobs and Transportation Act of 2009" Goal to "Take Care of the System" by improving the condition of the state highway infrastructure. With the proposed new revenues, the Governor proposes investing $10 million annually to improve the capacity of the state highway systems intelligent transportation systems and another $10 million annually to address landslide, rockfall, and culvert issues on state highways. ODOT has identified 48 operation and intelligent transportation system projects and over 500 high priority landslide and rockfall sites around the state that present hazards to the traveling public. The 2009-11 investment would cover 1.5 years of the biennium

## ODOT – Highway/Modernization

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 380,872,899 | 396,555,261 | 397,475,288 | 289,026,232 |
| **Total Funds** | **$380,872,899** | **$396,555,261** | **$397,475,288** | **$289,026,232** |
| Positions | 143 | 133 | 133 | 135 |
| FTE | 142.50 | 132.50 | 132.50 | 135.00 |

### 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, climbing, turning, accelerating, and decelerating; building new road alignments or facilities, including bypasses; realigning or widening existing roads; widening bridges to add travel lanes; and administration of the Immediate Opportunity Fund. The Immediate Opportunity Fund (IOF) is a grant program that distributes funds for street and road improvements that will influence the location, relocation, or retention of firms in Oregon. Grants may not exceed $1 million, and are distributed to private firms or their local government sponsors. The IOF also provides procedures and funds for the Oregon Transportation Commission to respond quickly to unique economic development opportunities.

### 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. The expenditure limitations include projects already underway; projects in the 2004-07 STIP; and state matching funds for federal projects earmarked through the Surface Transportation Program. From 2000 through 2002, funding levels were at the statutory minimum of approximately $102 to $108 million per biennium, meeting only 12% of the need for increased capacity. The OTIA added $200 million in 2001 and 2002 and as well as $500 million identified in 2003. In order to meet the 20-year need identified in the Oregon Highway Plan, approximately $390 million per year will need to be provided. While the influx of revenue from OTIA bond proceeds will assist in meeting this need in the short-term, long-term funding levels remain far below what is needed to meet the challenges of providing an adequate transportation infrastructure for Oregon's growing population.

### Essential Budget Level

The 2009-11 essential budget level of $69 million Other Funds is a decrease of $108.4 million Other Funds or minus 27.3% from the 2007-09 legislatively approved expenditure level and includes 135 positions (135.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes an increase of $920,027 Other Funds in special session and Emergency Board actions during Fiscal Year 2008 to reflect increased compensation for employees. The 2009-11 essential budget level includes a decrease of $153.6 million Other Funds and an increase of $37.6 million Other Funds to adjust contractor payments for construction projects that are expected to pay out during the 2009-11 biennium. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. It also reflects technical adjustments to realign positions across programs resulting in an agency-wide net zero fiscal impact, but an increase of $738,527 Other Funds and 6 positions (6.00 FTE) within the Highway Modernization Program.

### Issues and Options

In its 2009-11 agency request budget, the Highway Operations Program proposes a $25,863 Other Funds reduction and adding 5 positions (5.00 FTE) funded by utilizing resources from Services and Supplies to address the need to sustain core technical competency within Highway Programs.

The Governor's recommended budget would fund this initiative and invest $170.4 million in the 2009-11 biennium and adding 3 positions (2.25 FTE) under the "Jobs and Transportation Act of 2009". With the proposed new revenues, the Governor proposes investing $66.1 million annually for Modernization projects selected in the STIP; $33 million would be used to pay debt service for $400 million in Modernization bonds. The bond proceeds would finance modernization projects to address freight bottlenecks. The Transportation

Commission identified 99 modernization projects that relieve congestion, improve freight mobility and enhance safety. The 2009-11 investment would cover 1.5 years of the biennium.

## ODOT – Highway/Special Programs

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 179,529,747 | 257,400,553 | 261,453,043 | 213,766,232 |
| **Total Funds** | **$257,400,553** | **$257,400,553** | **$261,453,043** | **$213,766,232** |
| Positions | 567 | 596 | 595 | 632 |
| FTE | 556.27 | 585.86 | 584.86 | 621.14 |

### Program Description

A number of smaller special programs play unique roles in Oregon's Highway Program. Positions associated with these programs are often 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 work makes up a small portion of the duties for multiple positions, and varies from year to year. Special program activities include:

- The ***Oregon Plan for Salmon and Watersheds*** identifies how various agencies will restore threatened or endangered salmon species and meet the requirements of the Clean Water Act. Projects include construction of highway culverts, opening tide gates, and other improvements to help fish populations impacted by ODOT projects.
- ***Environmental Services*** ensures ODOT's compliance with the National Environmental Policy Act and more than forty 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.
- The ***Pedestrian and Bicycle Program*** (2.00 FTE) ensures ODOT's compliance with state laws requiring reasonable expenditure of highway funds on footpaths and bicycle trails. The program administers a local assistance grant program for improvements to pedestrian and bike paths.
- The ***Winter Recreation Parking Program*** (7.46 FTE) oversees snow removal and parking enforcement at designated winter recreation area parking locations. Sno-Park permit sales fund this program.
- ***Snowmobile Facilities*** develops and maintains snowmobile facilities, including the purchase of land and the enforcement of registration, operation, and equipment requirements. Registration fees and fuel taxes attributed to snowmobile use fund this program.
- The ***Surplus Property Unit*** (5.00 FTE) leases and sells property acquired by ODOT for highway construction projects when the property no longer has a present or future use to the Department.
- The ***Rights-of-Way for Other Agencies Unit*** recovers costs associated with providing department staff trained in right-of-way acquisition to local agencies who lack the necessary staff. Department staff help local agencies obtain the necessary right-of-way for construction projects, and reimbursement costs are recovered from project funds.
- ***Administration*** (52.75 FTE), ***Materials Testing Lab*** (20.50 FTE), and ***Indirect Services*** (141.26 FTE) conduct activities that serve a common or joint purpose benefiting more than one project or program. Therefore, their work cannot be effectively charged to individual projects or programs. Activities include management, supervision, and administrative control of the agency; awards programs; contract negotiations; training and education; work planning; service contracts; crew team and safety meetings; quality assurance; and quality control. Office expenses and facilities costs are also covered with these funds.
- ***Highway Deputy Directors, Highway Program Office, and Major Projects Branch*** (27.10 FTE) include Deputy Director and support staff (1.00 FTE) for the Highway program Executive Deputy Director; financial support staff (20.00 FTE) for budget, funds, and grant tracking, financial coordination for regions, report writing, and financial analysis; and headquarters project delivery staff (6.10 FTE) responsible for ensuring efficient and consistent statewide delivery of all transportation projects.
- ***Innovative Private Partnerships*** (4.00 FTE) develops transportation projects for solicitation of private sector proposals for partnership and to respond to proposals initiated by private firms and units of government.
- ***Project Delivery*** (109.44 FTE) staff, located primarily in the five regional offices, focus on work needed to develop construction projects for eventual contracting.

- ***Other Special Programs*** fund miscellaneous expenses such as work on bridges, facilities, and roads of historical interest, safety rest areas, district office facilities work, independent wetland mitigation, and some tourist signing.
- Through the realignment process, ***Systems Management*** (135.00 FTE) will focus their work efforts to overall management of the highway system. This includes program level responsibility for Asset Management, Continuous Improvement (i.e., Quality Assurance/Quality Control, technical performance measures) and ensuring the technical excellence of the Highway Division project delivery staff. To date, the plan for identifying highway system assets is in the final stages of development. The program level Quality Assurance plan is in place, with a pilot of the overall plan currently underway. Additionally, plans are being implemented to ensure that core, advanced, and expert training and development is identified and offered according to a predictable schedule.
- ***Traffic*** (45.35 FTE) covers the traffic function in both Regions and Technical Services. The work that is done supports the operation of the system. Activities include speed zones, non-project traffic analysis, and traffic safety. This will isolate the Traffic function from the Indirect and support function of the Construction program. There is also a component of traffic that is closely aligned with project delivery and will allocate resources to that function.
- ***Reimbursables*** (36.00 FTE) contains ODOT services that are paid by other parties including damage to structures and outside billings allowing ODOT to bill private citizens and businesses for services provided.

### Essential Budget Level

The 2009-11 essential budget level of $213.8 million Other Funds is a decrease of $47.37 million Other Funds or minus 18.24% from the 2007-09 legislatively approved expenditure level and includes 632 positions (621.14 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes an increase of $4 million Other Funds in special session and Emergency Board actions during Fiscal Year 2008 to reflect personnel adjustments and increased compensation for employees. The 2009-11 essential budget level includes a decrease of $76.7 million Other Funds to phase out a one-time special payment to Counties to offset a reduction in federal timber receipts, and an increase of $12.3 million Other Funds to adjust contractor payments for construction projects that are expected to pay out during the 2009-11 biennium. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. It also reflects technical adjustments to realign positions across programs resulting in an agency-wide net zero fiscal impact, but an increase of $738,527 Other Funds and 35 positions (34.00 FTE) within the Highway Special Programs.

### Issues and Options

In its 2009-11 agency request budget, the Highway Special Programs proposes a $20,738 Other Funds reduction and adding 18 positions (16.50 FTE) funded by utilizing resources from Services and Supplies to address the need to sustain core technical competency within Highway Programs.

The Governor's recommended budget would fund this initiative and invest $29.3 million in the 2009-11 biennium under the "Jobs and Transportation Act of 2009". With the proposed new revenues, the Governor proposes an – $8 million annual investment in infrastructure for electric vehicles, $12 million for the 2009-11 biennium to consider charging stations for plug-in hybrids. An additional $5 million per year, $7.5 million for the 2009-11 biennium would be invested in continued work on alternate financing (vehicle miles traveled). The agency believes that this would advance the work of the Road Users Pilot Program that taxes drivers on the miles and time of day they drive. Both of these programs would be located in the Office of Innovative Public Partnerships (OIPP). An additional investment of $6.5 million annually, $9.75 million for the 2009-07 biennium, is proposed as supplemental funding for county road programs to ensure that no program has less than $4,500 per mile county-owned arterial and collector or $1 million per year, whichever amount is the greater. ODOT would provide 76% of the supplemental funding; counties would provide 24%.

The 2009-11 investment would cover 1.5 years of the biennium.

## ODOT – Highway/Local Government Programs

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 213,191,783 | 260,700,511 | 260,832,265 | 390,706,255 |
| **Total Funds** | **$213,191,783** | **$260,700,511** | **$260,832,265** | **$390,706,255** |
| Positions | 23 | 17 | 17 | 41 |
| FTE | 23.00 | 17.00 | 17.00 | 41.00 |

### Program Description

The purpose of the Local Government Programs unit is to work in a cooperative venture with cities, counties, and regional planning agencies to ensure 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 has mandated that a portion of state gas tax revenues be distributed among cities with populations of less than 5,000. ODOT shares a portion of its federal funds with counties and cities outside the Portland metropolitan area with populations greater than 5,000. The Portland metropolitan area receives funding through a separate federal appropriation dedicated to Transportation Management Areas. The program represents only the federal highway funds passed through to local agencies; it does not include the state bond-funded OTIA program.

### Budget Environment

Local governments face the same critical transportation issues as the state. Pressure on property taxes and local general funds, combined with flat state funding, have left local communities with fewer resources for transportation. ODOT's Local Government Fund Exchange program allows local governments to exchange $1 of their federal fund allocation for 94 cents in state highway funds. This exchange helps local agencies avoid complicated state and 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.

### Essential Budget Level

The 2009-11 essential budget level of $390.7 million Other Funds is an increase of $129.9 million Other Funds or 49.8% from the 2007-09 legislatively approved expenditure level and includes 41 positions (41.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes an increase of $131,754 Other Funds in special session and Emergency Board actions during Fiscal Year 2008 to reflect increased compensation for employees. The 2009-11 essential budget level includes an increase of $118 million Other Funds to adjust contractor payments for construction projects that are expected to pay out during the 2009-11 biennium. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. It also reflects technical adjustments to realign positions across programs resulting in an agency-wide net zero fiscal impact, but an increase of $4.2 million Other Funds and 23 positions (23.00 FTE) within the Highway Local Government Program.

## ODOT – Utility Permits

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 1,686,271 | 0 | 0 | 0 |
| **Total Funds** | **$1,686,271** | **$0** | **$0** | **$0** |
| Positions | 12 | 0 | 0 | 0 |
| FTE | 12.00 | 0 | 0 | 0 |

### Program Description

The purpose of the Utility Permits program is to issue permits to utility companies that need to conduct activities on state highway rights-of-way. The 2007 Legislature combined this program with the Maintenance Program as a result of an Oregon Supreme Court ruling allowing use of Highway Trust Funds for the activity. Consolidating the activity in Maintenance simplified financial tracking for the Department.

## ODOT – Driver and Motor Vehicles Services

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 132,850,110 | 146,045,662 | 151,067,266 | 159,058,764 |
| Federal Funds | 324,186 | 1,619,148 | 1,621,968 | 945,713 |
| **Total Funds** | **$133,174,296** | **$147,664,810** | **$152,689,234** | **$160,004,477** |
| Positions | 867 | 873 | 883 | 870 |
| FTE | 833.50 | 837.25 | 842.75 | 838.67 |

### Program Description

Driver and Motor Vehicles (DMV) licenses and registers over 6.8 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 97% of total estimated 2007-09 DMV gross revenue collections ($573 million). Revenue in excess of amounts needed to cover DMV operating costs and OTIA debt costs is subject to city, county, and state distribution. Approximately 48% of the revenues collected are projected to be transferred to the State Highway Fund.

### Budget Environment

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. Business process changes and computer system enhancements are increasingly driven by federal mandates, largely unfunded from the U.S. Department of Transportation Federal Motor Carrier Safety Act and Department of Homeland Security Real ID Act. The Federal Motor Carrier Safety Act tightens requirements for issuing and suspending commercial driver licenses and increases the requirements for data sharing of driver records between states. The Real ID Act creates national standards for issuing driver licenses and identity cards which will require extensive changes to Oregon's current processes. The 2007 Legislature made no provision for implementing the federal Real ID Act in the 2007-09 budget.

In addition, the Legislature adopted SB 640 (2005) which requires biometric data to verify identity for driver's licenses, permits, or identification cards issued by the Department of Transportation Driver and Motor Vehicles Division. The measure increases the fee for driver's licenses, permits, and identification cards by $3 to cover the costs of implementing the measure.

Total DMV transactions decreased in Fiscal Year 2005 primarily reflecting the 2003 legislative impacts and are expected to grow slowly over the coming years with a small decline in Fiscal Year 2007. Demographic and economic changes combined with legislative impacts explain most of the variation in total DMV transactions over time.

### Essential Budget Level

The 2009-11 essential budget level of $159.4 million total funds is an increase of $5.7 million total funds or 3.6% from the 2007-09 legislatively approved expenditure level and includes 869 positions (833.50 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes an increase of $5.9 million total funds in special session and Emergency Board actions during Fiscal Year 2008 to reflect receipt of federal grants to implement portions of SB 640 that comply with the federal Real ID mandate and increased compensation for employees. The 2009-11 essential budget level includes $2.9 million Other Funds for continued work on the

Facial Recognition Project; and phases out one time costs of $464,319 Other Funds and $624,196 Federal Funds for implementation of legal residence legislation and a federal grant for updating the commercial drivers license information system. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

In its 2009-11 agency request budget, the Driver and Motor Vehicle Division (DMV) proposed $7.9 million Other Funds and 67 permanent positions (24.64 FTE) phased in over the biennium to implement requirements associated with the federal Real ID Act. If the Oregon Legislature intends to comply with the federal Real ID Act, changes are required in work processes and computer systems to issue, renew, and replace the Oregon Drivers License, Driver Permits, and Identification Cards. The agency proposed legislation that would allow DMV to issue a Driving Only Card for persons not eligible or unwilling to provide compliant documentation. The proposal would include an increase in the fees for Record Inquiries by insurance companies and others and an increase in driver license fees. DMV is also requesting amendments to Oregon statutes to align Oregon's law with the federal mandates. Increasing the fees will generate an additional $8.1 million during the 2009-11 biennium.

The agency is also requesting $839,666 Other Funds to provide resources to replace aging microfilm equipment with a digital imaging system; $764,326 Other Funds and a decrease of $8,477 Federal Funds to add 9 permanent full-time positions and 3 limited duration positions (12.00 FTE) to absorb additional workload associated with the facial recognition process and Federal motor carrier safety administration regulations in DMV field offices and headquarters. The proposal would shift $646,575 from services and supplies to personal services for the commercial driver licensing portion of the request. It also requested an increase of $382,315 Other Funds and four permanent positions (3.50 FTE); a half time position to conduct medical case reviews previously handled by the Department of Human Services (DHS) and 3 full-time permanent positions (3.00 FTE) to perform case management hearings work previously handled by the Office of Administrative Hearings in the Employment Department. The proposal would eliminate a $74,000 payment to DHS for medical case review services that will no longer be provided. An additional $1 million Other Funds is included to continue 10 limited duration positions as permanent full-time positions for ongoing administration of the legal presence standard now required for Oregon Driver Licensing and Identification Cards. Positions would be funded by increased fees for issuance, renewal, or replacement of the licenses or identity cards.

The Governor's recommended budget would fund these initiatives and provide an additional $1 million in the 2009-11 biennium for unspecified administrative costs related to the "Jobs and Transportation Act of 2009."

## ODOT – Motor Carrier Transportation

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 47,508,087 | 52,057,458 | 53,782,842 | 55,703,315 |
| Federal Funds | 4,480,455 | 5,371,863 | 5,400,148 | 5,561,876 |
| **Total Funds** | **$51,988,542** | **$57,429,321** | **$59,182,990** | **$61,265,191** |
| Positions | 315 | 317 | 316 | 313 |
| FTE | 315.00 | 317.00 | 316.00 | 313.00 |

### Program Description

The Motor Carrier Transportation Division (MCTD) is responsible for administering and enforcing laws and rules related to motor carriers, including regulations related to commercial vehicle registration, safety, and weight-mile tax. MCTD issue over-dimension variance permits and enforces truck size and weight regulations. Division enforcement officers and safety specialists check trucks mainly at 91 weigh stations, including six ports-of-entry, and at dozens of portable scale sites. The Division also processes mileage reports and collects highway-use (weight-mile) taxes and fees. The Motor Carrier Transportation Division's Green Light Program increases weigh station capacity by weighing trucks on the highway and sending a green light signal to those with transponders if they do not need to stop at a weigh station. Also, the Division offers an Internet service for permit processing, road-use tax reporting and payment, and other transactions to save motor carrier companies time and money.

### Revenue Sources and Relationships

Revenue from weight-mile taxes, commercial vehicle registrations, and permits provide the primary resources to support this Division. All revenue in excess of the amount required for carrying out the regulatory and safety programs, approximately 89% of revenue collected, is transferred to the State Highway Fund. Over $5.5 million in Federal Funds is projected to be received in the 2009-11 biennium for commercial vehicle safety enforcement efforts under the Motor Carrier Safety Assistance Program (MCSAP). MCTD coordinates the work of the Department of State Police (OSP), which receives $1.6 million of the funds each year, as well as city police, county sheriffs, and county weighmasters who work under non-compensated agreements. The MCSAP program requires a 20% state match, but because current program expenditures contribute to the match there is no financial outlay from the state.

### Budget Environment

Increased construction activity around the state requires staff to assist in mitigating travel delays. Staff identify key routes and types of loads that may be operating in/around construction projects, provides feedback regarding clearances for freight loads, helps find detours and alternate routes, and timely communicates project impacts to the trucking industry.

Motor carriers based outside the state are required to obtain a permit and file proof of liability insurance, as well as cargo insurance, if necessary. Oregon also issues an Oregon Weight Receipt and Tax Identifier to each truck subject to the weight-mile tax as a means for reporting tax, for tracking miles over Oregon highways, and verification to fuel providers that the truck is exempt from fuel tax. With passage of SAFETEA-LU, states are prohibited from registering interstate carriers, imposing insurance requirements, and requiring the display of any form of commercial motor vehicle identification on or in the vehicle, except the forms specifically named in the SAFETEA-LU act. Oregon's requirements are not allowed. The 2007 Legislature passed SB 222 to address the statutes that are in conflict so that Oregon may participate in a new Unified Carrier Registration System for purposes of verifying that carriers are registered and have proof of insurance on file.

### Essential Budget Level

The 2009-11 essential budget level of $55.7 million total funds is an increase of $2 million total funds or 3.5% from the 2007-09 legislatively approved expenditure level and includes 313 positions (313.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes an increase of $1.7 million total funds in special session and Emergency Board actions during Fiscal Year 2008 to reflect position adjustments and increased compensation for employees. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

In its 2009-11 agency request budget, the Motor Carrier Division Transportation (MCTD ) proposed $2 million Other Funds to address deferred maintenance issues at Oregon's weigh stations. Once managed within Highway District Operation budgets, the function was transferred to MCTD without funding to perform major or routine maintenance of scales, weigh station buildings, truck inspection buildings, entry and exit ramps and parking lots.

The Governor's recommended budget would fund this initiative and provide an additional $5,000 in the 2009-11 biennium for unspecified administrative costs related to the "Jobs and Transportation Act of 2009".

## ODOT – Transportation Development

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 82,662,765 | 167,155,581 | 172,081,737 | 172,469,138 |
| Federal Funds | 192,187 | 205,837 | 214,720 | 210,710 |
| **Total Funds** | **$82,854,952** | **$167,361,418** | **$172,296,457** | **$172,679,848** |
| Positions | 217 | 224 | 224 | 222 |
| FTE | 207.90 | 215.40 | 215.40 | 212.72 |

## Program Description

Transportation Program Development operates through five program areas:

- ***STIP Development*** (21.00 FTE) coordinates identification and prioritization of the Department's four-year STIP development process. The STIP is updated every two years with ongoing public, local government, and stakeholder involvement. This program area identifies projects using pavement, bridge, and safety condition assessment tools.
- ***Technical Assistance and Coordination*** (6.79 FTE) is provided to local governments on periodic comprehensive plan reviews, Transportation System Plan reviews, and to Metropolitan Planning Organizations (MPO), and Area Commissions on Transportation (ACT). This program area also maintains data and shares transportation-related information with federal, state, and local agencies through the Technology Transfer Center.
- ***Freight Mobility*** (4.00 FTE) collects data to support transportation planning, programming, and policy at the local regional statewide and national levels on freight mobility issues. Staff support the Oregon Freight Advisory Committee.
- ***Statewide and Regional Studies*** (70.50 FTE) guide and support short- and long-range planning for Oregon's transportation system and administer 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). This program area is responsible for the Department's planning activities that focus on five areas of need: urban mobility, rural accessibility, freight transport mobility, 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 highway funding authorization, federal clean air, water, and energy acts, state benchmarks, and land use planning goals. Analytical services related to facility planning, transportation system studies, public transit services, and traffic analyses support the planning process.
- ***Transportation Analysis and Research*** (113.11 FTE) provides policy and economic analysis and forecasting, analyzes initiatives and issues, evaluates transportation needs and solutions, conducts strategic planning, researches new technologies, and coordinates opinion surveys. This program area also manages and analyzes transportation data to support planning, construction and maintenance, resource deployment, and funding allocations. Data collection and analysis include the bridge and pavement management systems, crash data, transportation inventory/classification, mapping/geographic information systems services, and traffic counting.

## 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 have been established in Corvallis and Bend and Transportation Management Areas (TMAs) have been established in Salem/Keizer and Eugene/Springfield. Transportation system analysis is constantly changing as questions are raised involving the interaction between land use, economics, and transportation.

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 facility plan reviews. Many local Transportation System Plans are over ten years old and in need of updates. Agency staff and resources will be directed to assist local governments in these plans. The reauthorization of SAFETEA-LU includes a number of revisions to planning. The final federal rule making will require interpretation and implementation. SAFETEA-LU established the Center for Transportation Studies, and a National University Transportation Center is housed at Portland State University. ODOT has an opportunity to narrow the gap between needs and resources by leveraging funding through the new University Transportation Center.

Increasing emphasis on freight mobility is reflected in the reauthorization of SAFETEA-LU. The Federal Highway Administration has established an Office of Freight Management and, in conjunction with other U.S. Department of Transportation offices, has created a Freight Professional development program to further support activities of freight shippers, carriers, and other stakeholders.

### Essential Budget Level

The 2009-11 essential budget level of $172.7 million total funds is an increase of $383,391 total funds or 0.22% from the 2007-09 legislatively approved expenditure level and includes 222 positions (219.97 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes an increase of $4.9 million total funds in special session and Emergency Board actions during Fiscal Year 2008 to reflect internal position adjustments and increased compensation for employees. The 2009-11 essential budget level includes a $5.9 million reduction to phase out costs associated with the Integrated Transportation Information System data base and ODOT's features inventory data base and an increase of $1 million Other Funds for STIP projects expected to pay out during the 2009-11 biennium. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

In its 2009-11 agency request budget, the Transportation Program Development Division (TPD) proposed $153 million Other Funds to continue multi-modal transportation grants and loans initiated in 2005-07 biennium. ODOT proposed that $150 million Lottery-backed bonds be used for improvement projects selected by the Transportation Commission. Debt issuance costs are estimated at $3 million and the principal and interest payment would be $3.35 million during the 2009-11 biennium Debt service costs for the 2011-13 biennium are estimated to be $25.1 million.

The Governor's recommended budget would fund these initiatives and provide an additional $67 million under the "Jobs and Transportation Act of 2009" for transportation-related research and development. All but $1 million of the $67 million comes from the Federal Highway Administration (FHWA). A major share of the FHWA money, $59 million is for multi-modal transportation programs. The $1 million from Highway Trust Funds is a one-time amount for STIP development and highway studies.

## ODOT – Public Transit Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 20,275,615 | 20,854,615 | 20,911,919 | 20,541,760 |
| Federal Funds | 30,730,910 | 42,262,276 | 42,310,738 | 44,338,305 |
| **Total Funds** | **$51,006,525** | **$63,116,891** | **$63,222,657** | **$64,880,065** |
| Positions | 13 | 15 | 15 | 15 |
| FTE | 13.50 | 15.00 | 15.00 | 15.00 |

### Program Description

The Public Transit Division develops, encourages, and supports the use of transit, ridesharing, walking, bicycling, telecommuting, and other alternatives to driving alone. The Division operates six program areas:

- ***General Public Transit*** (4.34 FTE) provides general public transportation to rural areas, tribal governments, and cities with populations under 50,000. About 80% of its funds are distributed to cities, counties, other government units, and nongovernmental units through special payments.
- ***Inter-city Passenger Development*** (1.00 FTE) provides information, technical assistance, and management of 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.
- ***Special Needs Transportation Services*** (4.16 FTE) provides transportation designed to meet the needs of the elderly and people with disabilities. Programs include: 1) the Special Transportation Fund program distributing state cigarette tax, Environmental Quality Improvement Funds (EQIF), and Non-Highway Fuels Tax funds to local governments for transportation services benefiting elderly and disabled people; and 2) the statewide Elderly Persons and Persons with Disabilities 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.

- ***Transportation Demand Management/Transportation Options*** (1.00 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*** (1.00 FTE) provides statewide transit policy and planning technical assistance and coordinates urban transit planning, local system planning, and multi-modal corridor planning.
- ***Division Administration*** (3.50 FTE) defines state transit policies and provides leadership and support for the five program areas.

### Revenue Sources and Relationships

The Division receives the majority of its funding from federal sources. There are six Federal Transit Administration Programs from which the state receives formula grants:

- Section 5303 – Metropolitan Planning at approximately $2.6 million per biennium.
- Section 5310 – Elderly Persons and Persons with Disabilities Capital Program at approximately $3.8 million per biennium.
- Section 5311 – Rural and Small Urban Areas Program Grants for approximately $16.7 million per biennium.
- Section 5313b – Statewide Transit Planning at approximately $300,000 per biennium.
- Section 5316 – Job Access Reverse Commute for $1.9 million per biennium.
- Section 5317 – New Freedom Program at approximately $1 million per biennium.
- In addition, the Division receives $16 million in flexible Federal Surface Transportation Program (STP) funds to improve transportation for the elderly and disabled ($7 million), to replace urban buses ($2 million), mass transit ($4 million) and for innovative marketing for transportation options ($3 million).

State funds make up the remaining 33% of the Division's revenue. Public Transit is allocated these funds from three main sources:

- Cigarette Tax – $8.54 million per biennium. Includes 3.45% ($0.02 per pack) apportionment of all moneys received by the Department of Revenue from certain cigarette tax revenues.
- DMV Photo ID – $3.8 million per biennium. Includes any excess fees collected from the distribution of ID cards by the DMV over the cost of running the program. This revenue is passed to local governments to support special needs transportation programs.
- Transportation Operating Fund (TOF) Non-Highway Fuels Tax – $6.2 million per biennium. This includes an apportionment of state tax moneys collected from the sale of fuel for motorized non-highway uses such as lawnmowers, chainsaws, wood chippers, etc. These moneys provide federal fund match for Transportation Demand Management, Special Needs Transportation, and Transportation Planning programs.
- In addition, the Division receives about $200,000 per biennium from interest and the sales of surplus vehicles.

### Budget Environment

Challenges for the Division include continued innovation and improvements for accessible public transit services for the elderly, people with disabilities, and rural communities. Oregon's population is growing, with the fastest growing segments of the population including our oldest residents. Providing mobility that continues their opportunity to participate independently in the community helps to defer or avoid the higher costs of additional dependence on support services. Rural communities are particularly affected. In the southern coast area, 27% of the population includes seniors above the age of 65 compared to 12% statewide. By 2015, it is estimated that 15% of the population will be over 65. Oregon's urban traffic congestion is becoming more severe. Oregon's land use and environmental policies challenge the transportation community to provide modern transit alternatives for urban commuters.

Since 1992, public transportation ridership in Oregon has grown 60%, affecting urban and rural areas. This is a success story in meeting public policy goals, but has created pressure on local provider budgets. In addition, this industry is vulnerable to the recent challenges of public security concerns and cost of fuel. When fuel costs rise, there are more people in need of an alternate to their auto use, putting demand on the system to increase trip capacity and hours of service. There is no ongoing dedicated source of state funding to support urban transit systems. In 2003, the Legislature authorized $2 million additional support towards the estimated $18 million annual urban fleet replacement costs.

Aging transit fleets throughout the state continue to need support for replacement vehicles, or the state risks losing the capital infrastructure to operate current services. Current estimates indicate there is a gap of $10 million annually to meet this need. Support to preserve the urban fleet helps providers to maintain service levels and protects the existing public investment in these successful systems. Fuel costs and long-term availability are an issue for the transit industry. Another major challenge for public transportation is pressure to upgrade and provide public transit facilities with security features and appropriate bus maintenance structures. 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.

### Essential Budget Level

The 2009-11 essential budget level of $64.9 million total funds is an increase of $1.6 million total funds or 2.62% from the 2007-09 legislatively approved expenditure level and includes 15 positions (15.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level reflects and increase of $105,766 in special session and Emergency Board actions during Fiscal Year 2008 to reflect increased compensation for employees. The 2009-11 essential budget level includes a reduction in personal services of $821,613 Other Funds and an increase in the Federal Funds expenditure limitation by $791,586 to provide administration and program support for the asset management integration initiative within ODOT. Currently, much of the work being done by TPD is being performed by staff on loan to TPD from other divisions. TPD proposes assigning the work to permanent staff to ensure program goals are met. It also reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

In its 2009-11 agency request budget, the Public Transit Division (TPD) proposed $20 million Other Funds to Establishes expenditure limitation for program approved by 2007 Legislature through Lottery-backed Revenue Bonds to provide grants to municipalities for the purchase of streetcars that are manufactured by a company that is owned and based in Oregon.

The Governor's recommended budget would fund this initiative and proposes an additional $44 million annually under the JTA-2009 to fund public transportation and other non-highway programs and projects by allocating flexible federal transportation funds over and above the amounts allocated during fiscal years 2008 and 2009. Of this amount, $4.1 million is proposed in the Public Transit Division's budget to continue and expand the Transportation Options Program. Public Transit would use $3.8 million to expand the program and $328,800 to add two permanent Operations and Policy Analyst 3 positions (1.50 FTE) to support the program expansion. A full-time permanent Planner 3 (0.75 FTE) would also be added to work with the Transportation Program Development Division to provide technical support on public transit issues relating to land use and transportation plans to reduce greenhouse gases at a cost of $165,000.

## ODOT – Rail Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 8,626,167 | 4,504,713 | 4,504,713 | 4,630,845 |
| Other Funds | 50,810,621 | 19,027,139 | 25,928,802 | 21,521,737 |
| Federal Funds | 1,365,249 | 15,862,746 | 15,862,746 | 16,306,903 |
| **Total Funds** | **$60,802,037** | **$39,394,598** | **$46,296,261** | **$42,459,485** |
| Positions | 24 | 24 | 24 | 24 |
| FTE | 24.50 | 24.00 | 24.00 | 24.00 |

### Program Description

The Rail Division ensures compliance with federal and state regulations related to passenger and freight rail service programs. The Division operates the following program areas:

- ***Division Administration*** (3.00 FTE) provides leadership and support, defines state rail policies, and insures rail interests are adequately addressed.
- ***Railroad Safety*** (10.00 FTE) ensures compliance with federal and state safety regulations for track, locomotive and rail cars, hazardous materials transport and rail operating practices through inspections. Staff also inspects railroad walkways and sidings, loading docks and yards to insure safety of railroad workers. This section is also responsible for overseeing the safety plans for light rail and fixed rail guideway operations mandated by the Federal Transit Administration.
- ***Crossing Safety*** (8.00 FTE) enforces federal and state regulations related to public highway-rail crossings, authorizes the construction, alteration or elimination of public highway-railroad crossings, inspects all public crossings, and manages crossing safety improvement projects.
- ***Rail Planning, Projects and Operations*** (3.00 FTE) develops and implements freight and passenger rail plans, and manages freight and passenger rail improvement projects. The section manages the state supported Cascades inter-city passenger rail operations and related Thruway bus services; This program area also enforces laws related to crossing blockages, manages state owned rail right of way and represents the state on railroad merger and abandonment and other rail service issues.

### Revenue Sources and Relationships

The programs operate with dedicated federal (16.3 million) and state ($21.5 million) revenue.

Federal revenues include:

- Federal Railroad Administration (FRA) – $16.3 million. Includes both freight and High Speed Rail Corridor projects as made available by Congress. These project specific funds are used for engineering, design, construction, equipment purchases, and contracts.
- Federal Highway-Railroad Grade Crossing Hazard Elimination Funds (Sec. 130) – $4.2 million. Federal as Other Funds used for crossing safety projects.

State revenues include:

- General Fund – $4.6 million. Partially funds one roundtrip train daily between Eugene and Portland, with continuing service to Seattle and Vancouver, British Columbia, funded by the State of Washington.
- Custom License Plate Fees – $4.6 million was approved by the Legislature to offset General Fund resources to fund one round trip train between Eugene and Portland.
- Rail Gross Revenue Fee – $2.5 million. Paid by Oregon railroads based on their previous year's gross revenue. Funds can only be spent on rail safety and rail crossing regulations.
- Grade Crossing Protections Account (GCPA) – $1.4 million. Generated from driver license and vehicle registration fees. Used for crossing safety regulation and improvement projects at public railroad crossings.
- Transportation Operating Fund (TOF) Non-Highway Fuels Tax – $1.2 million. Helps fund one round trip train between Eugene and Portland.
- Other biennial revenues include $275,000 from interest, $225,000 from Crossing Blockage Penalties, $100,000 from Railroad Right of Way Lease Fees, and $100,000 from the Fixed Guideway Fee.

### Budget Environment

The lack of stable funding for both the passenger rail and short-line service systems makes the future of rail service in Oregon uncertain. In past sessions, the Legislature has committed General Fund resources to supplement passenger rail service. However, the funds are scarce and relied upon by many of the state's programs, which put the funding of passenger rail service in jeopardy each legislative session. In addition to committing General Fund for passenger rail services, the 2001 Legislature created the Short-Line Credit Premium account for financial assistance to the short-line railroads. The Legislature allocated $2 million in lottery bond revenue to this account in both the 2001 and 2003 sessions. These funds provide some much-needed rehabilitation resources to the struggling short-line railroads across the state. Growth in the transportation systems and the rail industry, combined with heightened interest in freight mobility, are stretching Division staff resources to provide adequate services for protecting the public from rail-related incidents, particularly in the rail planning and safety assessment areas.

### Essential Budget Level

The 2009-11 essential budget level of $44.5 million total funds is a decrease of $3.8 million total funds or minus 8% from the 2007-09 legislatively approved expenditure level and includes 24 positions (24.00 FTE) as of

December 2008. The 2007-09 legislatively approved expenditure level reflects an increase of $6.9 million total funds in special session and Emergency Board actions during Fiscal Year 2008 to reflect expenditure authority to complete projects authorized under the Industrial Rail and Short Line Bond programs and increased compensation for employees. The 2009-11 essential budget level includes a reduction of $1 million to reflect the one-time expenses related to the rail multi-modal study and the $4.5 million payment to Union Pacific for rail improvements required under the operating agreement. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

The Governor's recommended budget proposes a $35 million Lottery-backed bond for purchase of two a train sets (locomotives and passenger cars) for the Amtrak Cascades service under the JTA-2009 to ensure Oregon's state-supported passenger rail service continues beyond 2010 or 2011. The train equipment that is used for Oregon's two daily "runs" between Eugene and Portland is owned by Amtrak and the State of Washington. This proposal would add $39.3 million to the Rail Division budget including debt issuance costs. Principal and interest would be $4.9 million Lottery Funds during the 2009-11 biennium. Debt service costs for the 2011-13 biennium are estimated to be $7.3 million Lottery Funds. Additionally, JTA-2009 proposes increasing the custom plate fee by $25 per year from $25 to $50 to generate approximately $2.3 million per year. This revenue would be used to reduce General Fund support for passenger rail service during the 2009-11 biennium and replace it during the 2011-13 biennium.

## ODOT – Transportation Safety Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 10,061,809 | 13,250,512 | 13,355,412 | 13,809,901 |
| Federal Funds | 13,592,782 | 13,874,223 | 14,678,993 | 15,116,662 |
| **Total Funds** | **$23,654,591** | **$27,124,735** | **$28,034,405** | **$28,926,563** |
| Positions | 24 | 26 | 26 | 26 |
| FTE | 24.00 | 26.00 | 26.00 | 26.00 |

### 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 to provide statewide public education and information programs, and reimburse public schools that provide Division-approved driver education programs.

Further duties include the responsibility to:

- organize, plan, and conduct a statewide transportation safety program;
- coordinate general activities and programs of the several departments, divisions, or agencies of the state engaged in promoting transportation safety;
- provide transportation safety information and develop other measures of public information;
- cooperate fully with all national, local, public, and private agencies and organizations interested in the promotion of transportation safety;
- serve as a clearinghouse for all transportation safety materials and information used throughout the state;
- cooperate in promoting research, special studies, and analysis of problems concerning transportation safety; and
- make studies and suitable recommendations to the Legislature concerning safety regulations and laws.

### Revenue Sources and Relationships

Approximately 5 2% of the Safety program funds are Federal Funds; the other 48% are other state 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. Recent turnover in senior staff for law enforcement, public safety, engineering, and roadway personnel have created the need for management level training and front line training. Upgrades to equipment and recent court cases have required training for this area to be revised and distributed.

### Essential Budget Level

The 2009-11 essential budget level of $29 million total funds is an increase of $892,158 total funds or 3% from the 2007-09 legislatively approved expenditure level and includes 26 positions (26.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level reflects an increase of $909,670 million total funds in Special session and Emergency Board actions during Fiscal Year 2008 to reflect increased compensation for employees. The 2009-11 essential budget level reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

In its 2009-11 agency request budget, the Transportation Safety Division (TSD) proposed adding a permanent full-time federally funded position to provide coordination for the Safe Routes to Schools program. The agency advises that existing staff are unable to absorb the increasing workload including evaluating safety improvements to create safer routes to school as part of any school construction bonding. The proposal would add $150,322 Federal Funds and 1 position (1.00 FTE)

## ODOT – Board of Maritime Pilots

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 208,742 | 0 | 0 | 0 |
| **Total Funds** | **$208,742** | **$0** | **$0** | **$0** |
| Positions | 1 | 0 | 0 | 0 |
| FTE | 0.71 | 0.00 | 0.00 | 0.00 |

### 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 incidents or complaints, of navigation pilots on Oregon's four pilot-required areas. There are currently 67 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 2005-07 are estimated to be at least $276,500 based upon the payment of up to $1,500 annual license fee by each of the 67 licensed pilots and from miscellaneous other revenues. Workload on licensing activities will be reduced throughout 2005-07 due to declining revenues. License revenue is no longer sufficient to support current activities. A proposal to increase license fees to restore expenditures to the current activity level was approved by the Legislature in HB 2277.

### Essential Budget Level

The 2007 Legislature determined that the Board of Maritime Pilot's mission and responsibilities aligned better with the Public Utility Commission (PUC) resulting in transferring the budget and functional responsibilities to PUC. Discussion of the agency's budget will be under the PUC budget analysis.

## ODOT – Central Services

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 125,206,667 | 157,217,803 | 163,296,527 | 178,745,370 |
| Federal Funds | 4,793 | 29,959 | 29,959 | 30,797 |
| **Total Funds** | **$125,211,460** | **$157,247,762** | **$163,326,486** | **$178,776,167** |
| Positions | 495 | 497 | 504 | 496 |
| FTE | 476.97 | 493.75 | 496.63 | 493.50 |

## Program Description

Central Services provides the core administrative functions that support each of the programs. This program includes:

- ***Director's Office*** (3.00 FTE) includes the Department Director and support staff who oversee all operations and programs.
- ***ODOT Headquarters*** (33.50 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*** (2.00 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*** (84.00 FTE) provides the Department with accounting and financial services including accounting, collections, budget, and financial analysis.
- ***Human Resources*** (51.00 FTE) provides technical advice on personnel, 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*** (14.00 FTE) is charged with administering 12 federal and state regulatory Civil Rights programs, handling compliance issues for the Department, and promoting workforce development and small business support.
- ***Information Systems*** (227.50 FTE) includes planning, developing and supporting business application systems; technology infrastructure; and supporting telephone and electronic mail to enable ODOT business to be conducted efficiently, comply with laws and regulations, and support the mission of ODOT.
- ***Internal Audit Services*** (10.50 FTE) is responsible for assuring that effective management controls are in place and functioning properly to help management achieve its objectives and supports performance measures.
- ***Business Services*** (68.00 FTE) provides a variety of services to all ODOT programs including purchasing and contract management, records management, reprographic, and photo video 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.

## Essential Budget Level

The 2009-11 essential budget level of $178.8 million total funds is an increase of $15.4 million total funds or 9.4% from the 2007-09 legislatively approved expenditure level and includes 496 positions (493.50 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes an increase of $6 million total funds in Special session and Emergency Board actions during Fiscal Year 2008 to implement SB 1080 relating to legal presence; reflect agency-wide positions adjustments, increased costs for the state data center, and employee compensation. The 2009-11 essential budget level includes a reduction of $7.1 million Other Funds to phase out the one-time costs associated with the integrated Human Resource and financial information system and implementation of facial recognition costs under SB 640. It reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

## Issues and Options

In its 2009-11 agency request budget, Central Services proposed 10 policy packages, totaling $80.1 million Other Funds and adds 37 permanent positions (30.85 FTE) phased in over the biennium for the following:

- $145,721 to add one position (1.00 FTE) funded by utilizing resources from Services and Supplies to address the need to sustain core technical competency within Highway Programs.
- $2.6 million Other Funds to add 12 permanent full-time Information Systems Support positions (7.68 FTE) phased in over the biennium to implement requirements associated with the Federal Real ID Act; these positions would complement the DMV positions and provide technical support to modify and maintain computer information systems.
- $334,192 to add two permanent full-time Information Systems Support positions to support DMV's proposal to replace its aging microfilm equipment with a digital imaging system and conduct evaluation of current information business systems to determine viability of a future systems replacement project.
- $1.2 million to add six permanent full-time Information System Support positions (6.00 FTE) to support DMV's ongoing administration of the legal presence standard now required for Oregon driver licenses and identification cards.
- $345,464 to provide resources for a full-time permanent Principal Executive Manager G position (1.00 FTE) to act as a liaison with the Governor's office and provide assistance to focus Oregon's transportation requirements for the future and lead efforts to ensure ODOT receives investments that will be needed to address those needs. An incumbent employee was transferred from the Governor's office during the 2007-09 biennium, currently classified as a "double-fill" in an authorized position and paid for from internal savings. The position would report directly to the ODOT director.
- $206,385 to replace a limited duration position with a permanent, full-time Safety Specialist 2 position (1.00 FTE) to help ODOT address significant statewide increases in its worker's compensation charges realized in 2005-07 through the current biennium. The agency believes that centralizing the function within the Central Services Division, ODOT would improve its efficiency and effectiveness in claims administration. ODOT expects lower costs to the agency as well as improved safety as a result of maintaining the position as permanent.
- $87,000 to provide resources to make improvements in lighting, security, and landscaping in the parking lot at the Mill Creek Office Building.
- $76 million to provide $75 million Highway Revenue Bonds repaid from Highway Trust Funds for ODOT's share of the wireless communication system to comply with the Federal Communication Commission's mandate that all land mobile radio systems complete the transition from broadband to narrowband by January 1, 2013.
- Move $1.9 million from services and supplies to personal service line items to add 13 information systems employees, to replace temporary workforce under professional service contracts dedicated to ongoing support and future development of ODOT's information technology systems. ODOT believes that permanent staff will provided more efficient and effective continuity for maintaining the information technology systems and reduce the requirement to repeatedly provide training to new contractors for various systems.

The Governor's recommended budget would fund these initiatives and provide an additional $77,084 and one limited duration Accounting Technician 3 position (.75 FTE) related to the JTA-2009 for 18 months during the 2009-11 biennium to handle a temporary increase in workload associated with checking refund requests to ensure that the correct tax rate was applied to the refund. About $17,000 in other costs relating to changing economic models that are used to determine the revenue to be distributed to counties and cities and to revise tax forms and provide notice to motor fuel and use fuel tax payers would be absorbed by Central Services. Currently ODOT uses four formulas to determine what moneys to distribute to cities and counties and debt service obligations. JTA-2009 will add a fifth formula. The Legislature may want to consider whether it is time to blend these formulas into one for transparency and to simplify economic modeling for future transportation funding initiatives.

Additionally, JTA-2009, if adopted by the Legislature, would create a five-member Transportation Utility Commission. The purpose of the Commission is to review and approve proposals from transportation authorities for increases in the charges for use of facilities and services. The Commission would function in a manner similar to the Public Utility Commission which reviews proposals for changes in the rates investor-owned utilities charge their customers. For the 2009-11 biennium, the Governor would provide $750,475 and one limited duration Principal Executive Manager F position (.75 FTE) to provide support for a five-member commission. Staffing would be by consultant contract or by loaned staff from agencies. Commission expenses are estimated to be $500,000 per year.

## ODOT – Nonlimited Loan Fund

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds (NL) | 9,025,939 | 17,663,632 | 17,663,632 | 18,158,214 |
| **Total Funds** | **$9,025,939** | **$17,663,632** | **$17,663,632** | **$18,158,214** |

### Program Description

Nonlimited programs record revenues and expenses for transactions that are generally internal to the agency and serve operating programs that are subject to expenditure limitation. They are Nonlimited because the level of activity is generally unpredictable. *Oregon Transportation Infrastructure Bank* (OTIB) remains is the only Nonlimited budget category. The OTIB makes loans to local governments, transit providers, and other eligible borrowers. As loans are repaid, principal and interest are returned to the OTIB and are available for new loans. Loan disbursements for the 2009-11 biennium are estimated to be $18 million.

### Revenue Sources and Relationships

The program operates with dedicated Highway Trust Funds.

### Essential Budget Level

The 2009-11 essential budget level of $18 million total funds is an increase of $494,582 total funds or 2.8% from the 2007-09 legislatively approved expenditure level. The increase reflects the standard inflation rate applied to all agency budgets.

### Issues and Options

The OTIB is a discretionary program and is not driven by increases in the costs of personnel, materials, or supplies. The program could be scaled back, by the inflationary adjustments and still maintain current levels of service.

## ODOT – Debt Service

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Lottery Funds | 22,819,711 | 46,559,957 | 46,559,957 | 92,782,785 |
| Other Funds | 99,391,271 | 185,530,273 | 202,476,389 | 293,975,776 |
| Other Funds (NL) | 211,298,886 | 0 | 0 | 0 |
| **Total Funds** | **$333,509,868** | **$232,090,230** | **$249,036,346** | **$386,758,561** |

### Program Description

Debt service in this program relates to highway construction bonds and the state's share of funding for the Westside Light Rail Project in the Portland metropolitan area, the South Metro Commuter Rail project in Washington County, Short-Line Railroad improvements, and Industrial Spur projects. Debt service is paid from the State Highway and Lottery Funds.

### Revenue Sources and Relationships

Other Funds are derived from the sale of bonds, which are retired using allocations of State Highway and Lottery Funds.

### Essential Budget Level

The 2009-11 essential budget level of $386 million total funds is an increase of $46.2 million Lottery Funds or 99% and an increase of $91.5 million Other Funds or 45% from the 2007-09 legislatively approved expenditure level. The 2007-09 legislatively approved expenditure level includes an increase of $17 million Other Funds in Special session and Emergency Board actions during Fiscal Year 2008 to pay increased debt service on refinanced bonds. The increase reflects the principal and interest payments for bond sales and sales on certificates of participation incurred through the current biennium.

### Issues and Options

In its 2009-11 agency request budget, ODOT requested $100 million in Lottery-backed bond proceeds to continue the multi-modal transportation program initiated in 2005. Debt Service on the bonds for ConnectOregon III is estimated to be $2.36 million in 2009-11 biennium and $4.73 million in the 2011-13 biennium. It also requested $75 million in Highway revenue bonds for the Oregon Wireless Interoperability Network (OWIN). Debt service on the Highway revenue bonds for the 2009-11 biennium are estimated to be $7.7 million. This cost will roll-up to $19.8 million in the 2011-13 biennium.

The Governor's recommended budget would increase the Lottery-backed bond proceeds by $50 million for the multi-modal transportation program under the JTA-2009. This will result in an increase in debt service costs of $5 million in 2009-11 biennium and $10.1 million in the 2011-13 biennium. The Governor also proposed the sale of Lottery-backed bonds in the Rail Program for the purchase of a train set for operation by Amtrak. Debt service for these bonds is estimated to be $3.86 million for the 2009-11 biennium and $7.28 million in 2011-13.

## ODOT – Capital Improvements

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 2,544,263 | 3,171,000 | 3,171,000 | 3,259,788 |
| Total Funds | **$2,544,263** | **$3,171,000** | **$3,171,000** | **$3,259,788** |

## ODOT – Capital Construction

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 2,200,000 | 11,710,340 | 15,110,339 | 0 |
| **Total Funds** | **$2,200,000** | **$11,710,340** | **$15,110,339** | **$0** |

### Program Description

The Capital Improvements and Capital Construction program provides for new construction, remodeling, or improvements to facilities subject to the oversight of ODOT.

### Revenue Sources and Relationships

Capital activities are funded primarily through transfer of State Highway Funds.

### Essential Budget Level

The 2009-11 essential budget level for of $3.3 million total funds for Capital Improvements is an increase of $88,788 total funds or 2.8% from the 2007-09 legislatively approved expenditure level as of December 2008. The 2009-11 essential budget level reflects the standard adjustment for inflation.

The 2009-11 essential budget level of zero dollars for Capital Construction reflects a reduction of $15.1 million for costs associated with capital projects approved by the 2007 Legislature. The 2007-09 legislatively approved expenditure level reflects an increase of $3,999,999 total funds in Special session and Emergency Board actions during Fiscal Year 2008 to reflect cost estimates to replace the Sister's maintenance station.

### Issues and Options

In its 2009-11 agency request budget, ODOT proposed $66.2 million, increasing the current capital construction expenditure limitation for renovation of the ODOT Transportation Building. The project was approved by the 2007 Legislature for design and project cost estimates. Renovation of the ODOT Transportation Building is required to meet health, safety, seismic and energy efficiency standards. The package would fund the construction phase of the project and cover the costs of project management; deconstruction; renovation construction; moving staff from the building; lease space and improvement to leased space to make space functional. While the Governor's recommended budget would not advance this project, the Legislature may want to consider whether this project would contribute to the economic recovery of the state in a broader context of providing jobs through construction programs. The project has been under review for over ten years and phase one design work has been completed.

ODOT also proposed $1 Other Funds limitation as a place-holder to allow the Emergency Board to allocate expenditure limitation if an opportunity presented itself to take advantage of co-locating or consolidating maintenance stations with local government or other existing maintenance stations.

The Governor's recommended budget would fund the co-location of highway maintenance stations with $1 expenditure limitation and, under the JTA-2009, the Governor would propose exempting ODOT buildings from current state budget requirements to make the most of opportunities to co-locate county, city, and state transportation facilities. The amendment would require ODOT to include a capital construction placeholder in any budget request that it submits to facilitate consideration of proposals that might arise outside the two-year capital construction budget development cycle to develop administrative offices, maintenance facilities, or other facilities where ODOT and a unit or units of local government might jointly locate. The Legislature will need to consider what is unique or different about ODOT buildings that would allow the agency to be treated differently than other state agencies that may have similar opportunities but are held to a different standard.

# CONSUMER AND BUSINESS SERVICES

## Board of Accountancy – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 1,472,666 | 1,989,807 | 2,063,391 | 1,766,821 |
| **Total Funds** | **$1,472,666** | **$1,989,807** | **$2,063,391** | **$1,766,821** |
| Positions | 7 | 7 | 7 | 7 |
| FTE | 7.00 | 7.00 | 7.00 | 7.00 |

### Agency Overview

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 8,500 licensees.

### Revenue Sources and Relationships

The Board's Other Funds come primarily from business registration fees, biennial licensing fees, and examination fees. The American Institute of Certified Public Accountants changed the examination from twice a year to a year-round, online examination. This has resulted in reduced revenues and costs to the Board. The Board also anticipates a revenue reduction based on the number of out of state licensees and public accounting firms that will not be required to be licensed in Oregon as a result of SB 748 which provides that a person or business organization holding a certificate, license, permit, designation, or degree granted in another jurisdiction may prepare, advise, or assist in the preparation of tax returns without obtaining a license or registration under ORS 673.010 to 673.457 as long as the person or business organization does not have an office in this state.

Additionally, a small amount of revenue is gained through the sale of mailing lists.

### Budget Environment

Examination applications and membership have stabilized and Board operating costs are more predictable than they have been. The Board expects the base of licensees to remain relatively consistent in the near future. Over the past two biennia, fines have increased as have the frequency and complexity of complaint investigations. This in turn has increased the expenditures for independent third party auditors and Attorney General's services.

### Essential Budget Level

The Board's essential budget level of $1,766,821 represents a 14.4% decrease from the legislatively approved budget, reflecting a $148,845 phase out of information technology professional services to select a solution for updating online licensing and renewal for the Board's customers, and a $249,302 phase out of professional services for contract investigators to reduce the current backlog of complaints.

### Issues and Options

In its 2009-11 agency request budget, the Board asked for an additional $100,000 to continue with contract investigators to further reduce the backlog of complaints.

The Governor's recommended budget funds the Board at the essential budget level plus an additional $50,000 for contract investigators to handle complex cases requiring additional expertise.

## Board of Chiropractic Examiners – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 1,003,629 | 1,121,873 | 1,156,726 | 1,295,037 |
| **Total Funds** | **$1,003,629** | **$1,121,873** | **$1,156,726** | **$1,295,037** |
| Positions | 5 | 5 | 5 | 5 |
| FTE | 4.50 | 4.50 | 4.50 | 4.50 |

### Agency Overview

The mission of the Board of Chiropractic Examiners is to protect and benefit the public health and safety, and promote quality in the chiropractic profession. The Board regulates Doctors of Chiropractic and Certified Chiropractic Assistants through examination, licensing, and disciplinary programs. The seven-member board is appointed by the Governor and composed of five chiropractors and two public members.

### Revenue Sources and Relationships

The agency is funded by revenue generated from licensing, application, and examination fees. Revenue in 2009-11 is projected to be 5.3% greater than 2007-09 estimates and the projected ending cash balance of $187,768 equals approximately three months of operating costs.

### Budget Environment

The agency has identified four main activities: public protection (42%); licensing (22%); public and professional information (20%); and board support (16%). The licensee base continues to grow at a steady rate. The agency is projecting an annual growth rate in the number of licensee of 2.5%. Licensee growth creates increased licensing and examination workload, as well as the potential for increased complaint investigations.

### Essential Budget Level

The essential budget level is a 14.9% increase over the 2007-09 legislatively approved budget. This increase covers increases in state government service charges, personal service costs, and Attorney General legal fees.

### Issues and Options

The Governor's recommended budget maintains current service levels and increases the per diem for Board members from $30 per day to $109. This increase in per diem is contingent on the passage LC 889 that allows certain boards and commissions to increase per diems to that allowed under IRS rules. The Governor's budget also increases one Administrative Specialist 2 from 0.75 FTE to 1.00 FTE to cope with increased workload.

## Board of Clinical Social Workers – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 581,996 | 659,778 | 857,778 | 808,079 |
| **Total Funds** | **$581,996** | **$659,778** | **$857,778** | **$808,079** |
| Positions | 3 | 4 | 5 | 4 |
| FTE | 2.50 | 3.00 | 3.50 | 3.00 |

### Agency Overview

The mission of the Board of Clinical Social Workers is to protect the citizens of Oregon by setting a strong standard of practice and ethics through the regulation of clinical social workers. The Board oversees a voluntary licensing program for individuals who want to use the title "licensed clinical social worker." The Board is responsible for developing and enforcing ethical standards for licensed individuals; investigating complaints; and disciplining licensed individuals who violate ethical standards, Board rules, or state licensing laws. The seven-member board is appointed by the Governor and composed of four licensed clinical social workers and three public members.

### Revenue Sources and Relationships

The agency is funded by revenue generated from application and licensing fees. Other miscellaneous sources include late fees and publication sales. Revenue in 2009-11 is projected to be 39.1% greater than 2007-09 estimates due to proposed 2009-11 fee increases to establish a limited duration investigator position and provide funds for expert witnesses. The 2009-11 projected ending balance of $115,903 equals approximately three months of operating costs.

### Budget Environment

The agency has identified two main activities: public protection (30%) and licensing (70%). An increase in the number of investigations undertaken by the Board and a gradual increase in licenses and renewals have maximized the capacity of staff.

### Essential Budget Level

The 2009-11 essential budget level is 5.8% less than the 2007-09 legislatively approved budget due to the net effect of a fee increase and changes in personal services, state government service charges, and Attorney General fees.

### Issues and Options

The Governor's recommended budget is an increase of $319,133, or 14.1%, over the 2007-09 legislatively approved budget. The Governor's budget adds one limited duration Compliance Specialist 2 position (1.00 FTE) and assumes fee increases instituted in the 2007-09 biennium.

## Construction Contractors Board – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 11,333,433 | 15,361,138 | 15,802,536 | 16,832,130 |
| **Total Funds** | **$11,333,433** | **$15,361,138** | **$15,802,536** | **$16,832,130** |
| Positions | 72 | 82 | 82 | 79 |
| FTE | 61.34 | 80.26 | 80.26 | 79.00 |

### Agency Overview

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 new contractors meet statutory pre-licensing educational and testing requirements.

### Revenue Sources and Relationships

Approximately 95% of CCB resources are expected to be received from contractor licensing and renewal fees. Fees are set by adoption of an administrative rule; effective October 1, 2005 the fee for all new and 2-year renewal licenses was reduced from $295 to $260. The remainder of CCB revenue will be from miscellaneous fees and civil penalties. Civil penalty collections do not make up a material portion of revenues, as the agency retains only 20% of the collections, with the remainder transferred to the General Fund. Transfers of civil penalty collections for the 2009-11 biennium are estimated to be approximately $960,000.

The agency is expecting a significant revenue shortfall for the 2009-11 biennium given the economic downturn in the construction industry. In spite of an anticipated $3.5 million beginning balance for 2009-11, the projected ending cash balance for the essential budget level of about $94,000 is the equivalent of less than a week of operating costs, or 0.6% of projected revenue. The agency is proposing raising the statutory cap on its fees from $295 to $410. This fee increase is expected to generate about $3.5 million in additional revenue.

### Budget Environment

Essential Construction Contractors Board responsibilities continue to be licensing, enforcement, complaint resolution, and consumer and contractor education. Licensing volume has fluctuated over the past four biennia for various reasons, including the implementation of a business competency test for new contractor applicants in July 2000, a recession that touched Oregon in 2001, and a post-recession construction boom. The current economic environment is having a significant impact on the licensing volume. The agency is projecting a reduction in both license renewals as well as applications for new licenses.

HB 3242 (2007) expanded the licensing structure for construction contractors by adding new endorsements designed to differentiate between residential and commercial contractors. The new endorsements for commercial contractors required: minimum experience and continuing education for key employees; and increased surety bond and liability insurance coverage. The bill also required contractors to provide a two-year building envelope warranty for large commercial structures and expands the definition of "small commercial structures" to protect residential contractors from having to obtain dual endorsements.

### Essential Budget Level

The essential budget level for the Construction Contractors Board is $1,029,594 (6.5%) Other Funds more than the 2007-09 legislatively approved budget as of December 2008. It includes the standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

In its 2009-11 agency request, the CCB is proposing an increase in the statutory limit on fees from $295 to $410. This increase is expected to generate an additional $3.5 million in revenue. Without the fee increase the agency is proposing reducing ten staff in the Dispute Resolution Services program along with reductions in services and supplies. With the fee increase, the agency would like to fund several packages including restoring the positions and services and supplies, the reclassification of ten positions, an additional three positions to handle workload increases associated with HB 2645 (2007) and HB 3242 (2007), continuing two limited duration investigator–mediator positions, adding a position to coordinate the continuing education program, making a current information technology position permanent along with computer hardware replacements, and an increase in a number of services and supplies accounts.

The Governor’s recommended budget includes all of the CCB requests with the exception of making the requested positions limited duration instead of permanent.

## Department of Consumer and Business Services (DCBS) – Agency Totals

| | 2007-09 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 174,066,743 | 200,163,291 | 208,628,572 | 220,849,969 |
| Other Funds (NL) | 413,325,249 | 448,267,375 | 448,267,375 | 603,755,069 |
| **Total Funds** | **$587,391,992** | **$648,430,066** | **$656,895,947** | **$824,605,038** |
| Positions | 1,069 | 1,081 | 1,091 | 1,071 |
| FTE | 1,054.78 | 1,068.88 | 1,072.47 | 1,064.58 |

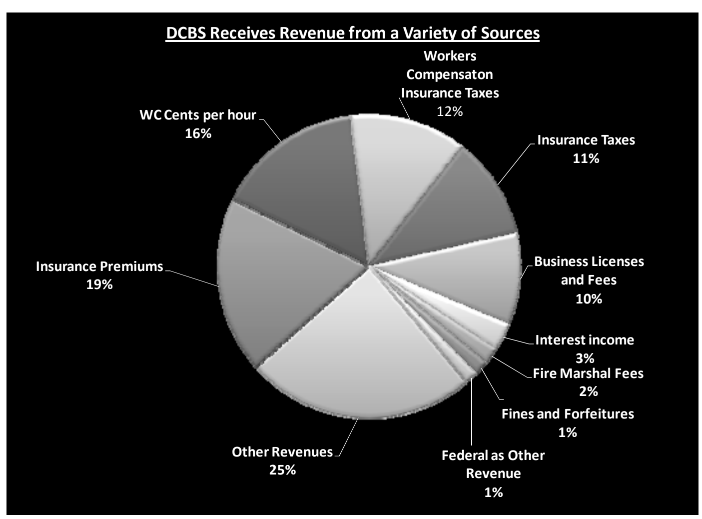
### Agency Overview

The Department of Consumer and Business Services (DCBS) is organized into four broad program areas that include central administration and three separate consumer-related regulatory functions:

- Shared Services, 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.
- Nonlimited Accounts include the Workers' Benefit Fund, Nonlimited reserves and payments for workers' compensation, Funeral and Cemetery Consumer Protection Trust Fund for payments of claims for prearranged funeral and endowment care defaults, 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 DCBS. The total revenue in the 2009-11 Essential Budget, including policy packages, is projected at $975 million. Approximately 13% or $127 million of that revenue will be transferred to the General Fund from retaliatory taxes collected from insurance companies, certain fines and penalties, and revenues in excess of expenses for the Division of Finance and Corporate Securities. 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 pie chart illustrates the variety of revenue sources, as described in detail in the narrative below:




- 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' Compensation Premium Assessment rate is set each fall for the following calendar year.
- 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 assessment is set each fall for the following calendar year. The Fund supports all of the injured workers' programs, including the Handicapped Worker, Reemployment Assistance, payments to beneficiaries of

fatally injured workers, and Rehabilitation programs, and also includes reserves to ensure compensation for injured workers, including payments to injured workers of Non-Complying Employers.
- 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, two years of no increase, followed by 3 years of reductions, equaling a 59.2% cut in these costs since 1990 and resulting in cumulative savings of $14.5 billion to Oregon employers. Due to the reduced revenue base and the drawdown of the ending balance, the tax rate was increased from 4.5% to 7.3% in 1998, and increased to 8% in 2002 to cover actual operating costs. This rate was unchanged in 2003. That rate had been anticipated to decline to 6.7%, but after 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, the rate was set at 6.8% for 2005. The rate for insured employers in calendar year 2007 was reduced to 4.6%, a drop of 0.9 percentage points from the calendar year 2006 rate of 5.5%. The assessment rate for self-insured employer groups was reduced to 4.8% in 2007, a decrease of 0.9 percentage points from the previous assessment rate of 5.7%. The 2009-11 essential budget is based on the same rate as the 2007 and 2008 calendar years.
- Insurance Premium Assessments support Insurance Division programs.
- Business Licenses and Fees which support regulatory programs such as Building Codes, Insurance Division, and the Division of Finance and Corporate Securities. The 2009-11 essential budget reflects reduced revenue of approximately $500,000 for the Boiler and Pressure Valve program in the Building Codes Division.
- Insurance Taxes, totaling approximately $116 million for the 2009-11 biennium, 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, including an estimated $17.8 million for the Department of State Police to support the State Fire Marshal.

### Budget Environment

Workload is driven by factors such as the demographic changes in Oregon's population, the economic climate, changes in business practices including increased use of rapidly changing information technology, and health care needs and reform. This workload has also included, in recent years, absorbing administrative responsibility for a number of agencies, including Building Codes and duties relating to titling and registration of manufactured structures.

DCBS programs have an effect on businesses and their employees in every segment of the economy. DCBS is aware that its statutory responsibilities to regulate and charge fees will require deliberate and strategic sensitivity where there are increased demands for consumer services and regulatory action. In the current environment, the state has seen a sizable increase in foreclosures and delinquent mortgages; the downturn in housing and construction has affected the Building Codes Division and Oregon OSHA workloads to ensure contractors do not cut corners when it comes to structural and workplace safety

### Essential Budget Level

The 2009-11 essential budget level of $824 million total funds is an increase of $176 million, or 25.5% from the 2007-09 legislatively approved expenditure level and includes 1,071 positions (1,064.58 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $8.5 million total funds in special session and Emergency Board actions during Fiscal Year 2008 for increased compensation for employees and increased enforcement positions for Mortgage Lending. The 2009-11 essential budget level reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including the removal of 12 positions (5.55 FTE) relating to personnel changes through permanent financing actions.

#### Issues and Options

In its 2009-11 agency request budget, DCBS requested increasing positions and expenditure limitation to support the Building Codes Boiler Inspection Program; Enhanced Mortgage Lending Examination; Safety Enforcement; continued progress on Electronic Permitting; and workload demands on business information systems. DCBS proposes adding 28 positions, increasing boiler inspection fees, at a Department-wide cost of $7.8 million. DCBS believes these initiatives are necessary to provide the capacity to function effectively and efficiently.

The Governor's recommended budget would fund these initiatives and proposes moving the Office of Minority, Women and Emerging Small Businesses to the Oregon Economic and Community Development Department (OECDD) on the basis that co-locating with OECDD, will facilitate integration of services for Oregon's small businesses and provide easier access to the firms they support.

## DCBS – Shared Services

| | 2007-09 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 31,720,814 | 36,596,379 | 37,943,862 | 40,962,906 |
| Other Funds (NL) | 19,568 | 257,956 | 257,956 | 257,956 |
| **Total Funds** | **$31,740,382** | **$36,854,335** | **$38,201,818** | **$41,220,862** |
| Positions | 175 | 174 | 174 | 178 |
| FTE | 170.93 | 169.67 | 169.67 | 176.54 |

#### Program Description

Shared Services provides direction, leadership, and support services to the diverse divisions, offices, and boards within the Department. In addition, the Office of Regulatory Streamlining was established in the Director's Office under Executive Order 03-01 to facilitate state government's efforts to simplify business regulations. The office serves as a clearinghouse for best practices and resources related to streamlining, conduct research into methods to improve processes, and compiles information about successful streamlining practices.

- The Director's Office accounts for 6% of Shared Services expenditures and provides leadership, policy direction, general supervision of all programs, and liaison with other levels of government and the general public.
- The Information Management Division accounts for 63% of Shared Services expenditures and establishes DCBS information technology strategy and standards. The unit collects, stores, processes, analyzes, and reports agency information.
- Fiscal and Business Services accounts for 22% of Shared Services 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 1% of Shared Services 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.
- Employee Services is 8% of Shared Services expenditures, and provides human resources support, to the agency.

#### Revenue Sources and Relationships

Shared Services is primarily funded with Other Funds from revenue transfers within the Department's dedicated funds. Federal Funds of $217,025 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. The Department expends Federal Funds as Other Funds.

#### Budget Environment

Workload in the Shared Services divisions is driven, in part, by the workload factors affecting the Department as a whole. This includes demographic changes in Oregon's population, economy, 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. Shared Services monitors agency workload and statistics and is working on outcome-measurement reporting.

### Essential Budget Level

The 2009-11 essential budget level of $41.2million total funds is an increase of $3 million, or 8% from the 2007-09 legislatively approved expenditure level and includes 178 positions (176.54 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $1.3 million total funds in special session and Emergency Board actions during Fiscal Year 2008 for increased compensation for employees. The 2009-11 essential budget level reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including the addition of 4 positions (6.87 FTE) relating to personnel changes through permanent financing actions.

### Issues and Options

In its 2009-11 agency request budget, DCBS requested increasing resources to address workload demands on business information systems. DCBS proposes adding 9 positions (9.00 FTE) effective July 1, 2009, and professional service dollars for consultants to purchase software and hardware. DCBS estimates the cost of this proposal to be $2.2 million. The agency believes these positions are required to address a backlog of Information Technology requirements designed to improve productivity, improve customer support, and facilitate decision making by DCBS divisions. This initiative would be funded through administrative assessments to DCBS Divisions based on level of support for the Divisions. The Department is evaluating the impact of this package in light of current economic conditions.

DCBS also requested $2.3 million for continued implementation of the Building Codes statewide E-permitting system mandated in HB 2405 (2007). The system will have capacity to serve all 132 local jurisdictions with electronic construction plan review, permits, and inspection activities. This is the second phase of a 10-year project. The first phase was funded in the 2007-09 biennial budget. For 2009-11, resources are targeted to professional services for vendor assisted implementation of software. This initiative is funded through direct charges to the Building Codes Division, which is funded through a surcharge on building permits sold in Oregon.

Additionally, DCBS requested 3 positions (3.00 FTE) and $312,694 to support initiatives in the Division of Finance and Corporate Securities (DFCS) related to mortgage lending examinations; and in the OR-OSHA Division relating to safety enforcement. One of the three positions is requested to update and maintain the mortgage lending program computer system or develop and maintain a new system. The current system needs upgrades to effectively track licensed entities, exams conducted and complaints handled to develop a risk profile system and interact with a new National Mortgage Licensing System. Funding for this position would be through administrative assessments to DFCS for costs which are funded through fees. Two of the three positions are requested to support OR-OSHA. A research position was requested to gather and analyze data along with in-depth analysis of emerging issues in health and safety to identify hazardous workplaces and target enforcement and consultative activities, assess effectiveness of injury reduction strategies and determine how industry trends and economic factors affect workplace health and safety. The other position would be an information systems specialist to redesign and maintain the federal OSHA Integrated Management Information System (IMIS). Federal OSHA is completely phasing out and replacing the IMIS, with a target implementation date of January 2010. When that system is rewritten, OR-OSHA's current file structure will change and the program currently used to intercept the data will no longer be able to load enforcement data into its database. Funding for these positions would be through administrative assessments to OR-OSHA for costs which are paid by assessment to employers based on premiums paid to Workers' Compensation insurers.

The Governor's recommended budget would fund these initiatives as requested.

## DCBS – Workers' Compensation Board

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 17,339,625 | 18,965,531 | 19,681,324 | 21,504,445 |
| **Total Funds** | **$17,339,625** | **$18,965,531** | **$19,681,324** | **$21,504,445** |
| Positions | 97 | 94 | 94 | 93 |
| FTE | 94.68 | 94.00 | 94.00 | 93.00 |

### 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 also conducts hearings and reviews of appeals from Oregon Department of Justice decisions regarding applications for compensation under the Crime Victim Assistance Program and resolves disputes between injured workers and workers' compensation carriers arising from workers' civil actions against allegedly liable third parties. 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.

The Workers' Compensation Board program includes three program areas: Administrative Services, Hearings, and Board Review.

### Revenue Sources and Relationships

The primary revenue source for the Board is Workers' Compensation Premium Assessment. The current assessment is 4.6% of earned premiums, collected from SAIF, private, and self-insurers to be used for Department expenses.

### Budget Environment

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. Over the past biennia, the Board has responded to the reduced number of filings by reducing staffing by 22.00 FTE since 1995-97 (7.50 in 1997-99, 12.00 in 1999-2001, 1.00 in 2001-03, 2.00 in 2003-05, and 0.68 in 2007-09) with a corresponding reduction in the growth of program expenditures.

### Essential Budget Level

The 2009-11 essential budget level of $21.5million total funds is an increase of $1.8 million, or 9.3% from the 2007-09 legislatively approved expenditure level and includes 93 positions (93.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $715,793 total funds in special session and Emergency Board actions during Fiscal Year 2008 for increased compensation for employees. The 2009-11 essential budget level reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including the reduction of 1 position (1.00 FTE) relating to personnel changes.

### Issues and Options

In its 2009-11 agency request budget, DCBS requested financing activities at the 2009-11 essential budget level.

## DCBS – Workers' Compensation Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 36,300,517 | 40,931,443 | 42,637,154 | 43,765,376 |
| Other Funds (NL) | 3,736,083 | 3,506,903 | 3,506,903 | 3,592,210 |
| **Total Funds** | **$40,036,600** | **$44,438,346** | **$46,144,057** | **$47,357,586** |
| Positions | 255 | 261.00 | 261.00 | 250.00 |
| FTE | 250.67 | 258.00 | 258.00 | 248.04 |

### 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 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.

The Division has five program areas. The Division budget is operationally consolidated, but the estimated costs are distributed among the programs as follows: administration and policy (8%), dispute resolution (32%), compliance (34%), operations (21%), and workers' compensation tax assessment collection (5%).

### Revenue Sources and Relationships

The Division is primarily supported with revenues from Workers' Compensation Premium Assessments. The current assessment to SAIF Corporation, private and self-insurers is 4.6%. The Division also receives $4.9 million in interest income as well as $5.5 million in other revenue that includes civil penalties for non-complying employers. Ombudsman programs are funded with $1.9 million in Workers' Compensation Insurance Assessments receipts. Funds are also transferred to the Bureau of Labor and Industries to support investigations of alleged discrimination of injured workers. In addition, $3.7 million is transferred to Oregon Health Science University Center for Research of Occupational and Environmental Toxicology, with an equal amount transferred from the Workers' Benefit Fund.

### 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 non-complying employers. The Division's budget and position authority was increased to deal with requirements of the reform. 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 was dealing with its workload appropriately.

In 1999-2001, 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 Office of Administrative Hearings to establish a statewide hearings unit. Since 1996, the number of employers and workers in the state has grown by 10.7% and 6.1%, respectively. The number of accepted disabling claims has declined by 30%. Formal disputes over benefits have declined 21.7% and the number of Preferred Worker contracts has declined 61%.

### Essential Budget Level

The 2009-11 essential budget level of $47.3 million total funds is an increase of $1.2 million, or 2.6% from the 2007-09 legislatively approved expenditure level and includes 250 positions (248.04 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $1.7 million total funds in special session and Emergency Board actions during Fiscal Year 2008 for increased compensation for employees. The 2009-11 essential budget level reflects standard adjustments for personal services costs, inflation, rate increases for the

Attorney General, and state government service charges including the removal of 11 positions (9.96 FTE) relating to personnel changes through permanent financing actions.

### Issues and Options

In its 2009-11 agency request budget, DCBS requested approval of the 2009-11 essential budget level to continue operations through the biennium.

The Governor's recommended budget would fund it at the essential budget level.

## DCBS – Oregon Occupational Safety and Health Administration

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 37,065,016 | 43,199,209 | 44,851,509 | 47,757,353 |
| **Total Funds** | **$37,065,016** | **$43,199,209** | **$44,851,509** | **$47,757,353** |
| Positions | 225 | 225 | 225 | 222 |
| FTE | 225.00 | 225.00 | 225.00 | 222.00 |

### 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 24% 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 56% 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 2009-11 revenue for the Division includes Workers' Compensation Premium Assessment, $12 million in Federal Funds (expended as Other Funds), and $3 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 2007, the Division conducted 5,049 health and safety inspections, 2,099 safety and health consultations, and trained 30,052 Oregon workers and employers. The Division expects to conduct worker training, consultative, and loss prevention services at approximately 22,000 per year. The number of illnesses or injuries per 100 full-time workers decreased from 8.7% in 1994 to 6.8% in 1998 to 5.8% in 2004, 5.4% in 2005, and 5.3% in 2006 (the last year for which data is available). This reduction is a goal of the expanded activities by the Division to provide safety and health training and workplace inspections. The reduction in injuries, illness and death in Oregon workplaces has been one of the state's successes since 1990. Bureau of Labor and Industries statistics and the Oregon workers' compensation statistics suggest that the rate of decline in workplace injury and illness maybe leveling off.

Historically, OR-OSHA has had the highest workplace enforcement presence in the nation. Increases in the number of employers and workers since 1992 have reduced OR-OSHA's inspection presence by more than one-third. In 1992, OR-OSHA could have inspected every Oregon workplace on average once in 15 years. Now it would take OR-OSHA 24 years to inspect every workplace one time. This is still the highest enforcement presence in the nation, but a substantial reduction in effect due to OR-OSHA's ability to influence workplace safety and obtain compliance.

### Essential Budget Level

The 2009-11 essential budget level of $47.8 million total funds is an increase of $2.9 million, or 6.5% from the 2007-09 legislatively approved expenditure level and includes 222 positions (222.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $1.7 million total funds in special session and Emergency Board actions during Fiscal Year 2008 for increased compensation for employees. The 2009-11 essential budget level reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including the removal of 3 positions (3.00 FTE) relating to personnel changes through permanent financing actions.

### Issues and Options

In its 2009-11 agency request budget, DCBS requested approval to expand its enforcement, outreach, and educational efforts by adding eight enforcement positions and one staff trainer position (9.00 FTE) at a cost of $1.4 million. Funding would be from the Premium Assessment Operating Account, an assessment charged to employers based on premiums paid to workers' compensation insurers. The Department is evaluating the impact of this package in light of current economic conditions. The eight positions requested represent a 10% increase in DCBS enforcement staffing which would enable OR-OSHA to complete more than 6,000 visits annually, lowering the average number of years it would take to inspect every workplace from 24 years to 20 years. A key element of the request to increase effectiveness is the addition of one additional public education trainer. An increase in the number of existing training opportunities and creation of new programs addressing emerging issues mitigates the need for a full restoration to the 1992 level.

The Governor's recommended budget would fund the agency's request for these positions.

## DCBS – Nonlimited Accounts

| Workers Compensation Self Insured Reserve | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds (NL) | 703,038 | 722,316 | 722,316 | 739,953 |
| **Total Funds** | **$703,038** | **$722,316** | **$722,316** | **$739,953** |

| Workers' Benefit Fund | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds (NL) | 179,987,255 | 184,327,050 | 184,327,050 | 191,260,998 |
| **Total Funds** | **$179,987,255** | **$184,327,050** | **$184,327,050** | **$191,260,998** |

| OMIP Claims / Third Party Adm | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds (NL) | 228,129,425 | 258,603,150 | 258,603,150 | 407,053,952 |
| **Total Funds** | **$228,129,425** | **$258,603,150** | **$258,603,150** | **$407,053,952** |

### Program Description

This program area reports Nonlimited expenditures out of the Workers' Benefit Fund, the Oregon Medical Insurance Pool (OMIP), and the Workers Compensation NL Accounts, which consists of the Self-Insured Employer Adjustment Reserve and the Self-Insured Employer Group Adjustment Reserve.

### Revenue Sources and Relationships

***Nonlimited Workers Benefit Fund*** revenues include:

- Workers' Compensation Assessments and Contributions (cents-per-hour): the current rate is 2.8 cents per hour, reduced from 4 cents per hour in 2000, with a 1.4-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. Assessments are set at a rate to cover existing and projected claims. The fund supports a variety of programs that provide assistance to employers and injured workers.
- Recovered claims cost from non-complying employers, fines, interest income, and other revenues.

***Oregon Medical Insurance Pool Claims (OMIP)/Third Party Administration*** 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. Once the Board decides what the base rate is, it then determines the additional amount, or surcharge level, it can set in order to meet projected medical claim expenses. The surcharge, which applies to medical plans only, ranges from 100% to 125%. In the past, OMIP has selected surcharge levels as low as 102% and as high as 125%. Oregon law requires portability rates are set at the same amount of the average that the major portability carriers charge with no surcharge. Enrollee monthly premiums fund about 55% of OMIP expenditures. OMIP assesses Oregon health insurers and stop-loss carriers based on the Oregon residents that they insure to fund approximately 45%. The remaining revenue comes from miscellaneous sources including interest, drug rebates, and a federal grant. The funds are used for the payment of claims for parties covered under the subject insurance plans. OMIP assumed an increase in enrollment due to the approval of the Insurance Pool Governing Board's (now known as the Office of Private Health Partnerships, or OPHP) participation in the state's Medicaid/State Health Insurance Program (SHIP) waiver agreements. The agreements allowed OPHP to receive federal match for Federal Health Insurance Assistance Program (FHIAP) enrollees. Based on the influx of federal dollars, OPHP was able to plan substantial enrollment expansion, which would have included a significant increase to the OMIP population who is served through FHIAP. The initial expansion growth was to bring the FHIAP population to 25,000 members, which would have had a very significant impact on the OMIP population through the agency's Individual subsidy program. OMIP enrollment grew to approximately 14,000 members by the end of 2003-05, 13,500 by the end of 2005-07, and a projected 18,000 by the end of 2007-09.

***Workers Compensation Nonlimited Accounts*** are funded with an additional 0.2% workers' compensation premium assessment from self-insured employers and employer groups. The Self-Insured Employer Adjustment Reserve pays for injured worker claim costs from self-insured employers that become insolvent.

## 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 142%. 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 1999-2001 to 15,964 in March 2007, primarily as a result of the implementation of FHIAP. In October 2008 there were 16,362 individuals enrolled. The increase in Nonlimited expenditures reflects that caseload growth. Prior to 1997, average rates were in the $190 per month range, but increased to $237 in 1998. Rates increased to an average high of $445 in 2004. That number has since dropped to $401 in 2005, but is currently $437. The fluctuations reflect changes in commercial premiums for comparable benefits plans, changes in the demographics of OMIP enrollees such as age and changes in benefit plans.

## Essential Budget Level

The 2009-11 essential budget level for the Workers' Compensation Self Insured Reserve of $739,953 total funds is an increase of $17,637, or 2.4% from the 2007-09 legislatively approved expenditure level. The 2009-11 essential budget level reflects adjustments for estimated injured worker medical claims costs.

The 2009-11 essential budget level for the Workers' Compensation Benefit Fund of $191.3 total funds is an increase of $6.9 million, or 3.76% from the 2007-09 legislatively approved expenditure level. The 2009-11 essential budget level reflects adjustments for increased benefits paid to injured workers and beneficiaries.

The 2009-11 essential budget level for the Oregon Medical Insurance Pool Claims and Third Party Administration (TPA) of $407 million total funds is an increase of $148.5 million, or 57.4% from the 2007-09 legislatively approved expenditure level. The 2009-11 essential budget level reflects adjustments for significant increases in enrollment and medical cost inflation. The Nonlimited budget increased from $258,603,150 in the 2007-2009 legislatively adopted budget to $407,053,952 in the 2009-2011 agency request budget. This is an overall increase of 57.4%, with *estimated* impacts of:

- 11.64% of the increase driven by enrollment increases;
- 43.13% of the increase driven by medical cost and utilization trend increases, driven by 13-14% compounded annual increases over a three-year period; and
- 2.63% of the increase driven by Third Party Administrator increases.

### Issues and Options

In its 2009-11 agency request budget, DCBS requested approval of the 2009-11 essential budget level to continue operations through the biennium.

The Governor's recommended budget would fund the Nonlimited accounts at the essential budget level.

## DCBS – Insurance

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 15,139,340 | 18,098,467 | 18,768,056 | 20,186,109 |
| **Total Funds** | **$15,139,340** | **$18,098,467** | **$18,768,056** | **$20,186,109** |
| Positions | 92 | 94 | 94 | 94 |
| FTE | 91.00 | 92.50 | 92.5 | 92.50 |

### 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 the insured and claimants. The Division's three 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 Examinations section monitors the financial solvency of Oregon insurers. Consumer Protection enforces the Insurance Code. The Regulation section reviews insurance policy forms and premium rates for compliance with Oregon law, and also licenses insurance agents and provides Division-wide support. The Senior Health Insurance Benefits Assistance (SHIBA) program provides free counseling to people with Medicare and those who assist them. Volunteers who are trained in Medicare help senior citizens select a Medicare prescription drug plan; find out if they are receiving all possible benefits; compare supplemental health insurance policies; review a bill; and file an appeal or complaint. This program is part of the Oregon Department of Consumer and Business Services and is funded by a federal grant.

### Revenue Sources and Relationships

Division revenue sources include business license fees, insurance premium assessments, interest earnings, and investment returns. Revenue estimates for 2003-05 included 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 $898,617 from the Health Care Financing Administration, which funds a portion of the Oregon Senior Health Insurance Benefits Assistance Program (SHIBA). For 2005-07, after paying operating expenses, $162 million in insurance premium taxes, fines, and interest earnings was transferred to the General Fund for general governmental purposes. In addition, $15.4 million from assessments on fire insurance premiums was transferred to the State Police Fire Marshal program. This transfer is projected at $17.3 million in 2007-09.

### 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. Information technology has helped the Division to manage this workload.

### Essential Budget Level

The 2009-11 essential budget level of $20.2 million total funds is an increase of $1.2 million, or 7.5% from the 2007-09 legislatively approved expenditure level and includes 94 positions (92.50 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $669,589 total funds in special session and Emergency Board actions during Fiscal Year 2008 for increased compensation for employees. The 2009-11 essential budget level reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

In its 2009-11 agency request budget, DCBS requested approval of the 2009-11 essential budget level to continue operations through the biennium.

The Governor's recommended budget would fund 2 positions (2.00 FTE) at a cost of $308,956 to provide staffing supporting legislation proposed by the Oregon Health Fund Board requiring all health plans in the state to report certain data in addition to data currently collected by the Insurance Division and reporting by additional types of entities not already reporting to the Division. The proposed legislation also requires DCBS to approve rates and develop standards for certain administrative processes. A companion package is included in the Department of Human Services agency request. In addition, the Governor recommends a reduction of $825,346 to reflect a reduction in funding paid by the Department of Human Services to DCBS to administer the Senior Health Insurance Benefits Assistance (SHIBA). Payments to partners to run the program will be reduced accordingly. The reduction of DHS transfer funds of $825,346 will have a direct impact to SHIBA sponsors of just under $600,000. This is money that would have gone to pay for sponsor contracts, reimbursement of volunteer expenses, and other direct costs incurred by local sponsor organizations for SHIBA volunteers. The remainder of the reduction will reduce state administration of the program through reduced publications, travel, and training.

## DCBS – Finance and Corporate Securities

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 11,121,907 | 12,087,773 | 13,323,553 | 14,837,933 |
| Other Funds (NL) | 8,841 | 50,000 | 50,000 | 50,000 |
| **Total Funds** | **$11,130,748** | **$12,137,773** | **$13,373,553** | **$14,887,933** |
| Positions | 68 | 66 | 73 | 75 |
| FTE | 68.00 | 65.46 | 68.81 | 75.00 |

### 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 through regulation of banks, credit unions, mortgage lenders, consumer finance companies, collection agencies, and other financial institutions. The Division is organized into two sections. The Financial Institutions Section is 65% of the budget; Securities and Enforcement is 35% of Division expenditures and registers security offerings, licenses businesses and individuals who sell securities, and investigates and enforces violations of laws.

### Revenue Sources and Relationships

The Division receives $32.3 million in revenue from annual assessments on financial institution assets and from securities licensing, registration, and examination fees. The Division receives $944,571 from interest earnings. HB 3656, enacted in 2003, raised securities licensing and registration fees for the first time since 1967-1969 to the midpoint of such fees charged by all states. This has increased the biennial transfer to the General Fund from slightly less than $3 million in 2001-03 to a projected $19.2 million for 2007-2009.

### 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, removed 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.

In 2007, DFCS oversaw 7,631 registered securities, 130,000 licensed brokers/dealers and salespersons, and 1,499 investment advisor firms. The Securities section conducted 111 securities investigations, took 66 administrative actions, and participated in 50 criminal prosecutions. In 2007, DFCS also oversaw 35 state chartered banks, 5 state chartered trust companies, and 20 credit unions with assets worth $9.7 billion and 146 offices. There were also 364 consumer finance and short-term lenders, 1,706 licensed mortgage bankers/brokers, 312 manufactured structure dealers, 120 supplemental manufactured structure dealers, 726 registered collection agencies, 51 debt consolidation agencies, and 67 licensed pawnbrokers subject to DFCS oversight.

Mortgage lending has changed significantly since the establishment of the Mortgage Lending Program in 1993. In 2007, Oregon licensed 371 new mortgage lenders, 108 of which were located in Oregon. The agency did not have the resources to conduct preliminary exams on any of these new licensees. Approximately one-third of the 620 in-state lenders and nearly all 900 out-of-state companies have never been examined. Representatives of the mortgage lending industry have raised concerns about DCBS' limited ability to examine licensees and potential harm to consumers when inappropriate behavior is not identified and corrected.

### Essential Budget Level

The 2009-11 essential budget level of $14.8 million total funds is an increase of $1.5 million, or 11.3% from the 2007-09 legislatively approved expenditure level and includes 80 positions (77.06 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $1.2 million total funds and the addition of five permanent full-time positions (2.06 FTE) in special session and Emergency Board actions during Fiscal Year 2008 for increased compensation for employees and increased enforcement positions for Mortgage Lending and Bank Examinations positions. The 2009-11 essential budget level reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including adding 7 positions (8.29 FTE) relating to biennializing the positions added by special session actions for mortgage lending enforcement and personnel changes through permanent financing actions.

### Issues and Options

In its 2009-11 agency request budget, DCBS requested approval of adding 8 positions (7.75 FTE), 7 permanent full-time position and one limited duration, to redesign and expand the scope of mortgage lending examinations. One Information Systems Specialist would update and maintain the current mortgage lending program computer system and integrate the system with a national database scheduled for operation in 2009. Four financial examiners would complete examinations, and two financial examiners positions would perform licensing reviews. A limited duration Finance Enforcement Officer would be responsible for handling a temporary increase in workload for enforcement actions resulting from the additional examinations. The additional staff would be funded by an increase in examination fees and fees for licensing mortgage brokers, bankers, and loan originators.

The Governor's recommended budget would fund the agency's requested budget.

## DCBS – Oregon Medical Insurance Pool Administration

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 1,803,858 | 1,926,829 | 2,001,148 | 2,075,316 |
| **Total Funds** | **$1,803,858** | **$1,926,829** | **$2,001,148** | **$2,075,316** |
| Positions | 9 | 9 | 9 | 9 |
| FTE | 9.00 | 9.00 | 9.00 | 9.00 |

### 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 OPHP.

### 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 $420.7 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 16,157 as of July 1, 2008. 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.

Operating expenses for the program continue to remain near 0.51% of program expenditures, resulting in 99.49% of OMIP's budget directly funding health-care expenditures for OMIP enrollees. Enrollee monthly premiums fund about 55% of OMIP expenditures. OMIP assesses Oregon health insurers and stop loss carriers, based on the Oregon residents that they insure, to fund approximately 44%. The remaining 1% of revenue comes from miscellaneous sources, including interest and drug rebates. Premiums are increasing at a rate slightly higher than medical-claim expenditures, making premiums a larger part of total revenue in the 2007-09 biennium than in 2005-07. In 2009-11, OMIP enrollment is projected to exceed 18,000.

### Essential Budget Level

The 2009-11 essential budget level of $2.1 million total funds is an increase of $74,168, or 3.7% from the 2007-09 legislatively approved expenditure level and includes 9 positions (9.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $74,319 total funds in special session and Emergency Board actions during Fiscal Year 2008 for increased compensation for employees. The 2009-11 essential budget level reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

In its 2009-11 agency request budget, DCBS requested approval of the 2009-11 essential budget level to continue operations through the biennium.

The Governor's recommended budget would fund it at the essential budget level.

## DCBS – Building Codes

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 22,806,936 | 27,504,011 | 28,533,288 | 28,822,108 |
| Other Funds (NL) | 741,039 | 800,000 | 800,000 | 800,000 |
| **Total Funds** | **$23,547,975** | **$28,304,011** | **$29,333,288** | **$29,622,108** |
| Positions | 143 | 153 | 153 | 142 |
| FTE | 140.5 | 150.25 | 150.25 | 143.50 |

### 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 seven 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.

### Revenue Sources and Relationships

The Division's revenues include:

- $36.3 million from fees for licenses, inspections, and permits, as well as surcharges on fees levied by state and local jurisdictions;
- $264,618 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;
- $943,062 from fines; and
- $2,327,531 in other revenue, including interest earnings.

### 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 21.2% increase in the number of compliance cases.

### Essential Budget Level

The 2009-11 essential budget level of $29.1 million total funds is an increase of $288,820, or 1% from the 2007-09 legislatively approved expenditure level and includes 142 positions (140.50 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $1 million total funds in special session and Emergency Board actions during Fiscal Year 2008 for increased compensation for employees. The 2009-11 essential budget level reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges including the removal of 8 positions (6.75 FTE) relating to personnel changes through permanent financing actions.

### Issues and Options

In its 2009-11 agency request budget, DCBS reflected a reduction of $499,527 and 3 positions (3.00 FTE) for a deficit in permit revenue for the Boiler and Pressure Vessel program. Current permit revenue does not cover the program's expenses to complete about 9,000 inspections per year. Boiler fees increased 15% in 1991 and 10% in 2001 but this was not enough to offset the cost of providing inspection. Until 2003, the program had been subsidized by funds from other building code programs; now revenue generated is dedicated to the program generating the revenue. This is a 38% reduction in staff and associated services. The agency requested legislation to increase boiler and pressure vessel installation and operating permit fees an average of 35%. The increase is projected to restore a positive cash balance in the program by the end of the 2009-11 biennium and is forecasted to continue through 2011-13. DCBS requested the fee increase be approved and the 3 positions (3.00 FTE) be restored at a cost of $493,594 for the 2009-11 biennium. The agency also requested resources to continue for the second phase of a statewide E-permitting system mandated in HB 2405 (2007). The system will have the capacity to serve all 132 local jurisdictions with electronic construction plan review, permit, and inspection activities. This is the second phase of 10-year project. Resources are targeted at assisting local jurisdictions in connecting to the system. The project is funded through a surcharge on building permits sold in Oregon.

A legislative concept is being submitted that promotes energy efficiency by requiring DCBS to adopt energy conservation standards for building construction and products in Oregon. The package adds 2 limited duration positions to direct and oversee the energy efficiency program, including technical requirements in all specialty code program areas. Funding for this program is from the Department of Energy that has a corresponding package.

The Governor's recommended budget would fund the agency request.

## DCBS – Office of Minority, Women and Emerging Small Business

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 768,730 | 853,649 | 887,678 | 938,423 |
| **Total Funds** | **$768,730** | **$853,649** | **$887,678** | **$938,423** |
| Positions | 5 | 5 | 5 | 5 |
| 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 program aids firms seeking to contract with recipients of federal transportation funds. A business participating in the Minority Business Enterprise or Women Business Enterprise program is certified to contract with state, county, city, and local jurisdictions. The race and gender-neutral Emerging Small Business program certifies small businesses for work on specially designated emerging small business 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 receives Other Funds revenue 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 2009-11, OMWESB expects to receive $585,896 from ODOT, which is 32% of the Office's funding. The remaining 68% ($1,251,920) will come from DAS assessments. DCBS will transfer $577,500 in 2009-11 to the Governor's Office to fund the Minority, Women, and Small Business Advocate's Office.

### Budget Environment

OMWESB concentrates its efforts on the certification and re-certification process. Effective December 1, 2000, certifications became valid for three years, instead of one. Easing the paperwork burden on certified agencies allows the Office more time to focus on education, directory maintenance, and referral services. In the 2006-07 fiscal year, OMWESB certified 632 new applications and recertified 278 applications.

### Essential Budget Level

The 2009-11 essential budget level of $938,423 total funds is an increase of $49,745, or 5.6% from the 2007-09 legislatively approved expenditure level and includes 5 positions (5.00 FTE) as of December 2008. The 2007-09 legislatively approved expenditure level includes $35,029 total funds in special session and Emergency Board actions during Fiscal Year 2008 for increased compensation for employees. The 2009-11 essential budget level reflects standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

In its 2009-11 agency request budget, DCBS requested approval of the 2009-11 essential budget level to continue operations through the biennium.

Legislation is being proposed in the 2009 session to permanently move OMWESB to the Oregon Economic and Community Development Department (OECDD). This package mirrors a policy package in the OECDD budget. This change will co-locate programs that serve Oregon's disadvantaged, minority, women and emerging small businesses to better integrate services and provide easier access to the firms they support.  All positions within OMWESB will be transferred from DCBS to OECDD.  The policy package is revenue neutral.

The Governor's recommended budget would fund it at the essential budget level and assumes the program transfer.

## Board of Licensed Professional Counselors and Therapists – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 655,496 | 635,668 | 668,068 | 751,671 |
| **Total Funds** | **$655,496** | **$635,668** | **$668,068** | **$751,671** |
| Positions | 3 | 3 | 3 | 3 |
| FTE | 2.00 | 2.50 | 2.50 | 2.50 |

### Agency Overview

The mission of the Board of Licensed Professional Counselors and Therapists is to assist the public by identifying and regulating the practice of qualified mental health counselors and marriage and family therapists. The Board oversees a voluntary licensing program for professional counselors and marriage and family therapists who want to use the title of "licensed professional counselor" or "licensed marriage and family therapist." The Board registers interns who are completing work experience requirements for licensure. The seven-member board is appointed by the Governor and composed of three licensed professional counselors, two licensed marriage and family therapists, one faculty from a related program, and one public member.

### Revenue Sources and Relationships

The agency is funded by revenue generated from application and license fees. Other miscellaneous sources include fines and the sale of mailing lists and copies of public records. Revenue in 2009-11 is projected to be greater than 2007-09 estimates and continued growth in licensees is anticipated. The agency also anticipates increasing its fees. The projected ending cash balance of $365,763 equals approximately twelve months of operating costs, or 32% of projected revenue. Given the agency's renewal cycle, a nine month ending balance is considered minimal for cash flow purposes. However, the agency is planning to switch to a birth month license renewal cycle which will diminish the need for such a large ending cash balance.

### Budget Environment

The agency has identified three main activities: licensing; consumer protection; and administration. Over the last two years, both initial licenses and license renewals have increased. The agency expects this trend to continue in 2009-11, which will continue to have a direct impact on licensing and consumer protection workload. Operating costs continue to increase due to disciplinary actions.

### Essential Budget Level

The essential budget level for the Board of Licensed Professional Counselors and Therapists is $116,003 total funds (18.3%) more than the 2007-09 legislatively approved budget as of December 2008. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The 2007-09 legislatively approved expenditure level includes $32,400 total funds in special session and Emergency Board actions during Fiscal Year 2008.

### Issues and Options

In its 2009-11 agency request budget, the Board of Licensed Professional Counselors and Therapists asked for one Investigator 2 (0.50 FTE) position and one Office Specialist 2 (0.50 FTE) position, both funded by fee increases. The cost for these improvements would be $164,574 total funds and two positions (1.00 FTE). The agency believes these additions would increase its ability to resolve complaints and process licensure and intern registration applications in less time. The Governor's recommended budget funds the agency above the essential budget level, including the agency request enhancements. Specifically, the additions of both of the requested positions are added as part of the Governor's recommended budget, along with the requested fee increases. These additions total $161,788 Other Funds and two positions (1.00 FTE).

The 10% reduction options (Other Funds) for the Board of Licensed Professional Counselors and Therapists include eliminating out-of-state travel, reducing in-state travel, cutting Attorney General expenses, reducing contracts with investigators, and eliminating one Administrative Specialist 2 (0.50 FTE) position.

## Board of Dentistry – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 1,674,133 | 1,865,822 | 1,913,097 | 2,091,744 |
| **Total Funds** | **$1,674,133** | **$1,865,822** | **$1,913,097** | **$2,091,744** |
| Positions | 7 | 7 | 7 | 7 |
| FTE | 7.00 | 7.00 | 7.00 | 7.00 |

### Agency Overview

The mission of the Board of Dentistry is to assure that the citizens of the state receive the highest possible quality oral health care. The Board regulates the practice of dentistry and dental hygiene through examination, licensing, and disciplinary programs. The Board also establishes standards for the administration of anesthesia in dental offices; determines dental procedures that may be delegated to dental assistants; and establishes standards for training and certification of dental assistants. The nine-member board is appointed by the Governor and composed of six dentists, two dental hygienists, and one public member.

### Revenue Sources and Relationships

The agency is funded by revenue generated from application, renewal, and permit fees. Other miscellaneous sources include fines for late renewals, civil penalties, interest income, and the sale of mailing lists and copies of public records. Revenue in 2009-11 is expected to exceed 2007-09 estimates by approximately 8% and the projected ending cash balance of $483,500 equals approximately six months of operating costs, or 27% of projected revenue.

### Budget Environment

The agency has identified three main activities: examination and licensing (26%); enforcement and monitoring (54%); and administration (20%). The growth in licensees may increase slightly from 2007-09 levels due to an increase in dentists obtaining licenses in multiple states and an increase in the number of dental hygienists entering the industry.

### Essential Budget Level

The essential budget level is a 9.3% increase over the 2007-09 legislatively approved budget. The increase in the essential budget level includes standard increases for state government services charges, personnel costs, inflation, and rate increases for the Attorney General.

### Issues and Options

The Governor's recommended budget increases the agency's budget by 18.3% over the 2007-09 legislatively approved budget and includes a fee increase on certain licenses to cover increased costs associated with national background checks and increased costs associated with subscriptions to national health practitioners databases.

## Board of Examiners of Licensed Dieticians – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 58,026 | 78,514 | 81,722 | 78,971 |
| **Total Funds** | **$58,206** | **$78,514** | **$81,722** | **$78,971** |
| Positions | 1 | 1 | 1 | 1 |
| FTE | 0.30 | 0.30 | 0.30 | 0.30 |

### Agency Overview

The mission of the Board of Examiners of Licensed Dietitians is to protect public health, safety, and well being by regulating licensed dietetic practice. The Board oversees the voluntary licensing program for dietitians who want to use the title "licensed dietitian." The agency issues and renews licenses; verifies continuing education; and investigates complaints, taking appropriate disciplinary action when necessary. The seven-member board is appointed by the Director of the Department of Human Services and composed of one physician trained in clinical nutrition, four dietitians, and two public members.

### Revenue Sources and Relationships

The agency is funded by revenue generated from application and license fees. Other miscellaneous sources include late payment fines and interest income. Revenue in 2009-11 is expected to exceed 2007-09 estimates and the projected ending cash balance of $99,650 equals approximately 30 months of operating costs.

### Budget Environment

The agency has an estimated 500 licensees and has averaged one complaint per year from 2000 to 2006. Three complaints were received in 2007.

### Essential Budget Level

The essential budget level maintains the Board's licensing and regulatory activities. The Governor's recommended budget is the essential budget level.

## Health Licensing Agency – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 5,102,020 | 6,131,235 | 6,410,206 | 5,899,299 |
| **Total Funds** | **$5,102,020** | **$6,131,235** | **$6,410,206** | **$5,899,299** |
| Positions | 27 | 32 | 32 | 29 |
| FTE | 27.00 | 31.40 | 31.40 | 29.00 |

### Agency Overview

The Health Licensing Agency is a consumer protection agency providing centralized regulatory oversight for the following health-related professions:

- Athletic Training
- Body Piercing
- Cosmetology
- Denture Technology
- Electrology
- Environmental Health
- Nursing Home Administrators (see Issues and Options)
- Hearing Aid Specialist
- Midwifery, Direct Entry
- Permanent Color Technician
- Respiratory Therapy
- Tattoo Artist
- Sex Offender Therapists (HB 3233, 2007)

The agency regulates these professions through examination, licensing, inspection, and disciplinary programs. The boards and councils for the respective professions are responsible for establishing educational and professional scope of practice requirements.

### Revenue Sources and Relationships

The agency is funded by revenue generated from application, examination, and license fees. Other miscellaneous sources include civil penalties, late fees, and the sale of supplies. Essential budget level licensing fee revenue in 2009-11 is projected to be $5.5 million. During the interim, the agency developed a cost allocation model to calculate standardized fees across all its boards, councils, and programs. If implemented in 2009-11, fee revenue would increase about $1.3 million (see discussion under Issues and Options below).

### Budget Environment

HB 3233 (2007) established the Sex Offender Treatment Board to oversee the certification of sex offender therapists and placed the board under the administrative jurisdiction of the Oregon Health Licensing Agency. The agency will report to the 2009 Legislature on the status of integrating the new board into its existing structure. Due to funding issues that have faced the Board of Nursing Home Administrators, proposed legislation would transfer that operation to the Health Licensing Agency (see Issues and Options).

### Essential Budget Level

The essential budget level continues full-time positions essential to carry on work from the prior biennium.

### Issues and Options

The Governor's recommended budget includes a restructured fee methodology that would increase fee revenues by about $1.3 million. The budget anticipates passage of legislation that would transfer operations of the Nursing Home Administrators Board to the Health Licensing Agency. It also includes six additional full-time staff, including one transferred from the Nursing Home Administrators Board. Four of the five other new positions were approved in 2007-09 as limited duration positions to deal with regulatory workload. One new position is requested, again to support the increased workload of the agency.

No separate budget has been prepared or requested for the Nursing Home Administrators Board. It the Legislature chooses not to transfer its operations to the Health Licensing Agency, a separate budget will have to be passed for that Board.

## Bureau of Labor and Industries (BOLI) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 11,658,779 | 12,608,315 | 12,942,482 | 13,832,851 |
| Other Funds | 5,576,640 | 6,378,479 | 6,528,809 | 6,858,999 |
| Federal Funds | 1,256,505 | 1,517,788 | 1,546,856 | 1,654,391 |
| Other Funds (NL) | 1,646,532 | 2,338,473 | 2,338,473 | 2,403,950 |
| **Total Funds** | **$20,138,456** | **$22,843,055** | **$23,356,620** | **$24,750,191** |
| Positions | 109 | 112 | 112 | 112 |
| FTE | 107.88 | 111.00 | 111.00 | 111.00 |

### Agency Overview

The Bureau of Labor and Industries (BOLI) has four divisions: Commissioner's Office/Program Support Services; plus three divisions organized around the agency's three program areas: Civil Rights, Wage and Hour, and Apprenticeship and Training. The Bureau ensures compliance with laws relating to the rights of workers and citizens to equal and nondiscriminatory treatment, with laws relating to wages and hours worked (including prevailing wage rates on public works contracts) and terms and conditions of employment, and with laws relating to apprenticeships.

### Revenue Sources and Relationships

The Bureau is primarily supported by General Fund. The Bureau also receives Other Funds revenues from a number of sources. The largest single source of Other Funds revenues is the revenue received from a fractional percentage (0.03%) of the unemployment taxes paid by employers. This revenue, which is forecast to total approximately $4 million in the 2009-11 biennium, is deposited into the Wage Security Fund to pay final wages to employees whose employers cease operations and default on final paychecks. The agency is also projected to receive approximately $650,000 from interest earnings and recovery of payments from defaulting employers for the Wage Security Fund. Expenditures from the Wage Security Fund are Nonlimited when used to pay final wages to employees. Such payments are projected to total $2.4 million during the 2009-11 biennium. Expenditures from the Wage Security Fund for agency administrative costs, however, are limited and are shown as Other Funds. The $6,858,999 of total Other Funds expenditures in the essential budget level includes $886,980 of Wage Security Fund revenue spent on agency administration.

The Prevailing Wage Rate program is forecast to receive $2.2 million in assessments on public works construction contracts; Technical Assistance Fees will generate $1.1 million; contract services with the Department of Consumer and Business Services (DCBS) for investigation of discrimination complaints against injured workers will produce $1,033,000; and other miscellaneous fees and receipts will provide approximately $300,000. The agency also receives Federal Funds under three federal programs. BOLI contracts with the Equal Employment Opportunity Commission (EEOC) and receives $926,000 in Federal Funds under this contract to support investigation of civil rights cases covered under three federal Acts: the Civil Rights Act, the Americans with Disability Act, and the Age Discrimination in Employment Act. The EEOC funds partially support the costs for civil rights enforcement where federal and state jurisdictions overlap. BOLI also contracts with the U.S. Department of Housing and Urban Development (HUD) for enforcement of the federal Fair Housing Act. The agency will receive $480,000 of Federal Funds under the HUD contract. Finally, BOLI will receive $111,000 of Federal Funds from the Veterans' Administration (VA). The VA funding supports the Apprenticeship and Training Division in approving apprenticeship and on-the-job training programs for veterans.

### Budget Environment

Staffing levels were reduced by approximately one-third, from 159.02 FTE to 107.88 FTE, between the 1993-95 and the 2005-07 bienniums. Budget reductions occurred at the same time that the Oregon workforce was increasing by approximately 225,000 employees, and when the number and complexity of laws that the agency enforces also increased. The budget for the Bureau was essentially flat between 1999-2001 and 2001-03, with gradual increases occurring in the 2003-05 and 2005-07 biennia. In 2007, the Legislature increased staffing levels to 111.00 FTE. The Bureau has dealt with the loss of staffing, and with resources that do not keep pace with inflation, by closing offices, seeking efficiencies in operations, and reducing services. The reduced service levels have left the Bureau struggling to meet some of its performance targets.

Workload is primarily driven by the number of complaints received in the programs the Bureau administers. These include claims relating to wages and hours worked, terms and conditions of employment, and civil rights and fair housing law violations. Issues related to the Prevailing Wage Rate law, which sets minimum wage rates for public works contracts, have been a major source of workload growth, particularly in the area of public-private partnership projects. Prevailing wage rate investigations and Wage Security Fund claims fluctuate with changes in Oregon's economy. Apprenticeship registration generally reflects trends in the labor market.

### Essential Budget Level

There are no unusual issues relating to the calculation of 2009-11 biennium essential budget level (EBL) expenditures (costs) in the BOLI budget. There are no program or position phase-ins or phase-outs, and the changes from the 2007-09 biennium legislatively approved levels represent the standard increases in personnel costs, plus inflation in services and supplies costs and state government service charges. There are, however, issues relating to revenues. The agency projects that Other Funds and Federal Funds revenues in the 2009-11 biennium will be insufficient to finance essential budget level costs and maintain current staffing levels. In some cases, revenues will increase over 2007-09 biennium levels, but not sufficiently to cover program cost increases. In other cases, revenues are projected to actually decline from 2007-09 biennium levels. The combined Other Funds and Federal Funds revenue shortfall is projected to total over $547,000 (or 6.3%) of the EBL costs supported from these revenue sources.

### Issues and Options

The Governor's recommended budget includes General Fund support at the essential budget level, but because of the projected Other Funds and Federal Funds revenue shortfalls, his budget eliminates three positions and 3.50 FTE. The revenue shortfalls fall in the Technical Assistance to Employers and Civil Rights programs.

## BOLI – Commissioner's Office and Program Support Services

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 3,487,865 | 3,628,675 | 3,720,704 | 4,008,632 |
| Other Funds | 1,566,406 | 2,090,349 | 2,106,777 | 2,239,294 |
| Federal Funds | 242,116 | 248,447 | 258,151 | 276,018 |
| **Total Funds** | **$5,296,387** | **$5,967,471** | **$6,085,632** | **$6,523,944** |
| Positions | 27 | 27 | 27 | 27 |
| FTE | 27.00 | 27.00 | 27.00 | 27.00 |

### Program Description

The Commissioner's Office and Program Support Services Unit provides overall policy direction and management for the Bureau. The program units are:

- The ***Commissioner's Office / Legal Policy*** combines administration, strategic planning, legal policy, public information, and intergovernmental relations into one activity area.
- ***Business Services*** provides centralized fiscal services including accounting, purchasing, payroll, budget development, and contract administration. Employee services such as safety, wellness, labor/management relations, workers' compensation, training, and staff development are another component of this program area. Information services to implement and maintain computer information systems and user support functions also reside here.
- The ***Hearings Unit*** convenes administrative law proceedings in contested cases for wage and hour claims, prevailing wage violations, farm and forest labor contractor violations and licensing, child labor violations, and civil rights complaints.
- The ***Technical Assistance for Employers Unit*** provides employers with online information and with handbooks, a telephone information line, and customized workshops and seminars regarding employment law and civil rights requirements, and provides similar services for state agencies and local governments regarding prevailing wage rate law.

### Revenue Sources and Relationships

The Commissioner's Office/Program Support Division receives just over 60% of its support from General Fund resources. Other Funds revenues include $1.1 million of fees collected by the Technical Assistance for Employers Unit from participating employers for seminars and on-site presentations on Civil Rights and Wage and Hour laws, and from the sale of handbooks. Additional Other Funds are received from miscellaneous fees, and from portions of the Wage Security Fund revenue and Prevailing Wage Rate fees that are allocated to the Commissioner's Office to support central administrative costs and the costs of conducting administrative law hearings. Federal Funds are from an Equal Employment Opportunity Commission (EEOC) contract and are used to cover costs associated with administrative law proceedings for contested cases.

### Budget Environment

The overall workload for the agency has remained approximately the same despite the earlier decrease in staff. The Bureau has handled this workload through improved use of technology, particularly through the use of its website. Timeliness of response remains the primary customer focus for BOLI, and long-term reductions in staffing have had an adverse effect on timeliness. More recently, some measures of workload have been declining. Although the number of cases received by the Bureau continues to grow, the number that proceed to the hearing stage (and are not settled prior to hearing) has been declining. The number of administrative law hearings held equaled 13 in 2006-07 and three in 2007-08. These 16 hearings over the most recent two-year period is a decline from a total of 45 hearings in the 2003-05 biennium. A total of 133 cases, on the other hand, were settled prior to hearing in the most recent two-year period, compared to 85 cases in the 2003-05 biennium.

### Essential Budget Level

Changes from the 2007-09 biennium legislatively approved levels in the 2009-11 biennium essential budget level represent the standard increases in personnel costs, plus inflation in services and supplies costs and state government service charges. The agency, however, projects Other Funds and Federal Funds revenue levels in the 2009-11 biennium that will be insufficient to finance essential budget level costs and maintain current staffing levels. The Technical Assistance for Employers Unit is self-supporting from the Other Funds fees it generates from seminars and sales of materials. These revenues (forecast to total $1.1 million) are estimated to be approximately $355,000 (or 24%) below the level needed to finance the Unit at the essential budget level. The Hearings Division spends Federal Funds from the EEOC contract to support costs associated with Civil Rights hearings. Federal Funds from this contract will also be less than the amount needed to fund the essential budget level costs for this program.

### Issues and Options

The Governor recommended General Fund support at the essential budget level. The Governor did not, however, recommend approving an agency request for General Fund to offset Other Funds revenue shortfalls supporting the Technical Assistance for Employers program, or for General Fund to offset Federal Funds revenue shortfalls in the Civil Rights Program. The agency would therefore eliminate three full-time positions in the Technical Assistance for Employers Unit, and reduce a full-time position supporting civil rights hearings in the Hearings Division to half-time. Two of the three positions slated for elimination in the Technical Assistance for Employers Unit have been held vacant throughout the 2007-09 biennium due to insufficient funding.

The Governor did recommend an agency request to add an Accounting Tech position, and to support an Oracle Migration Project that would upgrade IT system software and transfer certain applications to the Web. These two items are funded with approximately $351,000 Other Funds from the Wage Security Fund.

## BOLI – Civil Rights

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 2,651,695 | 2,785,571 | 2,863,699 | 3,028,183 |
| Other Funds | 965,777 | 1,034,882 | 1,074,853 | 1,090,529 |
| Federal Funds | 949,559 | 1,185,665 | 1,205,018 | 1,288,121 |
| **Total Funds** | **$4,567,031** | **$5,006,118** | **$5,143,570** | **$5,406,833** |
| Positions | 31 | 32 | 32 | 32 |
| FTE | 30.50 | 31.25 | 31.25 | 31.25 |

## Program Description

The Civil Rights Division enforces laws that prohibit unlawful discrimination in employment, housing, public accommodation, and career schools. These protections are provided on the basis of: race, color, national origin, sex, religion, age, marital status, sexual orientation, disability, and injured worker status. Protection is also provided against retaliation for filing civil rights complaints, for reporting illegal activity ("whistleblower" protection), and for violations of family leave laws. The Division processes employment discrimination complaints for the Oregon Occupational Safety and Health Administration (OR-OSHA) and Workers' Compensation. The Division operates under a work-share agreement with the federal 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 $1,000,000 from OR-OSHA and the Injured Worker Benefit Fund. The workers' compensation Injured Worker Benefit Fund in DCBS provides the majority of these funds ($713,000) to investigate allegations of discrimination against injured workers. Approximately $90,000 in Other Funds miscellaneous revenues will be generated from providing public record copies. The EEOC work-share reimbursement of $540 per case provides $710,000 Federal Funds to the Division budget. 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. When Federal Funds are reduced, the costs of shared cases are shifted onto the General Fund. The HUD contract provides $480,000 Federal Funds to the Division budget.

## Budget Environment

The Civil Rights Division responded to 32,445 inquiries in Fiscal Year 2007 and 29,440 inquiries in Fiscal Year 2008, and investigates over 2,000 cases per year. Most of these cases (98%) relate to discrimination in employment, with the rest relating to housing or public accommodations. The four principal areas of complaints relate to sex discrimination (23% of complaints), disability (22%), injured worker (21%), and race/color (17%). In Fiscal Year 2006, approximately 60% of the civil rights investigations were completed within 180 days, although the statutes allow the agency up to a year to complete the investigations. The Bureau has reduced the average time until initial interview of complainants from 51 days in the 2005-07 biennium to 28 days in 2007-09.

BOLI receives funding for investigation of discrimination complaints against injured workers from the Injured Workers Benefit Fund in the Department of Consumer and Business Services. Complaints from injured workers relating to 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.

## Essential Budget Level

The increase in the Essential Budget Level over 2007-09 biennium expenditure levels incorporates only the standard adjustments for personnel cost increases, and for inflation in services and supplies costs and state government service charges. There is, however, an issue relating to revenues. The agency projects insufficient Federal Funds revenue in the 2009-11 biennium to finance essential budget level costs and maintain current staffing levels. Funding for the Division from the EEOC contract is projected to decline by 34% from the 2007-09 biennium level, thereby leaving revenues $126,000 below what is needed to finance the EBL.

## Issues and Options

The Governor recommended General Fund support for the Civil Rights Division at the essential budget level. The Governor did not, however, recommend approving an agency request for General Fund to offset Federal Funds revenue shortfalls supporting the Civil Rights Program. The agency would therefore eliminate one full-time Senior Civil Rights Investigator position in the Division, requiring the workload to be absorbed by the remaining positions. Note there is an additional half-time position eliminated as a result of the Federal Funds revenue shortfall in Hearings Unit. (See the Commissioner's Office and Program Support Services section above for more detail.)

## BOLI – Wage and Hour

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 3,023,434 | 3,380,113 | 3,465,601 | 3,691,076 |
| Other Funds | 3,044,457 | 3,153,356 | 3,244,451 | 3,416,584 |
| Other Funds (NL) | 1,646,532 | 2,338,473 | 2,338,473 | 2,403,950 |
| **Total Funds** | **$7,714,423** | **$8,871,942** | **$9,048,525** | **$9,511,610** |
| Positions | 34 | 35 | 35 | 35 |
| FTE | 33.38 | 34.75 | 34.75 | 34.75 |

### Program Description

The Wage and Hour Division receives claims and complaints from workers involving wages and working conditions, including the minimum wage and overtime, and protects children in the workplace. The Division also enforces regulations pertaining to private employment agencies, conducts surveys and publishes prevailing wage rates for public works projects, and licenses and regulates farm and forest labor contractors.

### Revenue Sources and Relationships

The Wage and Hour Division expects to receive about $1.9 million from assessments on public construction contracts for the Prevailing Wage Rate (PWR) program, and $130,000 in licensing fees for farm/forest labor contractor licenses. The Wage Security Fund is dedicated to the payment of final wages for employees whose employers cease operations and default on final paychecks. The agency will receive over $4 million for the Fund in the 2009-11 biennium from the .03% of unemployment tax premiums paid by employers during one quarter of each biennium. The Division will also receive $650,000 in interest and recoveries for the Wage Security Fund. Out of the total $4.65 million in Wage Security Fund revenues, the Division will retain $4.45 million. A projected $2.4 million will be spent for actual wage claims as Nonlimited Other Funds. Approximately $700,000 of the Wage Security Fund revenues are spent on administration, with the remainder retained by the Fund.

### Budget Environment

The Wage and Hour Division receives and investigates approximately 5,200 wage claims each biennium. Approximately 1,200 of these complaints relate to unpaid final wages involving businesses that have failed, where claims are made against the Wage Security Fund. As noted above, the number of complaints fluctuates with the economy. The 4,000 remaining wage claims are split between roughly 1,200 minimum wage/overtime claims and 2,800 other wage collection disputes.  The Division also investigates non-wage claims involving working conditions and child labor violations.

The Bureau notes that the number of General Fund-supported staff is not sufficient to process all wage claims in a timely manner. The agency has tried to maintain enforcement of hours worked and pay rate regulations and enforcement of minimum wage claims but the timeliness of investigations has suffered. The Division did not meet its goal of completing 75% of Wage Security Fund claims within 30 days, nor meet its goal of completing 80% of its minimum wage/overtime claims in 45 days.

### Essential Budget Level

The increase in the essential budget level over 2007-09 biennium expenditure levels incorporates only the standard adjustments for personnel cost increases, and for inflation in services and supplies costs and state government service charges.

### Issues and Options

The Governor recommended funding the Wage and Hour Division at the essential budget level.

## BOLI – Apprenticeship and Training

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 2,495,785 | 2,813,956 | 2,892,478 | 3,104,960 |
| Other Funds | 0 | 99,892 | 102,728 | 112,592 |
| Federal Funds | 64,830 | 83,676 | 83,687 | 90,252 |
| **Total Funds** | **$2,560,615** | **$2,997,524** | **$3,078,893** | **$3,307,804** |
| Positions | 17 | 18 | 18 | 18 |
| FTE | 17.00 | 18.00 | 18.00 | 18.00 |

### Program Description

The Apprenticeship and Training Division promotes the development of a highly skilled workforce through partnerships with government, labor, business, and education, and provides apprenticeship opportunities for individuals. The 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 are 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 General Fund. The Division anticipates receiving a federal grant of over $111,000 from the Veterans' Administration in the 2009-11 biennium for on-the-job training of qualified veterans.

### Budget Environment

The Division registered approximately 2,500 new apprentices during the first half of the 2007-09 biennium (down from over 2,750 two years earlier), and maintains a registry of nearly 8,100 apprentices as of June 2008 (up from approximately 6,650 apprentices two years earlier). The Division works with educators and employers to develop youth apprenticeship programs.

The Division also conducts compliance reviews for the Oregon State Apprenticeship and Training Council, to ensure that programs are acting in accordance with their standards and that all apprentices are being treated equally. BOLI completed compliance reviews on 45 of the 167 active apprenticeship programs during the first half of the 2007-09 biennium. As of June 2008, minorities represented 13.8% of apprenticeship program participants, and females represented 5.3%. This shows an increase in minority participation from two years ago, when the minority participation rate was 13.4%, and a slight decrease in female participation from the 5.4% rate two years earlier.

BOLI's 2007-09 biennium legislatively adopted budget included $202,845 to fund a new initiative – the Apprenticeship Integration Initiative – including $102,845 General Fund and $100,000 of federal Workforce Investment Act Title IB funds. The Apprenticeship Integration Initiative was funded to help address shortages of skilled workers in Oregon, by establishing pilot projects to integrate registered apprenticeship programs with high school curricula and the workforce system. Many apprenticeship programs in the building, construction, and industrial and manufacturing trades have difficulty attracting an adequate number of qualified candidates to meet demands in these professions. The pilots projects are intended to educate students about the benefits of apprenticeship programs, and to help schools develop programs that will promote skills needed for success in these programs.

### Essential Budget Level

The increase in the essential budget level over 2007-09 biennium expenditure levels incorporates only the standard adjustments for personnel cost increases, and for inflation in services and supplies costs and state government service charges.

### Issues and Options

The Governor recommended funding the Apprenticeship and Training Division at the essential budget level. This includes a continuation of, but not an expansion of, the Apprenticeship Integration Initiative approved in the 2007 session.

## Medical Board – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 7,009,267 | 8,505,902 | 8,815,036 | 8,826,794 |
| **Total Funds** | **$7,009,267** | **$8,505,902** | **$8,815,036** | **$8,826,794** |
| Positions | 36 | 37 | 37 | 37 |
| FTE | 34.30 | 35.30 | 35.30 | 35.30 |

### Agency Overview

The mission of the Oregon Medical Board (formerly the Oregon Board of Medical Examiners) is to protect the health, safety, and well being of Oregon citizens by regulating the practice of medicine in a manner that promotes quality care. The board is responsible for administering the Medical Practice Act and establishing the rules and regulations pertaining to the practice of medicine in Oregon. The agency licenses Medical Doctors, Doctors of Osteopathy, Podiatric Physicians, Physician Assistants, and Acupuncturists; investigates complaints against licensees and takes disciplinary action when a violation of the Medical Practice Act occurs; monitors licensees who have come under disciplinary action; and works to rehabilitate and educate licensees whenever appropriate. The Board is also responsible for the scope of practice for First Responders and Emergency Medical Technicians. The twelve-member board is appointed by the Governor and composed of seven medical doctors, two doctors of osteopathy, one podiatrist, and two public members.

### Revenue Sources and Relationships

The agency is funded by revenue generated from licensure, examination, certification, and registration fees. Other miscellaneous revenue includes the sale of lists and directories, and fines or forfeitures imposed as disciplinary measures. Revenue in 2009-11 is projected to be $12,412,910 which is 9.8% less than 2007-09 and the projected ending cash balance of $2.2 million equals approximately 5-6 months of operating costs.

The agency 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 2009-11 transfer is estimated to be approximately $213,314.

### Budget Environment

The Oregon Medical Board receives approximately 96% of its revenue from fees for licensure and registration of Medical Doctors, Doctors of Osteopathy, Podiatrists, Physician Assistants, and Acupuncturists. Approximately 88% of the fees received by the Board come from the licensure of physicians. This license group continues to increase on a net basis of approximately 3% per year.

### Essential Budget Level

The essential budget level for the Oregon Medical Board is $11,758 Other Funds (1.3%) more than the 2007-09 legislatively approved budget as of December 2008. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The 2007-09 legislatively approved expenditure level includes $309,134 total funds in special session and Emergency Board actions during Fiscal Year 2008.

### Issues and Options

In its 2009-11 agency request budget, the Oregon Medical Board asked for more resources and staffing to provide for improved technology infrastructure to sustain current and more efficient internal operations, improved resources and tools for investigations, including subscriptions to nationwide databases and funds to hire contractors to assist the medical director with case reviews, the reinstatement of a portion of the 2007-09 budget reduction, the reclassification and expansion of current positions, committee expenses and out-of-town board meetings, and additional staffing resources to support the continued function of the Health Professionals Program. The cost for these improvements would be $1,268,879 Other Funds and two positions (2.70 FTE). The agency believes these additions would increase its ability to streamline communications and improve office efficiency which, in turn, should increase stakeholders' satisfaction with the board's customer service.

The Governor's recommended budget funds the agency above the calculated essential budget level and includes several of the agency request enhancements. The Governor's recommended budget includes: $306,771 Other Funds for merchant fees related to online services, IT maintenance, server and laptop replacements, and increased internet capacity; $451,114 Other Funds for investigative tools, staffing, and resources, including the addition of a permanent Operations and Policy Analyst 2 (1.00 full-time equivalent) position; $69,266 Other Funds for the reclassification of existing positions and the expansion of one Office Specialist 2 (0.50 full-time equivalent) position by 0.50 full-time equivalent; $32,224 Other Funds for committee expanses and out-of-town board meetings; and $137,469 Other Funds for the addition of one permanent Office Manager 1 (1.00 full-time equivalent) position and the expansion of one Administrative Specialist (0.80 full-time equivalent) position by 0.20 full-time equivalent.

Reduction options (Other Funds) for the Oregon Medical Board focus on cut-backs in services and staffing. The agency's 10% reduction options include eliminating Board meetings and staff. In addition, funding for legal services, proposed electronic notification services, the replacement of a sound system, software enhancements, additional internet capacity, and medical consultant services are included in the agency's list of reduction options.

## Mortuary and Cemetery Board – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 1,021,759 | 1,062,338 | 1,093,108 | 1,212,236 |
| **Total Funds** | **$1,021,759** | **$1,062,338** | **$1,093,108** | **$1,212,236** |
| Positions | 7 | 5 | 5 | 5 |
| FTE | 6.50 | 5.00 | 5.00 | 5.00 |

### Agency Overview

The mission of the Oregon Mortuary and Cemetery Board is to protect public health, safety and welfare by fairly and efficiently performing its licensing, inspection, and enforcement duties; by promoting professional behavior and standards in all facets of the Oregon death care industry; and by maintaining constructive relationships with licensees, those they serve, and others with an interest in the Board's activity. The eleven-member board is appointed by the Governor and composed of two funeral service practitioners, one embalmer, three cemetery representatives, one crematory operator, and four public members.

### Revenue Sources and Relationships

The agency is funded by revenue generated from application, license, and examination fees; a portion of the death certificate filing fee; civil penalties; and interest income. Revenue in 2009-11 is not expected to cover the essential budget level of operations for the biennium. The projected shortfall is equivalent to four months of operating costs. The detail of the shortfall is discussed in Issues and Options below.

### Budget Environment

The agency regulates individuals and facilities engaged in the care, preparation, processing, transportation, and final disposition of human remains through three main activities: licensing individual death care professionals and the facilities in which they work; performing inspections, complaint investigations, and background investigations on applicants and principals of licensed facilities; and administering the funeral service practitioner and embalmer exams twice a year.

Revenue to support agency operations and maintain an adequate ending cash balance has been an ongoing problem since 2003. The agency has been gradually depleting its cash balance to support operations, despite a fee increase in November 2004. In 2007-09 the combination of the cash balance and projected revenue was not enough to sustain operations, and the Legislature reduced its staffing level. Without a fee increase for 2009-11, the agency's only alternative is to further reduce expenditures. The detail of the shortfall is discussed in Issues and Options below.

### Essential Budget Level

The essential budget level cannot be sustained under the current fee structure.

### Issues and Options

The Governor's recommended budget is contingent upon a statutory increase in death certificate filing fees. Legislation will be introduced to increase the filing fee from $7 to $20. Of the $13 increase, $9 would go to the Mortuary and Cemetery Board (to $14), and $4 would go to the Department of Human Services (to $6) to help defray the cost of burying indigents. The increased revenues to the Board would be used to fund operations and restore one investigator position that was eliminated in 2007. Lacking the statutory fee increase, or some other fee increase, the Board's budget would have to be reduced to about $200,000 below the essential budget level. Even then, the Board would have no projected ending cash balance to carry forward into the 2011-13 biennium.

## Board of Naturopathic Examiners – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 342,014 | 399,739 | 414,581 | 479,489 |
| **Total Funds** | **$342,014** | **$399,739** | **$414,581** | **$479,489** |
| Positions | 2 | 2 | 2 | 2 |
| FTE | 2.00 | 2.00 | 2.00 | 2.00 |

### Agency Overview

The mission of the Board of Naturopathic Examiners is to protect the public by improving the standards of care offered by licensed practitioners through ensuring competency in education, and enhancing communication with the profession and the public. The Board conducts examinations for applicants; issues licenses to practice naturopathic medicine; certifies special competency in natural childbirth; sets continuing education standards; and approves naturopathic schools or colleges offering four-year full-time residential programs. The Board also investigates complaints, administers discipline, and imposes civil penalties. The five-member board is appointed by the Governor and composed of four naturopaths and one public member.

### Revenue Sources and Relationships

The agency is funded by revenue generated from application, license, and certification fees. Other miscellaneous sources include fines for late payments, interest income, and the sale of mailing lists and copies of public records. Revenue in 2009-11 is projected to be about level with that of 2007-09 and the projected ending cash balance of $330,000 equals approximately 16 months of operating costs.

### Budget Environment

The agency has identified licensing as its main activity and expects to have an estimated 725 active licensees and 75 inactive licensees in 2009-11.

### Essential Budget Level

The essential budget level maintains the Board's licensing activities at the 2007-09 level, adjusted for inflation.

### Issues and Options

The Governor's recommended budget is slightly higher than the essential budget level. It provides an additional $10,000 for complaint investigations by an independent investigator, $6,000 to pay for newly required background checks for those applying for new licenses, and $15,000 to increase the Board's compensation from $30 to $100 per meeting.

## Board of Nursing – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 8,206,560 | 9,744,501 | 10,137,281 | 10,917,539 |
| **Total Funds** | **$8,206,560** | **$9,744,501** | **$10,137,281** | **$10,917,539** |
| Positions | 45 | 44 | 44 | 44 |
| FTE | 44.25 | 41.75 | 41.75 | 41.75 |

### Agency Overview

The mission of the Oregon State Board of Nursing is to safeguard the public's health and well being by providing guidance for, and regulation of, entry into the profession, nursing education, and continuing safe practice. The agency licenses and regulates nurses, nursing assistants, and advanced practice nurses; sets nursing practice standards, guidelines for education programs, and minimum competency levels for entry into the professions; and has the authority to revoke or suspend the license or privilege to practice nursing in the state. The nine-member board is appointed by the Governor and composed of four Registered Nurses, two Licensed Practical Nurses, one Nurse Practitioner, and two public members.

The agency is comprised of four Divisions representing its major programs. The Investigations and Compliance Division investigates complaints regarding violation of the Oregon Nurse Practice Act and recommends disciplinary action to the Board. The Licensing and Certification Division is responsible for all licensing and customer service activities, as well as the training and testing program for certified nursing assistants and certified medication aides. The Practice Consultation and Policy Division reviews nursing education programs; develops policy and rules; and provides specialized expertise with respect to RN/LPN, advanced practice nursing, and nursing assistant program issues. The Central Support Division supports the day-to-day activities of the agency.

### Revenue Sources and Relationships

The agency is funded primarily by revenue generated from examination, licensing, and renewal fees charged to registered nurses, licensed practical nurses, nurse practitioners, certified registered nurse anesthetists, clinical nurse specialists, certified nursing assistants, and certified medication aides. The agency also receives Federal Title XVIII (Medicare) and Title XIX (Medicaid) funds through the Department of Human Services (DHS) to fund the Certified Nursing Assistant (CNS) Program. The agency expects to receive approximately $1.8 million from DHS in 2009-11. The agency has experience higher than expected Attorney General legal fees, along with the normal increases in personal services costs, state government services charges, and worker's compensation claims. This has caused a projected revenue shortfall for the 2009-11 biennium. The Board has proposed a fee increase to cover the shortfall and provide a minimal ending balance.

### Budget Environment

The agency's budget is influenced by the number of licensees, complaint investigations, background checks, and participants in the Nurse Monitoring program. The agency licenses approximately 47,000 registered and licensed practical nurses; 2,900 nurse practitioners, nurse anesthetists, and clinical nurse specialists; and certifies 19,000 nursing assistants (CNA) and medication aides. On average, 700 formal complaints are investigated each year. Law Enforcement Data System checks are performed on all initial and renewal applications totaling about 36,000 per year. In addition, fingerprint checks are done on all new applications. The Nurse Monitoring program, administered by two coordinators, provides an alternative to discipline for nurses with substance abuse, physical, or mental health disorders. The number of participants averages around 300.

### Essential Budget Level

The essential budget level includes increases for state government service charges, personal cost increases, and increases in legal fees. The increase over the legislatively approved budget is $780,258 or 7.7%.

### Issues and Options

The Governor's recommended budget includes a fee increase, on average, of 32.4% to pay for the following:

- Information technology infrastructure project that will replace the Board's current licensing system, provide the ability to accept on-line license applications and payment, and ongoing maintenance and upgrades. This project will also include one permanent ISS 6 position (1.00 FTE) at salary range (SR) 29.
- Conversion of four limited duration positions (4.00 FTE) to four permanent positions (4.00 FTE). These positions will be used to address workload issues in the licensing, investigations, and financial services areas of the Board. The positions include a Public Services Representative (SR 15), Compliance Specialist 1 (SR 21), Investigator 1 (SR 21), and Fiscal Analyst 1 (SR 23).
- Establishment of one permanent position (1.00 FTE) to conduct training program surveys, ensure compliance with survey recommendations and administrative rules. This position will be a Compliance Specialist 1 (SR 21).

The fee increase will raise an additional $2.3 million in the 2009-11 biennium and leave the Board with an ending balance equivalent to approximately four months of operating expenses.

## Board of Examiners of Nursing Home Administrators – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 179,584 | 199,874 | 216,925 | 227,181 |
| **Total Funds** | **$179,584** | **$199,874** | **$216,925** | **$227,181** |
| Positions | 1 | 1 | 1 | 1 |
| FTE | 1.00 | 0.92 | 0.92 | 0.92 |

### Agency Overview

The mission of the Board of Examiners of Nursing Home Administrators is to protect the public by developing, imposing, and enforcing standards that must be met by individuals in order to receive and retain a license as an Oregon nursing home administrator. The nine-member board is appointed by the Governor and is composed of three nursing home administrators, three public members, one registered nurse, one registered pharmacist, and one physician.

### Revenue Sources and Relationships

The agency is funded by revenue generated from examination, license, and endorsement fees. Other miscellaneous sources include license verification fees, interest income, and the sale of mailing lists and copies of public records. Revenue in 2009-11 is projected to be the same as 2007-09 estimates. The agency is experiencing cash flow issues because of its biennial renewal cycle. Nursing Home Administrator licenses expire on June 30$^{th}$ of odd-numbered years.

### Budget Environment

Despite a fee increase in 2002, the agency continues to struggle with declining revenue and increasing operating costs. Active licensees have been declining as the long-term care industry shifts from nursing homes to assisted living and residential care facilities. The agency has entered an agreement with the Health Licensing Agency to handle its administrative costs and activities due to cash flow problems. The detail of the shortfall is discussed in Issues and Options below.

### Essential Budget Level

It is expected that revenues will not sustain the agency's essential budget level.

### Issues and Options

The Governor did not submit a separate operating budget for the Board. Instead, its operations have been included in the Governor's recommended budget for the Health Licensing Agency. This move is predicated on the passage of legislation that will be introduced to put the Board's licensing activities within the Health Licensing Agency. If that legislation does not pass, a revised budget for the Board will need to be developed during the 2009 Legislative session.

## Occupational Therapy Licensing Board – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 213,006 | 289,571 | 296,776 | 360,241 |
| **Total Funds** | **$213,006** | **$289,571** | **$296,776** | **$360,241** |
| Positions | 1 | 1 | 1 | 1 |
| FTE | 1.25 | 1.25 | 1.25 | 1.25 |

### Agency Overview

The mission of the Occupational Therapy Licensing Board is to protect the public by supervising occupational therapy practice; and to assure safe and ethical delivery of occupational therapy services. The Board sets the standards of practice and examines applicants for licensure; issues licenses to qualified applicants; investigates complaints; and takes appropriate disciplinary action when necessary. The five-member board is appointed by the Governor and composed of three occupational therapists and two public members.

### Revenue Sources and Relationships

The agency is funded by revenue generated from license fees and other miscellaneous sources including limited permits, late fees, interest income, and the sale of mailing lists and copies of public records. Revenues have been more than sufficient to cover operating costs and the Board enjoyed a growing cash balance. The Board conducted a cash flow analysis during 2007 and, as a result, reduced licensing fees in 2008.

### Budget Environment

The agency has identified four main activities: licensing; continuing education monitoring; compliant investigation; and administration. The agency expects to issue an estimated 3,000 licensees in 2009-11, which is a 7% increase over current biennium estimates. Compliant investigation workload appears relatively stable, averaging eight complaints per biennium.

### Essential Budget Level

The essential budget level maintains the Board's licensing activities at the 2007-09 level, adjusted for inflation. The Governor's recommended budget is for the Board's essential budget level.

## Board of Pharmacy – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 3,478,189 | 3,999,522 | 4,399,694 | 4,725,674 |
| Federal Funds | 14,352 | 339,640 | 357,545 | 0 |
| **Total Funds** | **$3,492,541** | **$4,339,162** | **$4,757,239** | **$4,725,674** |
| Positions | 18 | 22 | 22 | 20 |
| FTE | 17.50 | 20.50 | 20.75 | 18.50 |

### Agency Overview

The mission of the Board of Pharmacy is to promote, preserve, and protect the public health, safety, and welfare by ensuring high standards in the practice of pharmacy and by regulating the quality, manufacture, sale and distribution of drugs. The agency licenses pharmacists by examination or through reciprocity with other states; registers and inspects hospital and retail pharmacies, drug wholesalers and manufacturers, and over-the-counter drug outlets; investigates drug diversion and rule violations; and regulates the quality and distribution of controlled substances, prescription, and over-the-counter drugs within the state. The seven-member board is appointed by the Governor and composed of five pharmacists and two public members.

### Revenue Sources and Relationships

The agency is funded by revenue generated from license, registration, and examination fees. Other Funds revenue in 2009-11 is projected to be slightly less than 2007-09 estimates and the projected ending cash balance of $918,346 equals approximately 4-5 months of agency operating costs.

### Budget Environment

The agency has identified four main activities: licensing and examination (9%); compliance (42%); operations and administration (41%); and the Pharmacy Recovery Network – monitoring chemically dependant pharmacists (5%). Board expenses comprise 3% of the agency's budget. There has been some growth in licensees (approximately 500) over the last two years, but not a significant increase. The number of licensees however may rise due to the impending graduations of two new pharmacy schools. The agency reports that despite only a slight increase in licensees they have a strong increase in licensing and compliance workload. In addition, the agency reports that the number and complexity of consumer complaints continues to increase.

### Essential Budget Level

The essential budget level for the Board of Pharmacy is $386,512 total funds (8.2%) more than the 2007-09 legislatively approved budget as of December 2008. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The 2007-09 legislatively approved expenditure level includes $418,077 total funds ($400,172 Other Funds and $17,905 General Fund) and 0.25 full-time equivalent in special session and Emergency Board actions during Fiscal Year 2008.

### Issues and Options

In its 2009-11 agency request budget, the Board of Pharmacy did not ask for any additional resources or staffing. However, the Governor's recommended budget funds the agency above the essential budget level. The Governor's recommended budget for the Board of Pharmacy is $365,816 Other Funds (7.7%) more than the agency's 2009-11 essential budget level. This reflects funding for both the increase in full-time equivalency of two positions and state background checks.

Reduction options (Other Funds) for the Board of Pharmacy focus solely on cut-backs in staffing. The agency's 10% reduction options include reducing the staff that they have added over the last two biennia to meet the agency's obligations and move projects forward. A 10% reduction of the agency's total staff would be a reduction of 3.5 full-time equivalent positions. The first positions to be eliminated include a Pharmacist Consultant, a part-time Pharmacy Inspector, and a Project Manager.

## Board of Psychologist Examiners – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 720,718 | 858,168 | 944,816 | 971,603 |
| **Total Funds** | **$720,718** | **$858,168** | **$944,816** | **$971,603** |
| Positions | 3 | 3 | 4 | 3 |
| FTE | 3.00 | 3.00 | 3.58 | 3.00 |

### Agency Overview

The mission of the Board of Psychologist Examiners is to protect the health, safety, and well-being of Oregon citizens by regulating the practice of psychology in a manner that promotes quality care. The Board determines qualifications, examines, and licenses individuals to practice psychology. The Board also investigates alleged violations of the statutes and imposes appropriate sanctions. The seven-member board is appointed by the Governor and composed of five psychologists and two public members.

### Revenue Sources and Relationships

The agency is funded by revenue generated from licensing, application, and examination fees. Other miscellaneous sources include civil penalties and publication sales. Revenue in 2009-11 is projected to be 12.5% less than 2007-09 estimates. The 2009-11 projected ending cash balance of $72,463 equals approximately two months of operating costs, or 14.4% of projected revenue.

### Budget Environment

The agency has identified three main activities: consumer protection; licensing, examination, and continuing education; and board support and administration. The agency reports that there is not a significant change in the annual number of renewals it processes.

### Essential Budget Level

The essential budget level for the Board of Psychologist Examiners is $65,700 total funds (7.3%) more than the 2007-09 legislatively approved budget. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The 2007-09 legislatively approved expenditure level includes $47,735 total funds and one position (0.58 full-time equivalent) in special session action during Fiscal Year 2008 for a position to offset the workload demand on other agency staff members.

### Issues and Options

In its 2009-11 agency request budget, the Board of Psychologist Examiners asked for more resources to strengthen their examination of applicants, make a current limited duration Office Specialist 1 position permanent, reclassify one position from an Investigator 2 to a Compliance Specialist 2, set up an online credit card payment process for license renewals, replace its computer hardware and the licensee database server, and increase the number of its board members by two. The agency also requested the authorization to implement a fee increase. The cost for these improvements would be $277,406 Other Funds, and one position (1.00 full-time equivalent). The agency believes these additions would increase its ability to provide expert review when questioning applicants during examinations, relieve pressure on both clerical staff and board members who are overwhelmed with an increasing workload, and advance technology to better suit agency business.

The Governor's recommended budget funds the agency above the essential budget level; it includes several of the agency request enhancements. Specifically, the Governor's recommended budget fully funds the agency's request for professional services for applicant examination/review and the replacement of computer hardware and the licensee database server. The agency's requests to make one limited duration position permanent and reclassify one position are almost fully funded. The e-government advancement and board member addition requests are not funded in the Governor's recommended budget. Finally, the Governor's recommended budget includes $420,000 in revenue from a fee increase; the agency requested a fee increase that would generate $125,000 in revenue.

## Public Utility Commission (PUC) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 32,038,871 | 36,364,363 | 37,243,097 | 31,098,970 |
| Federal Funds | 365,169 | 467,565 | 484,012 | 508,801 |
| Other Funds (NL) | 100,916,860 | 104,007,751 | 104,007,751 | 94,778,703 |
| **Total Funds** | **133,320,900** | **140,839,679** | **141,734,860** | **126,386,474** |
| Positions | 127 | 126 | 126 | 126 |
| FTE | 124.69 | 124.50 | 124.50 | 119.62 |

### Agency Overview

The three-member Public Utility Commission (PUC), which is appointed by the Governor and subject to Senate confirmation, is responsible for ensuring that consumers receive adequate utility service at fair and reasonable rates, while allowing regulated companies the opportunity to earn an adequate return on their investment.

### Revenue Sources and Relationships

Other Funds are derived primarily from fees assessed on regulated utilities, including:

- ***Natural gas, water, and wastewater utilities*** are assessed up to 0.25% on gross operating revenues.
- ***Telecommunications providers*** are assessed up to 0.25% on gross intrastate retail sales excluding wholesale revenues. Telecommunication carriers and subscribers are assessed an additional amount to support the Oregon Universal Service Fund (OUSF) and the Residential Service Protection Fund (RSPF).
    - OUSF is supported through an assessment on intrastate revenue (currently 6.65%) which is estimated to generate $94.6 million during the 2007-09 biennium. The estimated ending balance of $16.9 million is equivalent to just over four months of operating expenditures for this fund.
    - RSPF is supported by a surcharge not to exceed $0.35 per month to retail subscribers who have access to relay services. The surcharge was reduced from $0.08 per month in 2005-07 to $0.05 per month, effective February 1, 2007. The 2009-11 essential budget anticipates revenues of $1.5 million, and an ending balance of $630,331. The program is due to sunset on January 1, 2010, but legislation has been submitted to extend the program, and a policy option package is included in the Governor's recommended budget which restores the program.
    - ***Electric utilities*** are assessed a gross revenue fee of no more than 0.25%. Retail electric consumers of Portland General Electric and PacifiCorp pay additional charges for public purpose expenditures (3%) and low-income bill assistance ($15 million per year) as part of the electric industry restructuring legislation approved in 1999. However, the utilities distribute the public purpose revenues directly, rather than through PUC, to the entities provided in statute (e.g., education service districts, and the Housing and Community Services Department).

Federal Funds received from the U.S. Department of Transportation's Gas Pipeline Safety Program support enforcement of federal pipeline safety regulations. The state is required to provide matching funds at the current rate of 55%.

### Budget Environment

Fees assessed by PUC on telecommunications are projected to decrease by 4.2% between 2006 and 2011 as customers shift from traditional telephone lines to other technologies such as wireless telephones. Conversely, rising energy costs may have a positive impact on agency revenue since PUC assesses utilities based on their gross revenue.

The Residential Service Protection Fund is scheduled to sunset as of January 1, 2010 without legislative action. Legislation has been submitted to extend the program. The PUC anticipates increasing the base surcharge rate from $0.05 per month to $0.09 per month in order to operate the program and maintain an ending balance equivalent to six months of operations, approximately $2.4 million. The Governor's recommended budget includes a number of policy option packages which, if adopted, would further increase the monthly surcharge by a total of $0.02 per line per month.

PUC will likely be affected by a number of issues that may be considered by the 2009 Legislature, including Klamath River damn removal, telecommunications deregulation, cap and trade of greenhouse gas emissions, and “feed-in” tariff proposals associated with promoting renewable energy generation. PUC is also continuing implementation of the Renewable Portfolio Standard for utilities passed by the 2007 Legislative Assembly, monitoring utilities to ensure they acquire the lowest cost, lowest risk mix of resources consistent with Oregon’s requirements. Volatility of energy costs continues to be a major issue for utilities and consumers, and is likely to add complexity to evaluation of utility resource planning and acquisition processes and cost recovery (rate change) filings by the utilities.

## PUC – Utility Program

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 13,934,330 | 9,535,720 | 9,857,726 | 16,480,913 |
| Federal Funds | 365,169 | 467,565 | 484,012 | 508,801 |
| Other Funds (NL) | 100,916,860 | 104,007,751 | 104,007,751 | 94,778,703 |
| **Total Funds** | **115,216,359** | **114,011,036** | **114,349,489** | **111,768,417** |
| Positions | 71 | 42 | 42 | 69 |
| FTE | 70.19 | 42.00 | 42.00 | 69.00 |

### Program Description

The Utility Program provides research, analysis, and technical support to assist the Commission in carrying out its mission; implements state policy regarding utility industry restructuring and competition; and oversees the contract with the Energy Trust of Oregon which administers a portion of the public purpose charge. The program also includes the Oregon Universal Service Fund (OUSF), which subsidizes the rates charged by any eligible carrier providing basic telephone service in high cost areas. Payments to providers are reflected as Nonlimited Other Funds.

### Essential Budget Level

The essential budget level for the utility is a 2.3% decrease from the 2007-09 legislatively approved budget level, primarily due to a decrease in Other Funds Nonlimited expenditure limitation associated with the Oregon Universal Service Fund; the decline in funds is linked with a decline in the number of traditional “land-line” telephones in favor of wireless technologies. The essential budget transfers 27.00 FTE from the Policy and Administration Program to the Utility Program. The PUC feels employees in these positions directly support regulation and rate case work in the Utility Program, and that the transfer more accurately reflects the managers to which these employees directly report.

### Issues and Options

The Governor’s recommended budget includes Policy Option Package 101 which increases Other Funds expenditure limitation by $388,263 and adds 2.00 FTE as follows: a position to coordinate and evaluate policy decisions related to proposed and existing green house gas emissions and other environmental policy that affect regulated utilities and consumers; and a senior engineering analyst to inspect and audit compliance of operators of poles and wires for safety. The latter position would be funded by a fee which would require legislation.

## PUC – Residential Service Protection Fund

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 8,452,110 | 10,133,211 | 10,173,752 | 2,818,728 |
| **Total Funds** | **8,452,110** | **10,133,211** | **10,173,752** | **2,818,728** |
| Positions | 7 | 7 | 7 | 7 |
| FTE | 6.50 | 6.50 | 6.50 | 1.62 |

### Program Description

The Residential Service Protection Fund (RSPF) provides telecommunications services for disabled persons, including the hearing- and speech-impaired, and low-income individuals through the following programs:

- ***Oregon Telephone Assistance Program (OTAP)*** subsidizes local telephone service rates to eligible low-income Oregonians by providing a $13.50 monthly reduction for basic telephone service ($3.50 paid by Oregon, the remainder provided by the federal government).
- ***Telecommunication Devices Access Program (TDAP)*** provides special communication devices to deaf, hearing and/or speech impaired, or others with disabilities that prevent them from using telephones.
- ***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.
- ***Emergency Medical Certificates*** protect a customer's ability to make calls if a qualified medical professional states that disconnection would significantly endanger the health of the customer, or if disconnection would put a customer at risk for domestic violence. This program is outlined in the RSPF law, but administered by the Policy and Administration program where its expenditures are covered.

PUC also coordinates a federal program called "Link Up America" that provides 50% of the line-connection portion of hook-up charges for new residential telephone services to qualifying low-income Oregonians; customers are responsible for the other half of the charge, the telephone, and other costs of acquiring phone service. No state funds are required for "Link Up America."

### Essential Budget Level

The essential budget level reflects six months of operations for the Residential Service Protection Fund Program. The program is scheduled to sunset on January 1, 2010. The PUC will be submitting legislation to extend the program.

### Issues and Options

The agency request budget and the Governor's recommended budget include a number of policy option packages relating to this program, as follows:

- Policy Option Package 100 restores the RSPF for the remaining 18 months of 2009-11 biennium. The package adds 4.88 FTE and $7.6 million Other Funds expenditure limitation.
- Policy Option Package 102 provides $1 million in Other Funds expenditure limitation for the purchase of speech generating telecommunications devices which would be provided to qualified, impaired individuals. At present, eligible individuals use a TTY device and service to communicate via telephone. Purchase of equipment pursuant to this package is expected require an increase in the surcharge by 9/10ths of one cent.
- Policy Option Package 103 broadens the eligibility criteria for assistive telephonic devices, from "severely disabled" to include hard of hearing and speech impaired. The package increases Other Funds expenditure limitation by $167,500. Expanding eligibility pursuant to this package may result in the need to increase the RSPF by 2/10ths of one cent.
- Policy Option Package 104 increases Other Funds expenditure limitation by $86,048 and would expand eligibility for the RSPF Program by allowing residents of long term care or residential care facilities receiving Medicaid with incomes in excess of 135% of the Federal Poverty Level to be eligible for OTAP. Under current law, eligibility is limited to Oregon residents who receive one of the following benefits: food stamps, TANF, SSI, or state medical plan or Medicaid recipients whose incomes do NOT exceed 135% of the Federal Poverty Level. Expanding eligibility pursuant to this package may result in the need to increase the surcharge by 7/10ths of one cent.
- Policy Option Package 105 increases Other Funds expenditure limitation by $143,410 to fund a fiscal auditor position to ensure that telecommunications providers are correctly collecting and reporting RSPF fees charged on bills. The package is proposed in response to a secretary of state audit report. Adoption of this package may result in the need to increase the surcharge by 1/10th of one cent.
- Policy Option Package 106 increases Other Funds expenditure limitation by $242,600 for the purposes of developing accounting and data systems to support accurate financial oversight of RSPF and facilitate integration of the information into the agency's broader financial system. Approval of this package may result in the need to increase the surcharge by 2/10ths of one cent.

## PUC – Policy and Administration Program

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 9,451,222 | 16,418,866 | 16,928,242 | 11,484,326 |
| **Total Funds** | **9,451,222** | **16,418,866** | **16,928,242** | **11,484,326** |
| Positions | 48 | 76 | 76 | 49 |
| FTE | 47.00 | 75.00 | 75.00 | 48.00 |

### Program Description

The Policy and Administration Program includes:

- ***Commissioners and Commission Services*** includes the Commission Chair, who serves as the agency's administrative head, two Commissioners, and their direct staff support.
- ***Administrative Hearings Division*** conducts rulemaking and contested case hearings involving major industry changes, rate proposals, and consumer complaints.
- ***Central Services Division*** provides budget, accounting, and support services to the agency as well as staffing for consumer protection services to respond to customer concerns regarding regulated utilities.
- ***Human Resources*** advises the agency on employee relations and provides recruitment and training services.

### Essential Budget Level

The essential budget removes two divisions from the program – the ***Economic Research and Financial Analysis Division***, which evaluates proposed mergers, addresses issues related to regulation of water utilities, analyzes utilities' cost of capital, and forecasts electric utility loads and power costs; and the ***Regulatory Operations Division*** which processes all utility filings and provides information services to the agency – and transfers the positions to the Utility Program for no net change in agency FTE. The PUC feels employees in these positions directly support regulation and rate case work in the Utility Program, and that the transfer more accurately reflects the managers to which these employees directly report.

### Issues and Options

The Governor's recommended budget includes a policy option package to ensure compliance with a Department of Administrative Services requirement that agencies implement an Information Asset Management program. The program requires that both historical and future electronic and hard copy information be classified and secured according to its level of sensitive and confidential content. The $300,000 in additional Other Funds expenditure limitation associated with the package assumes PUC will contract for services to complete the project and require no additional permanent staff.

## PUC – Board of Maritime Pilots

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 201,209 | 276,566 | 283,377 | 315,003 |
| **Total Funds** | **201,209** | **276,566** | **283,377** | **315,003** |
| Positions | 1 | 1 | 1 | 1 |
| FTE | 1.00 | 1.00 | 1.00 | 1.00 |

### Program Description

The Board of Maritime Pilots is charged with the regulation, including examining, licensing, and investigating incidents or complaints, of navigation pilots on Oregon's four pilot-required areas. There are currently 60 licensed pilots under the regulatory authority of the Board.

### Revenue Sources and Relationships

The Board is a self-supporting entity funded primarily by license fees. Revenues for 2009-11 are estimated to be at least $326,783 based upon the payment of annual license fees by each of the licensed pilots and from miscellaneous receipts. The license fee is tied to the consumer price index by statute, and rises by the cumulative cost-of-living increase for the previous two years at the start of each biennium. For 2009-11, the fee will be approximately $2,825.

### Budget Environment

The Board of Maritime Pilots was transferred from the Department of Transportation to PUC by the 2007 Legislature. Policy decisions regarding the regulation of pilots are decided by the 9 member board. PUC has administrative oversight over the Board and assists them in areas such as budgeting, human resources, and accounting. The Board has been reviewing its existing performance measure, and may propose changes or supplemental information which better represent the mission of the Board.

### Essential Budget Level

The essential budget for the Board of Maritime Pilots represents an 11.16% increase over the 2007-09 legislatively approved budget. The essential budget continues operations at the 2007-09 legislatively approved budget level.

## Board of Radiologic Technology – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 433,225 | 528,796 | 548,450 | 648,171 |
| **Total Funds** | **$433,225** | **$528,796** | **$548,450** | **$648,171** |
| Positions | 3 | 3 | 3 | 3 |
| FTE | 3.00 | 3.00 | 3.00 | 3.00 |

### Agency Overview

The mission of the Board of Radiologic Technology is to promote, preserve, and protect the public health, safety, and welfare of Oregonians when being exposed to ionizing radiation for the purpose of medical diagnosis or radiation therapy. The Board licenses diagnostic or therapeutic technologists and diagnostic technicians; administers limited permit examinations for radiologic technicians to determine initial competence to practice; approves continuing education offerings to assure continuing competence; and defines and enforces the scope of practice for all licensees. The nine-member board is appointed by the Governor and composed of one radiologist, four radiologic technologists, one radiation therapist, one limited permit holder, and two public members.

### Revenue Sources and Relationships

The agency is funded by revenue generated from license, examination, and permit fees. Other miscellaneous sources include fines, interest income, and the sale of mailing lists and copies of public records. Revenue at the essential budget level would result in a projected ending cash balance of $32,000, or slightly more than one month's operating cost.

### Budget Environment

The agency has identified four main activities: licensing; regulatory compliance; education; and governance and administration. Over the last two years the number of permanent licensees and permit holders has increased, and the Board now licenses about 4,100 licensees.

### Essential Budget Level

The essential budget level would continue the Board's operations under its existing statute.

### Issues and Options

The Governor's recommended budget is $246,000 more than the essential budget level. It adds one part-time investigator position in anticipation of increased workload. The budget is based upon the expectation that the Legislature will approve statutory expansion of the Board's regulatory authority, thus adding more licensees to its base. The budget also anticipates ratification of fee increases.

## Real Estate Agency – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 6,912,911 | 7,779,616 | 8,045,251 | 7,954,482 |
| **Total Funds** | **$6,912,911** | **$7,779,616** | **$8,045,251** | **$7,954,482** |
| Positions | 32 | 32 | 32 | 30 |
| FTE | 30.41 | 31.62 | 31.62 | 29.63 |

### Agency Overview

The Real Estate Agency is responsible for the licensing, education, and enforcement of Oregon's real estate laws applicable to brokers, property managers, and real estate marketing organizations; licensing and regulation of escrow agents; and registration and reviews of campground contract brokers, subdivisions, timeshares, and condominium developments. The agency approves courses and develops curriculum requirements for its licensees, administers real estate examinations, audits licensees, and investigates complaints made concerning its licensees and regulated activities. The Real Estate Commissioner, who is appointed by the Governor, administers the agency. The agency supports the Real Estate Board, whose seven industry members and two public members are appointed by the Governor.

### Revenue Sources and Relationships

Other Funds revenues are generated through licensing and registration fees and renewals; charges for examinations; the sale of publications and educational seminars; and other services. No fee changes were enacted by the 2007 Legislature. The agency anticipates relative stability in the number of licensees for the biennium.

The agency anticipates collecting approximately $35,000 in civil penalties which are payable to the General Fund.

### Budget Environment

The 2005 Legislative Assembly granted the Real Estate Agency a 15-month operating budget in response to concerns raised during the agency's budget hearings. During the 2005-07 interim period, a joint legislative task force reviewed the role and function of the Real Estate Board, practices by the agency, alternative forms of licensure and regulation, and an internal audit completed by the Department of Administrative Services. The task force recommended that the role and authority of the Real Estate Board be changed from an "advisory" to a policy making role. Through a series of Emergency Board appearances, the agency was granted additional expenditure limitation equivalent to an operating budget for the full 2005-07 biennium.

A new real estate commissioner was appointed in May 2007, just prior to the agency's scheduled budget hearings.

The 2007-09 legislatively adopted budget included a number of initiatives to facilitate the recommended change in the Board's role, including two limited duration positions to address increasing numbers of licensees and condominium development filings, as well as provide additional administrative support for the Real Estate Board.

For the past two years, the real estate market has slowed from the frantic pace that was anticipated on 2005-07 activity. Current data shows that the number of persons seeking to enter the real estate industry had declined to levels that are more typical in a regular economy.

### Essential Budget Level

The 2009-11 essential budget of $7,954,482 represents a 1.1% decrease from the 2007-09 legislatively approved budget. The decrease reflects the phase out of two full-time limited duration positions partially offset by standard adjustments for personal services costs, inflation, rate increases for the Attorney General, state government service charges, and facilities rental.

### Issues and Options

The 2009-11 agency request budget for the Real Estate Agency includes two policy packages:

- Package 101 – Board and Commissioner Support: This package makes permanent one of the limited duration positions (1.00 FTE) approved in 2007-09 to provide full time continuing administrative support to the Board and the Commissioner. This position would also take on outreach and relationship building responsibilities such as coordinating public records requests, holding public meetings for reviews, updating and maintaining agency website, and compiling results to customer service surveys. The total cost for this position would be $97,778 Other Funds.
- Package 102 – Technology Advancement: This package provides hardware and software upgrades of mainframe systems to enhance the agency's Intranet to enable the more efficient sharing of documents, information and resources. The cost for this upgrade would be $84,795 Other Funds.

The Governor's recommended budget funds the agency at $8,637,055 with 31 positions (30.63 FTE) which includes the agency's essential budget level and requested policy packages as well as an additional $500,000 to purchase a new web-based licensing system to better serve the needs of the real estate industry. The Governor's recommended budget also proposes a $12 fee increase for each applicant background check (from $40 to $52 to match what the Department of State Police charges for processing a criminal background check) that would increase the agency's revenue by an estimated $36,000.

## Board of Examiners for Speech-Language Pathology and Audiology – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 258,523 | 290,093 | 299,360 | 326,107 |
| **Total Funds** | **$258,523** | **$290,093** | **$299,360** | **$326,107** |
| Positions | 2 | 2 | 2 | 2 |
| FTE | 1.40 | 1.40 | 1.40 | 1.40 |

### Agency Overview

The mission of the Board of Examiners for Speech-Language Pathology and Audiology is to protect the public by licensing and regulating the performance of speech-language pathologists, speech-language pathology assistants, and audiologists. The Board adopts rules governing standards of practice; investigates alleged violations; and grants, denies, suspends and revokes licenses. The seven-member board is appointed by the Governor and composed of two licensed speech-language pathologists, two licensed audiologists, two public members, and one medical doctor with American Board of Otolaryngology certification.

### Revenue Sources and Relationships

The agency is funded by revenue generated from application, license, and certification fees. Other miscellaneous sources include late fees, interest income, and the sale of mailing lists and copies of public records. Revenue in 2009-11 is projected to be about the same as 2007-09 estimates and the projected ending cash balance of $58,000 equals approximately four months of operating costs.

### Budget Environment

The agency has identified three main activities: licensing; investigation; and administration. As of August 2008, the agency reports 1,530 active licensees. The budget is 70% personal services.

### Essential Budget Level

The essential budget level maintains the Board's licensing activities at the 2007-09 level, adjusted for inflation. The Governor's recommended budget exceeds the essential budget level by $7,800 for additional investigation and attorney general costs.

## Board of Tax Practitioners – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 892,929 | 1,074,181 | 1,105,711 | 1,126,108 |
| **Total Funds** | **$892,929** | **$1,074,181** | **$1,105,711** | **$1,126,108** |
| Positions | 4 | 5 | 5 | 5 |
| FTE | 4.00 | 5.00 | 5.00 | 5.00 |

### Agency Overview

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. The Board also 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.

### 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. The Board expects to collect $1,138,000 in total revenues from licensing fees, business registration fees, examinations, fines and penalties, pass-through revenues for community colleges administration of examinations, and other miscellaneous revenue for the 2009-11 biennium.

### Budget Environment

The number of professionally prepared income tax returns is expected to increase along with the growth in Oregon's population. Statistics from the Department of Revenue show that about one half of all personal income tax returns are filed with the aid of a tax practitioner. The number of tax practitioners and tax businesses is expected to remain the same, or slightly increase, in the 2009-11 biennium.

### Essential Budget Level

The essential budget level is $1,126,108, a 1.8% increase over the 2007-09 legislatively approved budget. The increase in the essential budget level includes standard increases for state government services charges, personnel costs, inflation, and rate increases for the Attorney General.

### Issues and Options

The 2007-09 legislatively approved budget included a fee increase and an additional Office Specialist 1 position (1.00 FTE) to handle an anticipated increase in workload. This additional position was not filled during the 2007-09 biennium and the agency appointed a new executive director in March of 2008. The Governor's recommended budget reduces the board's positions and FTE by one, decreases personal services and services and supplies to reflect the decrease in positions and FTE. The Board anticipates being able to decrease costs by using temporary employees during the busier times of the year, typically late spring and early fall.

## Veterinary Medical Examining Board – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 505,033 | 543,927 | 557,967 | 631,330 |
| **Total Funds** | **$505,033** | **$543,927** | **$557,967** | **$631,330** |
| Positions | 3 | 3 | 3 | 3 |
| FTE | 2.25 | 2.25 | 2.25 | 2.25 |

### Agency Overview

The mission of the Veterinary Medical Examining Board is to protect animal health and welfare, public health, and consumers of veterinary services. The Board determines license qualifications and licenses veterinarians, veterinary technicians, euthanasia shelters, and euthanasia technicians; investigates consumer complaints and disciplines licensees found to be in violation of the Veterinary Practice Act; conducts national board examinations for veterinary technicians; and monitors advances and changes in the profession to determine minimum practice standards to ensure ongoing public and animal health. The eight-member board is appointed by the Governor and composed of five veterinarians, two public members, and one certified veterinary technician.

### Revenue Sources and Relationships

The agency is funded by revenue generated from license, application, and examination fees. Revenue in 2009-11 is projected to increase about 8% from 2007-09 estimates.

### Budget Environment

The agency has identified two main activities: licensing and investigations. Over the last two years the number of licensees has increased about 10%, but the investigation workload has increased 43%. The Board estimates that during 2009-11 it will license 2,053 veterinarians, 955 veterinary technicians, 167 euthanasia technicians, and 33 euthanasia facilities.

### Essential Budget Level

The essential budget level maintains the Board's activities at the 2007-09 level, adjusted for inflation.

### Issues and Options

The Governor's recommended budget is $57,000 more than the essential budget level, to increase the Board's investigator position from half-time to full-time.

# ADMINISTRATION

## Department of Administrative Services (DAS) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 9,816,287 | 8,904,771 | 8,450,712 | 7,925,382 |
| Lottery Funds | 600,000 | 0 | 0 | 0 |
| Other Funds | 792,263,504 | 908,272,394 | 1,433,250,545 | 943,275,534 |
| Federal Funds | 470,721 | 0 | 0 | 0 |
| Other Funds (NL) | 129,537,046 | 185,054,384 | 224,586,549 | 247,071,201 |
| **Total Funds** | **$932,687,558** | **$1,102,231,549** | **$1,666,287,806** | **$1,198,272,117** |
| Positions | 1,032 | 964 | 971 | 935 |
| FTE | 898.52 | 949.30 | 948.30 | 930.37 |

*Totals are different from those in the Governor's budget document due to separate treatment by the Legislative Fiscal Office of: a) Lottery Funds for County Fairs and Oregon Public Broadcasting (OPB) debt service; b) General Fund support for OPB and the Historical Society; and c) Other Funds expenditure limitation for OPB investments funded with the sale of Lottery Bonds.*

### Agency Overview

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 the state data center; and provides printing, information technology consultation, computer, payroll, and accounting services. The Department distributes federal, lottery, and state funds to cities, counties, and other state agencies. It also collects and distributes mass transit assessments.

### Revenue Sources and Relationships

The Department's operating revenue comes primarily from fees charged for services provided to state agencies, statewide assessments, and assessments for debt service on appropriation and pension obligation bonds. The Department establishes rates for these direct services and bills agencies based on usage. Costs of indirect services, such as the services provided by the Director's Office, Budget and Management Division, and Human Resource Services Division are recovered through a "statewide assessment," which is included in all state agencies' budgets as part of the 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. Agencies that benefit from appropriation and pension obligation bonds are assessed their share of debt service and debt management costs. Revenue for Nonlimited Other Funds expenditures comes from agency reimbursements for various costs that are demand driven and not discretionary to DAS (e.g., insurance claims and payments related to health care benefits). State agencies' payments to DAS for those costs are controlled through their budget review and approval process. Approximately one-third of DAS revenues received through assesements and charges originate in agency budgets as General Fund.

### Essential Budget Level

The agency's essential budget level (EBL) would allow the agency to continue its existing services in 2009-11. A discussion of percentage changes from the 2007-09 legislatively approved budget at December 2008 is included under each budget unit. Common EBL adjustments include those for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

The Governor's recommended budget is a significant (more than double) increase over EBL, primarily due to Nonlimited changes in the benefit board and risk insurance programs. From an "operational" perspective – that is, excluding Nonlimited, Debt Service, Capital Improvements, and Capital Construction expenditures – the budget's growth from EBL is $60.6 million total funds, or about 13%. The number of positions increase by 59 (56.63 FTE), which is slightly over 6% growth.

The percentage growth would not necessarily be alarming, except that it is much higher than statewide total funds operational budget growth, from EBL to the Governor's budget, of a little less than 2.5%. The lower level of state budget growth is due to a lack of General Fund resources. The Education and Human Resources program areas, which are the highest users of General Fund revenue, are actually experiencing negative growth from EBL in the Governor's budget. The higher level of growth in DAS is inconsistent with what appears to be depressed program levels in agencies, unless DAS is shifting its customer base to those agencies that are predominately funded with non-General Fund or non-Lottery Funds resources.

It is possible that increased capacity at DAS will allow the agency to assist agencies challenged by budget cuts or program reductions, however, the nature of packages approved in the Governor's budget do not appear to be in this vein. The Legislature will need to carefully look at DAS services, their cost, benefit to agencies, and agencies' ability to pay for these services.

The central services provided by DAS make good business sense and generally result in quality service levels, consistent policy implementation, and efficiencies across state government. However, the cost of services for individual agencies and any associated program impacts or trade-offs need to be clearly outlined for the Legislature to make balanced and thoughtful budget decisions.

## DAS – Office of the Director

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 246,897 | 245,110 | 254,533 | 270,231 |
| Other Funds | 3,783,794 | 4,624,878 | 4,782,522 | 4,982,817 |
| **Total Funds** | **$4,030,691** | **$4,869,988** | **$5,037,055** | **$5,253,048** |
| Positions | 18 | 18 | 18 | 18 |
| FTE | 18.00 | 18.00 | 18.00 | 18.00 |

### Program Description

The Director is responsible for managing and coordinating the policies, programs, and services of the divisions within the Department. Also, as the 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 has four primary functions:

- ***Agency Administration*** provides, through the Director and Deputy Director, management oversight and policy direction to DAS divisions.
- ***Office of Economic Analysis*** produces the Oregon Economic and Revenue Forecast and Criminal Justice Population Forecast. It also contracts for the Highway Cost Allocation Study.
- ***Internal Audits*** conducts internal audits of the Department's public funds.
- ***Government Affairs and External Relations*** coordinates legislation and communications with agencies and the public.

### Revenue Sources and Relationships

General Fund supports prison population forecasting. Otherwise, the Office is funded through an assessment of state agencies and a payment from the Department of Transportation for the cost of the Highway Cost Allocation Study.

### Budget Environment

The Office of the Director is essentially an administrative office within an administrative agency. Its budget is based upon the amount of support needed within the Department and within state government.

### Essential Budget Level

The essential budget level is 4.3% higher than the 2007-09 legislatively approved budget at December 2008. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

The Governor's recommended budget funds the Office of the Director at the calculated essential budget level.

The agency's 2009-11 budget request included $0.3 million Other Funds for 2 positions (2.00 FTE) to provide internal auditing services to smaller agencies through a shared client services model. This package was not approved due to budget constraints. The Legislature may want to note that smaller agencies' ability to access internal audit services remains both a fiscal and service availability challenge.

## DAS – Budget and Management Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 10,139,938 | 10,081,024 | 10,421,501 | 8,890,943 |
| **Total Funds** | **$10,139,938** | **$10,081,024** | **$10,421,501** | **$8,890,943** |
| Positions | 35 | 34 | 35 | 32 |
| FTE | 34.29 | 33.29 | 33.52 | 31.29 |

### 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 recommended 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, pension obligation bonds, and lottery revenue bonds. The Division is responsible for development and maintenance of the statewide budget systems.

### Revenue Sources and Relationships

The Budget and Management Division is funded primarily through assessments of state agencies ($8.6 million).

### Budget Environment

The Division's budget relies on agency assessments. Department management must ensure that the Division does its job properly, using only resources necessary to accomplish the work.

### Essential Budget Level

The EBL is a 15% decrease from the 2007-09 legislatively approved budget at December 2008. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The overall decrease is due to a phase-out of expenditures related to the completion of core development on the ORegon Budget Information Tracking System (ORBITS).

### Issues and Options

The Governor's recommended budget includes an increase of $93,767 Other Funds and 1 position (0.50 FTE) to reflect the 2009-11 impact of a new part-time permanent position approved at the June 2008 meeting of the Emergency Board. The position provides administrative support to the Committee on Performance Excellence, which was created during the 2008 special session.

## DAS – State Controllers Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 18,545,913 | 23,653,969 | 24,030,457 | 20,692,521 |
| **Total Funds** | **$18,545,913** | **$23,653,969** | **$24,030,457** | **$20,692,521** |
| Positions | 49 | 50 | 50 | 50 |
| FTE | 48.50 | 49.50 | 49.50 | 49.50 |

### Program Description

The State Controllers Division supports and ensures accuracy and accountability in state government financial systems by providing services and controls in the management of statewide accounting, receivables, financial reporting, and payroll functions. It also provides 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 state agency assessments ($11.7 million) and direct charges for processing warrants and payroll documents ($7.9 million). Assessments and charges are based on analyses of services provided and their costs.

### Budget Environment

The Division's budget relies on assessments and direct charges paid by agencies. Department management must ensure that the Division does its job properly, using only resources necessary to accomplish the work.

### Essential Budget Level

The EBL is a 13.9% decrease from the 2007-09 legislatively approved budget at December 2008. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The overall decrease is due to a phase-out of data processing charges that are no longer applicable.

### Issues and Options

The Governor's recommended budget adds $0.7 million Other Funds and 4 positions (2.50 FTE) in two policy packages to comply with federal requirements for 3% vendor payment withholding and address workload demand driven by client agencies. These packages are supported by charges for services and are consistent with the agency's budget request for the Division.

## DAS – Enterprise Information Strategy and Policy Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 34,751,385 | 43,741,204 | 46,434,580 | 44,262,853 |
| **Total Funds** | **$34,751,385** | **$43,741,204** | **$46,434,580** | **$44,262,853** |
| Positions | 48 | 34 | 34 | 34 |
| FTE | 45.91 | 34.00 | 34.00 | 34.00 |

### Program Description

The Enterprise Information Strategy and Policy Division (EISPD) maintains certain policy and statewide information technology oversight functions. The Division has six separate functional areas:

- ***Administration*** provides administrative support for the Division. It coordinates and oversees business functions and is headed by the state's Chief Information Officer.
- ***Enterprise Security Office*** identifies the state's information security needs. It is responsible for statewide information security policies and practices.
- ***IT Investment and Planning*** develops and implements state information technology strategies, rules, policies, standards, and processes. It provides support to the Chief Information Officer and information technology-related governance bodies.
- ***Geospatial Enterprise Office*** provides statewide geographic information systems (GIS) coordination for Oregon government (state and local), to support enterprise-wide planning and decision-making.
- ***E-government*** works with agencies and a third party vendor to move information, forms, and payment processes to the Internet to provide online services to citizens.
- ***Business Continuity Planning*** works with state agencies to develop coordinated business continuity strategies and ensure stability of services.

### Revenue Sources and Relationships

The Division receives its revenues from assessments of state agencies and charges for direct services. Agency assessments bring in revenue of about $36 million, while charges for direct services are estimated to be about $12 million. These revenues support the Division's budget, including debt service payments on COPs primarily sold to fund enterprise security projects.

### Budget Environment

A great deal of attention has been given to the state's information technology capabilities, infrastructure, and security. As state government becomes more dependent on technology for the delivery of services, the Division's role of providing statewide technology policy and oversight becomes even more important. The current DAS budget structure reflects an effort to place back-office support functions in operating divisions and focus EISPD's efforts on statewide enterprise information technology strategy and policy.

### Essential Budget Level

The EBL is a 4.7% decrease from the 2007-09 legislatively approved budget at December 2008. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The overall decrease is due to completing a phase-out of costs associated with the start-up of the Enterprise Security Office in 2003-05.

### Issues and Options

The Governor's recommended budget adds $0.7 million Other Funds and 1 position (1.00 FTE) to handle a backlog of change requests from participating agencies in the E-Government program.

The agency's request budget included a higher level of resources for E-Government. It also included positions and funding to establish an enterprise architecture and standards program. These requests were not approved due to budget constraints.

## DAS – Human Resource Services Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 13,980,919 | 16,174,712 | 20,774,962 | 16,668,958 |
| **Total Funds** | **$13,980,919** | **$16,174,712** | **$20,774,962** | **$16,668,958** |
| Positions | 62 | 62 | 67 | 58 |
| FTE | 59.84 | 60.00 | 60.17 | 56.50 |

### 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 ($19 million) of Executive Branch state government agencies, excluding the Department of Higher Education. Legislative and Judicial Branch agencies and the Lottery Commission pay an assessment to use the centralized employee database. Approximately $1.6 million of revenue comes from specialized training sessions and executive recruitment services.

Both of these revenue estimates are based on the Division's calculated essential budget level.

### 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. The Division intends to meet this challenge by ensuring that it delivers good service at a reasonable cost.

### Essential Budget Level

The essential budget level is 19.8% below the 2007-09 legislatively approved budget at December 2008. It includes adjustments (increases) for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The net decrease is due to the phase-out of one-time costs related to the Human Resource Information System (HRIS) initial assessment and due to training costs approved at the June

2008 meeting of the Emergency Board that are expected to carry forward but are not built into EBL.

### Issues and Options

In 2007, the Legislature approved funding for an initial assessment to develop a Human Resource Information System. The Governor's recommended budget does not continue that effort. Instead, the Governor's proposal includes a policy package to revise the state's classification and compensations systems. At a cost of $3.2 million Other Funds, it would add 15 positions. The package would be funded principally by assessments of other state agencies ($5.9 million). Additionally, the Governor's recommended budget includes four positions to deal with workload associated with labor relations and state employee recruitment and development. Costing $1.5 million Other Funds, these positions will be funded with about $2 million of assessments to state agencies.

The budget also carries forward training and internship funding that had been approved by the Emergency Board after the cutoff date for development of the essential level budget. These additional legislatively approved costs are pass-through charges estimated at $6.5 million Other Funds for 2009-11.

## DAS – Public Employees Benefit Board

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 6,147,431 | 7,453,387 | 7,719,243 | 6,836,766 |
| Other Funds (NL) | 35,174,245 | 85,832,835 | 125,365,000 | 132,830,000 |
| **Total Funds** | **$41,321,676** | **$93,286,222** | **$133,084,243** | **$139,666,766** |
| Positions | 20 | 22 | 22 | 22 |
| FTE | 18.29 | 21.83 | 21.83 | 21.08 |

### Program Description

The Public Employees Benefit Board (PEBB) contracts for and administers medical and dental insurance programs for state employees and their dependents, representing more than 114,000 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 state government and its employees, and preparing benefits information and answering inquiries from employees and their dependents about coverage.

### Revenue Sources and Relationships

The PEBB 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 insurance premiums. The Board is also 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 money was placed in a separate account pending the outcome of legal claims filed for a portion of the money. The claims have been settled and the Board has decided to use the proceeds to pay for an additional $20,000 of life insurance for each covered state employee beginning in 2009. The Nonlimited Other Funds portion of the budget request is predominantly for health care costs that PEBB self insures from its Stabilization Account. The Stabilization Account has a current balance of about $120 million. The Board's plan to increase the amount that it self-insures requires a significant balance in the account in the advent of adverse claims costs. The account may be used to stabilize benefit premium rates.

### Budget Environment

Demand for PEBB'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, changes to employee health insurance benefits that may be mandated by statute, arrived at through collective bargaining agreements or provided by the Board, can impact workload. The Board continues to move toward assuming more of the insurance cost risk by increasing the amount that it self-insures.

### Essential Budget Level

The essential budget level, which is an increase of just under 5% from the 2007-09 legislatively approved budget at December 2008, would continue operations at the current level. This includes the existing level of self insurance. The Legislature's practice has been to exclude self insurance payments made from the Stabilization account self insurance from PEBB's expenditure limitation (budgeted as Limited). Any increased expenditure limitation needed due to changes in the amount the Board chooses to self-insure is, therefore, processed administratively, without Legislative input (budgeted as Nonlimited).

### Issues and Options

Issues

The Governor's recommended budget adds three positions and $4 million Other Funds. The increased cost will be covered by the employers' contributions for health care costs and administrative assessments. Of the $4 million, about half is for actuarial consulting services that previously were paid by plan providers as part of their contracts with PEBB. The Department of Justice has determined that PEBB must pay directly for the consulting services.

About $0.5 million of the increase is for staff to deal with increased workload caused by complexities around plan design, plan procurement, and contract management; $0.7 million of the increase is for professional services for wellness efforts, information technology relating to electronic medical records, and evidence-based plan designs. The balance of the cost is for various services and supplies, increased data processing costs, and support and enhancements to PEBB's online benefit management system used by state employees.

The cost of health care benefits included in the 2009-11 Governor's recommended budget is $1.2 billion compared to about $6 billion in salaries and wages for all proposed full- and part-time employees (including academic salaries, graduate assistants and interns, and other academic pay in Higher Education). The Board has approved health plan enhancements which have increased costs that currently are borne entirely by the state. In 2007, the Board increased coverage for hearing aids from $500 every three years to $4,000 every four years, effective January 1, 2008. The actual cost of this increase has not been determined, but original estimates indicate an annual cost of $3-4 million a year. In 2008, the Board increased vision coverage from one visit and glasses every two years to one visit and glasses annually, effective January 1, 2009. The annual cost of this is estimated to be $5-6 million. The Board was able to enhance benefits without causing additional costs to employees as bargaining unit agreements provided that the state would pay the entire cost of health care premiums in 2008 and of any premium increases of up to 12.5% in 2009. Health care premiums have continued to increase, but at a slower rate than was experienced in the past. The actual increase for 2009 is less than 5% and, therefore, paid by the state.

The composition of the Board is established by statute. The Board's composition is much like the composition of the Public Employees Retirement Board prior to the 2003 PERS reform legislation. That Board's statutory makeup did not require a majority of members have knowledge and experience with employee retirement benefit plans. The statutory composition of the PEBB is representatives from bargaining units, management of state agencies, and others. But there is no requirement that any Board member have working knowledge and experience managing health insurance plans. The Board's movement toward operating as a self-insured program means more risk is shifted to the state and it may be advisable to have Board members with knowledge and experience managing self insured health insurance plans. This may become more of as issue as health care costs continue to escalate and the dollar risk exposure to the state increases also.

Options

The Legislature always has the option of approving, modifying, or denying agency budgets and policy packages. The Legislature cannot breach the contractual agreements that state employees will not have to bear any of the health care premiums. However, it does have options that can reduce the budgetary impact of those costs in 2009-11. First among them is requiring PEBB to use the Stabilization Account to pay for part of the $1.2 billion cost. It could do this by reducing agency budgets for health care benefit costs and providing clear direction to PEBB in session law to make up the difference from the Stabilization Account.

Another less desirable alternative is to specifically provide less for these benefits in each agency's budget bill so that agencies could not exceed that amount by redirecting funding for these benefit costs from other parts of agency budgets. This would be less desirable because it provides no clear direction to PEBB to use the

Stabilization Account to subsidize costs. If PEBB chose not to use the Account to subsidize costs, agencies would be forced to reduce health care benefit costs by reducing staffing to the level that it could pay for all of the health care costs of remaining employees. Based on the monthly budgeted cost of $1,070, about 3,900 full-time positions would have to be eliminated to reduce health benefit costs by $100 million for the biennium. This could further reduce the delivery of needed services to Oregonians.

Looking to the future, another option would be to change the composition of the Board. The increasing costs of health care benefits, the potentials and pitfalls of self-insuring state employee health care costs, and the ever-changing health care industry would seem to indicate the need for a Board with significant representation with knowledge and experience managing health care insurance plans.

## DAS – Oregon Educators Benefit Board

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 99,464 | 4,890,540 | 510,133,398 | 7,110,058 |
| **Total Funds** | **$99,464** | **$4,890,540** | **$510,133,398** | **$7,110,056** |
| Positions | 4 | 19 | 25 | 19 |
| FTE | 0.34 | 15.63 | 17.77 | 19.75 |

### Program Description

The Oregon Educators Benefit Board (OEBB) was created by Chapter 7, Oregon Laws 2007, and performs essentially the same function as PEBB, but for the various school, education service, and community college districts throughout the state. The law prohibits those districts, with certain exceptions, from offering benefit plans other than those offered by the Board on or after October 1, 2008. Staff for OEBB is co-located with staff for the PEBB. One Division Director oversees both operations and the Director and another support person's time is split between the two operations.

### Revenue Sources and Relationships

The OEBB 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 1.6% of monthly premiums. Start-up operating funds for 2007-09 were provided by a General Fund appropriation made to the Department of Education and transferred as Other Funds to DAS for Board operations. The 2005-07 costs were planning and start-up costs incurred for OEBB by PEBB and reimbursed by OEBB when funds became available. By law, OEBB will reimburse PEBB for all start-up costs. OEBB expects to reimburse all costs by the end of the 2009-11 biennium. Due to the increased number of districts using OEBB-provided health care benefits, the Board's operating costs can be spread over a much larger base and the 1.6% assessment rate is likely to be lower in the near future.

### Budget Environment

OEBB has been busy working to issue requests for proposals for health benefit services in order to meet the statutory October 1, 2008 deadline for having benefit plans available to the districts. Additionally, far more districts than originally scheduled opted to sign up in October. Using a website portal, OEBB was able to handle the workload and open enrollment went smoothly. The workload will continue to increase as the Board now looks to providing optional life, long-term care, and other benefit plans as required by law.

### Essential Budget Level

The computed essential budget level does not reflect OEBB's budgetary needs. The 2007-09 legislatively adopted budget as of April 2008, from which the essential budget level was developed, provided 18 months of seed money funding for the Board. The Board was expected to generate revenues after October 2008 and seek additional Other Funds expenditure limitation from the Emergency Board to continue operations through the end of the biennium. Initial OEBB board staffing and funding levels were estimated based on knowledge of PEBB's operations and activity assumptions. During the interim, the Emergency Board approved three additional full-time positions for OEBB.

The Emergency Board also established a $500 million Other Funds expenditure limitation for the Board to pay monthly insurance premium payments to providers on behalf of the various districts. When the Board's budget was originally developed, it was unknown how the insurance premium payments would flow from school districts to insurers. The Board adopted rules and school districts are now invoiced for their insurance premiums and administrative fees. OEBB then pays the insurers.

### Issues and Options

The Governor's budget is dramatically larger than the computed essential budget level, but actually reflects a true essential budget as it includes the staffing and expenditure authority approved legislatively after April 2008. Payments for insurance premiums and certain other insurance related professional fees will be recorded in the budget as Nonlimited. This is consistent with PEBB's treatment of like expenditures.

## DAS – Facilities Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 69,318,762 | 86,935,251 | 88,649,779 | 90,637,497 |
| Other Funds (NL) | 3,835,654 | 0 | 0 | 0 |
| **Total Funds** | **$73,154,416** | **$86,935,251** | **$88,649,779** | **$90,637,497** |
| Positions | 209 | 214 | 214 | 201 |
| FTE | 203.24 | 208.42 | 208.42 | 200.50 |

### 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; its two major sources are uniform rent, assessed on all tenant agencies, and parking fees. The uniform rent rate for office space in 2009-11 is $1.40 per square foot, which is a 6.1% increase over the 2007-09 rate. Uniform rent includes a depreciation component that is deposited in a Capital Projects Fund, the balance of which is primarily used for the major rehabilitation of building space. The Division also receives funding 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 about 2.76 million square feet of mostly office space and leases another 4.4 million square feet. 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. External causes such as increased utility rates and additional security needs contribute to the increased uniform rent.

### Essential Budget Level

The essential budget level is 2.2% higher than the 2007-09 legislatively approved budget at December 2008. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. Inflationary increases are partially offset by the phase-out of some one-time costs.

### Issues and Options

The Governor's recommended budget adds about $0.2 million General Fund to support debt service costs on capital improvement and construction conservation projects. An increase in Other Funds expenditure limitation is also approved for capital projects that are debt financed.

The budget also includes $1.2 million Other Funds and 9 positions (9.00 FTE) to handle increased workloads in leasing and landlord services to tenants. Areas addressed include security, heating and cooling, repair and maintenance, and project management. Revenue from uniform and self-supporting rents would cover these additional expenditures.

## DAS – State Services Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 948,484 | 736,468 | 255,995 | 0 |
| Other Funds | 119,159,203 | 131,461,541 | 136,633,758 | 142,296,544 |
| Other Funds (NL) | 74,894,461 | 83,359,000 | 83,359,000 | 97,194,475 |
| **Total Funds** | **$195,002,148** | **$215,557,009** | **$220,248,753** | **$239,491,019** |
| Positions | 239 | 255 | 250 | 246 |
| FTE | 237.38 | 254.00 | 250.46 | 245.50 |

### Program Description

The State Services Division consists of several programs focused on providing cost effective central services to state agencies. The Risk Management program 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 section investigates and resolves claims against the state and its employees, and devises strategies that encourage agencies to minimize loss-related costs. The program used to receive some General Fund for processing Measure 37 claims; as of 2009-11 this work is being handled by the Department of Land Conservation and Development.

The State Procurement Office provides statewide purchasing and contracting direction, while working to combine the buying power of state and local governments. The Statewide Fleet Administration program acquires and maintains about 4,000 vehicles for state agency use. The Publishing and Distribution program offers a full array of design, printing, finishing, metering, delivery, and mailing services. The Surplus Property program provides a central distribution point for agencies' surplus inventory and actively markets the sale of those items to other governments and the public.

### Revenue Sources and Relationships

The revenue source for the Risk Management program's operating expenditures is the Insurance Fund. State agencies pay into the Insurance Fund through an assessment ($129.5 million) based on a share of forecasted statewide claims costs. Statewide needs are developed from independent actuarial forecasts for workers' compensation, property, and liability costs and estimated legal costs. More than 80% of the Section's budget, established to purchase insurance and pay claims from the Insurance Fund, is Nonlimited. The program used to receive some General Fund for processing Measure 37 claims; as of 2009-11 this work is being handled by the Department of Land Conservation and Development.

The State Procurement Office operations are supported through an assessment of $3.6 million, which is based on volume of transactions and number of agency positions. An additional $5.1 million is provided through other direct fees for services and purchasing, consulting, and training fees.

The Fleet Administration and 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. Fees are expected to bring in $52.7 million in revenue for the 2009-11 biennium.

State and Federal Surplus Property operations generate revenue from service fees. For state surplus items, the fees ($3.2 million) are based on the value of the items sold for the state agencies disposing of the surplus property. For federal surplus property, the service fees ($1.4 million) are charged to agencies acquiring the property through the Division based on the value of the federal surplus property acquired.

Printing and Distribution is financed by charges for printing and mailing services ($51.2 million) and a statewide assessment for shuttle mail service ($2.9 million).

**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. Demand for services drives the budget of the fleet operations, purchasing, surplus property, and printing and distribution services.

**Essential Budget Level**

The essential budget level is 8.8% higher than the 2007-09 legislatively approved budget at December 2008. It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

**Issues and Options**

The Governor's recommended budget includes $1.1 million Other Funds backed with COPs to support the purchase of 25 electric cars and build two plug-in stations. About $67,000 General Fund is added to pay the debt service on those COPs. The budget also includes $0.3 million Other Funds and 2 positions (2.00 FTE) to improve processing of surplus property.

The agency's budget request included a position to assist callers who need help with state's online procurement system. That package was not approved.

## DAS – Office for Oregon Health Policy and Research

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 1,398,477 | 0 | 0 | 0 |
| Other Funds | 4,221,292 | 0 | 0 | 0 |
| Federal Funds | 470,721 | 0 | 0 | 0 |
| **Total Funds** | **$6,090,490** | **$0** | **$0** | **$0** |
| Positions | 22 | 0 | 0 | 0 |
| FTE | 19.80 | 0.00 | 0.00 | 0.00 |

**Program Description**

In 2007-09, the Office for Oregon Health Policy and Research, which provide healthcare analysis and policy review activities, was transferred to the Department of Human Services. The change was made so that the Office, along with continuing its existing functions, could assist the Oregon Health Fund Board. The Board was created by SB 329 (2007) and is charged with developing a comprehensive plan to ensure affordable quality health care for every Oregonian.

## DAS – Operations Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 17,378,883 | 19,956,997 | 22,485,439 | 21,728,836 |
| **Total Funds** | **$17,378,883** | **$19,956,997** | **$22,485,439** | **$21,728,836** |
| Positions | 105 | 95 | 95 | 94 |
| FTE | 103.84 | 93.88 | 93.88 | 93.50 |

**Program Description**

The Operations Division provides administrative guidance and operational support services to DAS divisions, the Office of the Governor, select boards and commissions, and select client agencies. These services include budgeting, payroll, accounting, personnel, and procurement services. The Division also provides computer help desk and other information technology support.

**Revenue Sources and Relationships**

The Division's revenue comes from service charges to the Department's various internal divisions and to its external customers.  The other DAS divisions receive their revenues from state agencies through assessments and charges.

#### Budget Environment

The Operations Division is a support office within an administrative agency.  Its budget is based upon the kind and level of services needed by its customers.

#### Essential Budget Level

The essential budget level is 3.4% below the 2007-09 legislatively approved budget at December 2008.  It includes adjustments (increases) for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.  The net decrease is due to a 2007-09 increase in data processing costs, approved at the June 2008 meeting of the Emergency Board, which is not built into the 2009-11 EBL.

#### Issues and Options

The Governor's recommended budget adds about $16,000 General Fund to support debt service costs and $0.3 million Other Funds to support a computer power management project.  The sale of COPs would support the project costs.

The budget includes $0.2 million Other Funds and 1 position (1.00 FTE) to handle an increased workload in the contracting unit.  The Governor's budget also adds $0.7 million and 5 positions (5.00 FTE) to stabilize information technology support services.

In its requested budget, the agency asked for additional positions to support personnel work and information technology services.

## DAS – Oregon Progress Board

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 462,724 | 448,193 | 465,184 | 512,619 |
| Other Funds | 470,292 | 412,400 | 412,400 | 423,947 |
| **Total Funds** | **$933,016** | **$860,593** | **$877,584** | **$936,566** |
| Positions | 3 | 2 | 2 | 2 |
| FTE | 2.63 | 1.75 | 1.75 | 1.75 |

#### Program Description

The Oregon Progress Board consists of nine members appointed by the Governor.  The Board maintains and reports on *Oregon Shines*, which is the state's strategic plan to make progress toward three inter-related goals.  These goals are quality jobs for all Oregonians; engaged, caring, and safe communities; and healthy, sustainable surroundings.  Progress toward the goals is evaluated through 91 benchmarks.  In September 2008, the Board adopted a business plan for *Oregon Shines III*, which would update the strategic plan, last revised in 1997.

#### Revenue Sources and Relationships

The Board is funded by a combination of General Fund and Other Funds.  The Board receives Other Funds revenue from private grants, donations, and honorariums for speaking.

#### Budget Environment

As the Legislature focuses more on performance measures and program outcomes, the activities of the Oregon Progress Board and staff have helped state agencies sharpen their performance measures and outcome metrics.

#### Essential Budget Level

The essential budget level is 6.7% above the 2007-09 legislatively approved budget at December 2008.  It includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

The Governor's recommended budget adds $50,000 Other Funds, supported by donations, to help produce the *Oregon Shines III* document. The budget does not include $53,000 General Fund also requested by the agency for the project. The Governor's budget assumes private donations will still come in, even without the state's share being funded.

The agency's budget request included two positions and $0.4 million General Fund to develop and maintain an interactive website for *Oregon Shines III*. The package was not included in the Governor's budget due to General Fund constraints.

## DAS – State Data Center

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 145,637,950 | 167,634,842 | 169,019,690 | 156,096,982 |
| **Total Funds** | **$145,637,950** | **$167,634,842** | **$169,019,690** | **$156,096,982** |
| Positions | 218 | 159 | 159 | 159 |
| FTE | 106.46 | 159.00 | 159.00 | 159.00 |

### Program Description

The State Data Center (SDC) opened in the fall of 2005 as the result of the Computing and Network Infrastructure Consolidation (CNIC) project. By December 2007, eleven separate agency data centers had been moved into a single data center facility. The SDC currently maintains 24/7 core computer services and operational support for these eleven agencies. The facility also provides information technology infrastructure services to thousands of state and local government programs.

SDC is expected to provide agencies equal or improved services while reducing costs. Other anticipated outcomes of consolidating services include the following: better tools and processes through collective purchasing; greater security; reduced electrical power consumption; better and more reliable technologies; improved ability to recover from disaster; and standardization.

### Revenue Sources and Relationships

The Center's revenues come from usage fees and charges to state agencies and other customers. Fee and charge methodology, allocation, and structure are still being fine-tuned. How usage and rates are determined depend on the type of SDC service being used. Five major service areas are provided: computing (mainframe, midrange, and distributed systems), network (with enhanced security), storage, and voice. One-time facility construction and start up costs have been financed by the sale of certificates of participation, with the associated debt service expenses built into the budget and paid by customers as part of overall program costs.

### Budget Environment

SDC has faced many challenges in its first three years of operations. These include unrealistic expectations for cost savings, inadequate staffing level projections, passive resistance to consolidation, poor baseline data on the scope and cost of services pre-consolidation, and a lack of enterprise focus among customer agencies. Much progress has been made on many of these issues. However, fluctuating costs for agencies and perceptions that there is a lack of return on the state's investment often draw attention away from the facility's successes. These include establishing a quality data center, hiring excellent staff, meeting standards for data center reliability and service, and developing a flexible data center environment.

Over the last few months, the Center has developed a service catalog, provided an annual report as required under its governance charter, and improved its business infrastructure. Rates are continuing to be refined and will likely need to be modified during the legislative budget review process once new usage data and reporting information becomes available.

### Essential Budget Level

The essential budget level is 7.7% below the 2007-09 legislatively approved budget at December 2008. It includes adjustments (increases) for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The net decrease is due to the phase-out of 2007-09 one-time capital expenditures.

### Issues and Options

The Governor's recommended budget adds $27.2 million Other Funds and 11 positions (10.63 FTE) in four policy packages. About $12 million and 9 of the positions would support new SDC projects requested by agencies. The replacement of outdated voice equipment would cost about $4.1 million and is supported with COP proceeds, while $10.7 million would be used to bring equipment onto an established lifecycle replacement plan. About $0.5 million and 2 positions would allow SDC to hire staff with the expertise needed to manage and utilize the facility's existing data storage capacity.

The Governor's recommended budget is a 17.4% increase over EBL and an 8.5% increase over the 2007-09 legislatively approved budget at December 2008. The fluctuation in the size of this budget is indicative of the ongoing challenge SDC faces in defining and managing its portfolio of services while trying to achieve cost savings. Customer agencies are sensitive to costs that seem beyond their control and that ultimately could hold programs hostage as budget dollars become much tighter. The Legislature will need to carefully review the Center's budget to ensure that SDC service levels and associated costs are consistent with the level of funding and program approved in customer agency budgets.

## DAS – Capital Improvements

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 3,643,697 | 5,704,549 | 6,271,549 | 3,111,608 |
| **Total Funds** | **$3,643,697** | **$5,704,549** | **$6,271,549** | **$3,111,608** |

### Program Description

The Capital Improvements program pays 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 Fund, which is set up under ORS 276.005 to support a variety of capital needs for state facilities. The fund is supported primarily by the depreciation component of uniform rent and service agreements. Certificates of participation are also sometimes issued to pay for projects.

### Essential Budget Level

The essential budget level includes a phase-out of $3.2 million for projects that were completed in 2007-09.

### Issues and Options

The Governor's recommended budget adds $2.2 million Other Funds backed by COPs for energy efficiency and conservation projects. Debt service on the COPs sold to support these projects would be paid back with General Fund, which would be about $140,000 for 2009-11. The debt service payments are recorded in the budget for the Facilities Division.

## DAS – Capital Construction

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 18,088,470 | 14,272,553 | 14,272,553 | 0 |
| **Total Funds** | **$18,088,470** | **$14,272,553** | **$14,272,553** | **$0** |

### Program Description

The Capital Construction Program includes major remodeling, renovation, and new construction or acquisition projects costing more than $500,000 in the aggregate.

#### Revenue Sources and Relationships

Other Funds for capital construction comes from the Capital Projects Fund and from COPs. The Governor's recommended budget includes a total of $10.5 million in projects, with about $8.3 million in funding coming from the Capital Projects Fund and the remainder from COP financing.

#### Essential Budget Level

The entire six-year Capital Construction budget authority approved for 2007-09 is recorded in that biennium, so does not carry forward to the 2009-11 essential budget level. New construction projects would be approved in a policy package.

#### Issues and Options

The Governor's recommended budget includes 13 projects ranging from $0.8 million to $2.1 million in projected costs. One placeholder project in the amount of $1 is approved for the potential replacement of the Executive Building in Salem. Most of these projects were included in the agency's budget request.

Two projects totaling $1.5 million were added as part of the Governor's effort to have government lead by example when it comes to the efficient use of energy. Debt service on the COPs sold to support these projects would be paid back with General Fund, which would be about $90,000 for 2009-11. The debt service payments are recorded in the budget for the Facilities Division.

## DAS – COP Issuance Costs for Capital Construction Projects

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 273,210 | 685,283 | 685,283 | 0 |
| **Total Funds** | **$273,210** | **$685,283** | **$685,283** | **$0** |

#### Program Description

This program accounts for the cost of issuing COPs specifically for Capital Construction projects. Issuance costs normally are part of the principal amount borrowed, much like borrowers' "points" on a home mortgage are included in the amount borrowed.

#### Revenue Sources and Relationships

These Other Fund revenues come from the COP sale proceeds.

#### Essential Budget Level

Cost of issuance expenditures for new construction projects would be approved in a policy package.

#### Issues and Options

Based on the Governor's recommended budget for Capital Construction, costs of issuance should be just under $100,000. However, at $4.7 million, the budget for this unit is out of alignment with the recommended projects and will need to be adjusted downward if the Legislature approves those projects without any changes.

## DAS – Miscellaneous Distributions

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 240 | 0 | 0 | 5,698 |
| Other Funds (NL) | 15,632,686 | 15,862,549 | 15,862,549 | 17,046,726 |
| **Total Funds** | **$15,632,926** | **$15,862,549** | **$15,862,549** | **$17,052,424** |

#### Program Description

This program primarily reflects the distribution of mass transit assessments collected from state agencies based on the number of employees working in certain mass transit and transportation districts. The assessment is then sent to those districts to reimburse them for the benefits they provide to state government.

#### Revenue Sources and Relationships

These Other Fund revenues come from state agency payments for mass transit taxes.

#### Essential Budget Level

The legislatively adopted budget reflects anticipated mass transit assessment collections and distributions based on budgeted employment numbers.

#### Issues and Options

The Governor's recommended budget funds Miscellaneous Distributions at the calculated essential budget level, which is consistent with the agency's budget request.

## DAS – Special Governmental Payments

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 6,759,705 | 7,475,000 | 7,475,000 | 7,142,532 |
| Lottery Funds | 600,000 | 0 | 0 | 0 |
| Other Funds | 326,622,661 | 370,499,264 | 370,523,431 | 419,529,506 |
| **Total Funds** | **$333,982,366** | **$377,974,264** | **$377,998,431** | **$426,672,038** |

#### Program Description

This is a catch-all category that reports payments not directly related to the mission of the Department of Administrative Services. For 2007-09 the budget reflects a $6.4 million General Fund payment to the federal government for costs associated with the Public Employees Retirement System (PERS) blended rate payback to the federal government. Under a settlement, the payment offsets what the federal government perceives to be an overcharge resulting from the practice of blending different PERS rates for general service and police/fire.

The 2007-09 budget also includes $275,000 General Fund for the Independent Development Enterprise Alliance to develop a plan for removing legal barriers to employment and $800,000 General Fund for the Oregon Center for Nursing to help develop solutions to workforce shortages in the healthcare industry. These are one-time payments that are phased-out for 2009-11.

The Other Funds expenditures are primarily for debt service and debt management costs on Pension Obligation Bonds ($280.4 million) and debt service on Appropriation Bonds ($112.6 million).

#### Revenue Sources and Relationships

Revenues in this program come a variety of sources and are usually discretely identified in the agency's budget bill or other legislation.

#### Essential Budget Level

The essential budget level is 12.9% above the 2007-09 legislatively approved budget at December 2008. The increase is based on actual projected 2009-11 costs for the blended rate payback and debt service. Just over $1 million in 2007-09 one-time General Fund costs are phased-out.

#### Issues and Options

The Governor's budget adds $3 million General Fund; $1 million each for the following non-governmental entities: Pendleton Round-Up, Portland Art Museum, and Oregon Legal Aid. The Legislature will need to carefully weigh these proposed distributions within the context and priorities of the statewide budget.

The agency's 2009-11 budget request did not include these new General Fund expenditures.

## Advocacy Commissions Office – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 175,365 | 401,494 | 412,201 | 461,655 |
| Other Funds | 72,102 | 103,785 | 103,988 | 106,691 |
| **Total Funds** | **$247,467** | **$505,279** | **$516,189** | **$568,346** |
| Positions | 4 | 2 | 2 | 2 |
| FTE | 2.18 | 2.00 | 2.00 | 2.00 |

### Agency Overview

The Oregon Advocacy Commissions Office was established in 2005 (SB 359) to provide administrative support to the Commission on Asian Affairs, the Commission on Black Affairs, the Commission on Hispanic Affairs, and the Commission for Women. The commissions serve as liaisons between the minority communities and government entities and work to establish economic, social, legal, and political equality in Oregon. The agency assists the commissions in monitoring existing programs and legislation designed to meet the needs of minority populations and helps in identifying and researching problem areas and issues affecting minority communities.

### Revenue Sources and Relationships

Agency operations are funded with General Fund. The only other revenue source is donation funds (estimated to be $120,000 in 2009-11). Donation funds are dedicated by statute to the commission to which the donation was made and can only be used by the agency for the purpose for which the donation was made.

### Budget Environment

Even though the agency was created in 2005, it is still in its infancy – the Administrator position was vacant much of the 2005-07 biennium. During the 2007-09 biennium, a permanent appointment was made to the Administrator position. The agency's operating budget is 57% personal services and 43% services and supplies. Expenditure authority for the donation funds ($106,000) is budgeted in the services and supplies category.

### Essential Budget Level

The agency's essential budget level continues its current level of operations at standard budget practice personnel classification and salary ranges.

### Issues and Options

The Governor's recommended budget exceeds the essential budget level by $30,750 to fund the Administrator position at the top step of the salary range.

## Employment Relations Board (ERB) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 1,449,843 | 1,659,340 | 1,813,556 | 1,858,241 |
| Other Funds | 1,351,934 | 1,617,304 | 1,724,436 | 1,809,436 |
| **Total Funds** | **$2,801,777** | **$3,276,644** | **$3,537,992** | **$3,667,677** |
| Positions | 12 | 13 | 13 | 13 |
| FTE | 12.00 | 13.00 | 13.00 | 13.00 |

### Agency Overview

The mission of the Employment Relations Board (ERB) is to resolve disputes concerning labor relations for an estimated 3,000 employers and 250,000 employees in public and private employment in the state. The agency is responsible for administering specific portions of Oregon law: the Public Employee Collective Bargaining Act, which governs collective bargaining in state and local government; the State Personnel Relations Law, which creates appeal rights for non-union state employees who believe they were treated unfairly in the workplace; and the private sector labor-management relations law, which addresses collective bargaining for private sector employers who are not covered by federal law. ERB last handled a private sector case in 2002.

To accomplish this mission, the agency provides the following specific services:

- Conciliation and mediation services provided by three mediators who make themselves available to travel throughout the state to attempt to resolve bargaining disputes, contract grievances, unfair labor practices, and representation matters, including conducting elections to determine whether employee groups will form a labor union. This unit also provides a list of qualified local labor arbitrators and training in dispute resolution.
- Hearing and deciding unfair labor practice complaints, personnel appeals, and contested representation elections handled by three administrative law judges. The administrative law judges issue recommended decisions which the parties can appeal to the Labor Relations Board.
- The Labor Relations Board is a three member panel appointed by the Governor and approved by the Senate. The Board acts as the state's "labor appeal court" for labor and management disputes within state government. The Board issues final orders and administers the labor laws that cover private sector employees that are exempt from the National Labor Relations Act.

### Revenue Sources and Relationships

The Employment Relations Board generates the majority of its Other Funds revenue through an assessment to state agencies based on the number of covered employees, including employees from the Legislative and Judicial branches and temporary employees. The amount of projected state agency assessment revenue for 2009-11 is $1,554,000. ERB also receives fees for the following services: contract mediation fees to local governments ($1,000, born equally by the employer and the labor organization involved); grievance and Unfair Labor Practice fees ($500, again split between employer and labor); interest based bargaining training fees (up to $2,500); and filing fees for Unfair Labor Practice complaints ($250) and answers. The agency also charges fees for hard copies of documents, many of which are available on-line at no cost.

ERB receives General Fund revenue to support labor relations functions conducted on behalf of local governments.

### Budget Environment

In the early 1990s, ERB had over 200 cases filed for hearing each fiscal year. Since FY 1995, the average number of cases filed per fiscal year has been 137. The agency consistently failed to meet its performance targets for timely processing and resolution of cases between 2004 and 2007, which corresponds to the biennium in which the number of permanent administrative law judges was reduced from three to two due to funding constraints. In 2007, the Legislature approved funding for an additional administrative law judge and ERB eliminated its case backlog over the course of the 2007-09 biennium.

The number of cases filed pertaining to local government labor relations – supported by General Fund appropriations – has exceeded the number of cases filed for state government labor relations, which can be more complicated or time consuming. State government cases are supported by an assessment on state agencies commensurate with the number of agency employees. The 2003 Legislature directed ERB to develop a funding mechanism that was consistent with the workload requirements generated by state and local customers and to ensure that the assessment only covered the costs associated with the state government cases. In cooperation with the Governor's Office, ERB met with representatives from local government employers and unions to discuss funding options for the Local Government program. The workgroup concluded that General Fund should be the primary support for services. The workgroup narrowly approved a recommendation for new and increased fees, provided the costs are born equally by employers and employees, if General Fund support proved to be insufficient.

In 2007, the Legislative Assembly approved fee increases and additional General Fund to support an additional 1.00 FTE permanent administrative law judge position in the hearings division. With the addition of this staff position and by assigning Board members certain cases, the Board was able to eliminate a significant and longstanding backlog of cases.

### Essential Budget Level

The 2009-11 essential budget level is a 3.7% increase over the legislatively approved budget amount. Of the agency's 13 positions, four are administrative or legal support positions.

ERB was one of five small state agencies that was granted funding by the Emergency Board to fully fund the General Fund portion of the state employee salary package negotiated for the 2007-09 biennium. The agency was unable to absorb the salary package within its 2007-09 legislatively adopted expenditure limitation and General Fund appropriation, primarily because five of the 13 Board employees fall under the management classification and compensation structure. In addition, administrative law judges were the subject of a classification and compensation study salary adjustment by the Department of Administrative Services (DAS) in 2007-09.

### Issues and Options

ERB has been operating on a very tight budget with a barely adequate ending balance for the past three biennia. As noted above, the Legislature has historically appropriated General Fund for a portion of ERB operations in an effort to ensure that State Agency Assessment funding only be used to cover the costs associated with the state government cases. The Legislature must decide whether to fund ERB at a level which fully supports the cases and mediation work brought by local government with General Fund, or whether to require local governments and potentially their employees to increase the amount they pay to support their share of the work resulting from the statutorily mandated labor relations process.

## ERB – Administration

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 911,561 | 1,021,972 | 1,115,577 | 1,154,231 |
| Other Funds | 570,235 | 611,152 | 670,160 | 717,735 |
| **Total Funds** | **$1,481,796** | **$1,633,124** | **$1,785,737** | **$1,871,966** |
| Positions | 5 | 5 | 5 | 5 |
| FTE | 5.00 | 5.00 | 5.00 | 5.00 |

### Program Description

The three-member Employment Relations Board acts as a "labor appeal court" for labor and management disputes within state and local governments. The Board is appointed by the Governor and is responsible for issuing final agency orders in declaratory rulings, contested case adjudications of unfair labor practice complaints, representation matters, and appeals from state personnel actions. The Board Chair acts as the agency's administrator. The chair is assisted by an office administrator, and this program unit includes not only the activities of the Board mentioned above, but also the day-to-day administration of the agency, including budgeting, payroll, information technology, reporting, administrative rules, and supervision of staff.

### Essential Budget Level

The 2009-11 essential budget level is a 4.8% increase over the 2007-09 legislatively approved budget.

### Issues and Options

In keeping with its historic state and local funding splits discussed above, ERB requested additional General Fund and Other Funds expenditure limitation to fund replacement of 10 of the agency's 17 computers per DAS replacement guidelines, and funding to maintain a previously free subscription to collective bargaining case reports which will begin costing the agency in 2010. The Governor's budget includes the requested amount entirely as Other Funds expenditure limitation. Without additional General Fund or local government fee income, or cuts to services and supplies to balance the program's budget, additional state agency assessment revenue will end up subsidizing the portion of package costs attributable to local governments.

In addition, the Governor's budget provides for ratification of miscellaneous fee increases charged for faxes, copies, subscriptions, recordings, and certified copies of documents. The fee increases were implemented via administrative rule effective January 2007 and are expected to generate $5,630 for 2009-11.

## ERB – Mediation and Conciliation Services

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 275,162 | 278,894 | 292,779 | 306,303 |
| Other Funds | 401,380 | 494,288 | 516,022 | 497,814 |
| **Total Funds** | **$676,542** | **$773,182** | **$808,801** | **$804,117** |
| Positions | 4 | 4 | 4 | 4 |
| FTE | 3.50 | 3.50 | 3.50 | 3.50 |

### Program Description

The Conciliation Services Office is comprised of the State Conciliator, two mediators and a part-time (0.50 FTE) support position, and is responsible for the following:

- Providing mediation and conciliation services to resolve a variety of disputes, including those related to collective bargaining, contract grievances, unfair labor practice allegations, State Personnel Labor Relations Law appeals, and representation matters.
- Training in methods of alternative dispute resolution, collective bargaining, labor-management cooperation, and related issues.
- Maintaining a list of qualified arbitrators and providing related services and information. This includes processing arbitrator applications; handling questions from arbitrators and parties; responding to concerns and complaints from and about panel members; a biannual review of panel member selection rates; suspension or removal of arbitrators; processing requests for arbitration panels; maintaining a library of arbitration awards; and publishing interest arbitration awards on the ERB website. The program also participates in and sponsors a biennial ERB Panel Member Conference and sends out information to panel members on case law and legislative changes.

### Essential Budget Level

The 2009-11 essential budget level is a 0.6% decrease from the legislatively approved budget.

### Issues and Options

When fees for mediation services were instituted in 1995 to supplement General Fund appropriations for the local government use of ERB services, the number of local government requests for mediation dropped from approximately 324 in the previous biennium to 276. Service requests declined again to 145 after fees were raised in 1997. There were 137 mediation cases in 2005-07. While the number of cases is substantially lower than in the early 1990s, ERB reports that the complexity of contract negotiations has grown. General Fund appropriations have not been growing commensurate with personal service expenses, and fee revenues are insufficient to make up the difference. Given the economic downturn, fee revenue may not increase in 2009-11. In 2005-07 and again in 2007-09, ERB held open a vacant mediator position to balance the budget in this program area. Now that the program has a full complement of staff, ERB will experience a funding shortfall in the mediation program in 2009-11 under both the essential budget and the Governor's recommended budget.

The agency included a policy option package in its requested budget for additional General Fund to support its existing three mediator positions. The Governor's recommended budget did not provide for the additional General Fund, and instead, shifted the entire amount of the package back to Other Funds. Since fee revenue is likely to be inadequate and the only other source of Other Funds revenue available to fund the existing three positions is the State Agency Assessment, state agencies may end up subsidizing local government and school district mediation services. To avoid this, the Legislature has three options, as follows:

- Eliminate FTE to balance the budget within existing revenue to maintain historical policy direction that state agency assessments not subsidize local government-related work;
- Further increase fees for the mediation program (pursuant to the 2004 funding task force recommendation, the Legislature could stipulate that the fee amount be born equally between labor and management). however, experience suggests that fee increases coincide with a reduced number of cases and so would not solve the problem; or
- Increasing General Fund appropriations to support existing staffing levels.

## ERB – Hearings

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 206,373 | 301,707 | 345,045 | 336,305 |
| Other Funds | 373,961 | 506,371 | 532,498 | 587,947 |
| **Total Funds** | **$580,334** | **$808,078** | **$877,543** | **$924,252** |
| Positions | 3 | 4 | 4 | 4 |
| FTE | 3.00 | 4.00 | 4.00 | 4.00 |

### Program Description

The Hearings Office is comprised of three Administrative Law Judges and one support staff. The Administrative Law Judges hear all unfair labor practice complaints filed by state and local government labor or management representatives, hear all state personnel appeals, and hear representation matters referred by the Elections Coordinator that require a contested case hearing. Following the hearings, the Administrative Law Judges issue recommended decisions which the parties can appeal to the Employment Relations Board.

### Essential Budget Level

The 2009-11 essential budget level is a 5.3% increase over the 2007-09 legislatively approved budget.

### Issues and Options

In keeping with its historic state and local funding splits discussed above, ERB requested additional General Fund and Other Funds expenditure limitation to fund the increase in the salary of the new administrative law judge position added in 2007, pursuant to a statewide classification study by the Department of Administrative Services, Human Resources Services Division.

The Governor's budget includes the requested amount entirely as Other Funds expenditure limitation. Without additional General Fund or local government fee income, state agency assessment revenue will subsidize the portion of package costs attributable to local governments absent specific policy direction and alternate funding.

## ERB – Elections

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 56,747 | 56,767 | 60,155 | 61,402 |
| Other Funds | 6,358 | 5,493 | 5,756 | 5,940 |
| **Total Funds** | **$63,105** | **$62,260** | **$65,911** | **$67,342** |
| FTE | 0.50 | 0.50 | 0.50 | 0.50 |

## Program Description

The Elections program is staffed by a part-time (0.50 FTE) position who is responsible for conducting elections regarding employee union representation and certifying the results. The program also processes petitions involving union representation and composition of bargaining units. The agency reports that activity levels have declined slightly over the last biennium, perhaps due to prolonged labor contract periods and the merging or other changes in organization structure of some large labor organizations.

## Essential Budget Level

The 2009-11 essential budget level is a 2.2% increase over the 2007-09 legislatively approved budget.

## Government Ethics Commission – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 636,522 | 1,063,541 | 1,282,675 | 403,618 |
| Other Funds | 3,262 | 3,368 | 3,379 | 864,101 |
| **Total Funds** | **$639,784** | **$1,066,909** | **$1,286,054** | **$1,267,719** |
| Positions | 3 | 6 | 7 | 6 |
| FTE | 3.00 | 5.79 | 6.25 | 6.00 |

### Agency Overview

The mission of the Government Ethics Commission[1] is to impartially administer the regulatory provisions of government standards and practices, lobby regulation, and certain public meeting laws. The Commission consists of seven volunteer members; four members are appointed by the Governor upon recommendation by legislative leaders and three directly by the Governor. All members are confirmed by the Senate. No more than four members can be from the same political party and the law limits members to a single four-year term. 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 Ethics 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 was historically funded almost entirely by General Fund. Until the 2009-11 biennium, the Other Funds portion, comprising less than 1% of the budget, was from reimbursements for the cost of printing and distributing Commission documents. Actual Other Funds revenue from this source continues to decline with the increased availability of Commission documents on the Internet. The amount of revenue from these sources was $2,631 for 2005-07 and is estimated at approximately $3,000 for 2007-09. The agency's 2009-11 budget includes no revenue from this source.

The Commission also collects revenues from fines and forfeitures based on its authority to impose civil penalties. These revenues are not included in the agency budget, however, but are transferred to the General Fund and are not available for Commission operations. The Commission collected $114,377 in fines and forfeitures in 2005-07, but estimates it will only collect $75,000 in 2007-09 and 2009-11.

Beginning with the 2009-11 biennium, the Commission's funding base changes to an assessment model. The 2007 Legislature approved a funding mechanism to remove the Commission from direct General Fund support. The mechanism allows the Commission to equally share its operating costs between assessments on state agencies and on local government entities. State agencies are assessed based on FTE. Local entities are assessed based on a formula connected to the Municipal Audit charge that is collected by the Secretary of State. For the 2009-11 biennium, General Fund was recommended to be provided in order to allow the Commission to operate while the assessment collections were initiated and to create an Other Funds balance. Beginning in 2011-13, the Commission should be entirely an Other Fund agency.

### Budget Environment

After several biennia of declining funding and staffing, the Commission was revitalized by the 2007 Legislature as part of the ethics reform legislation passed during the regular session. Although the total number of complaints filed with the Commission had been relatively constant, with complaint activity spiking slightly upward in election years, the Commission's 2003-05 adopted budget was 25% below 1999-2001 levels. Budget reductions during the 2003 legislative session left the agency with three positions: the executive director, one investigator, and a 0.80 FTE support specialist.

The 2007 Legislature adopted a number of reforms of ethics laws in HB 2595 and SB 10 that caused additional

[1] HB 2595, enacted by the 2007 Legislature, changed the name of the Government Standards and Practices Commission to the Government Ethics Commission, effective July 1, 2007.

reporting requirements for lobbyists, lobbying entities, and public officials. SB 10 also included the new funding mechanism for the Commission that starts with the 2009-11 biennium. To respond to anticipated increases in activity due to the reform legislation, the 2007-09 legislatively adopted budget added three new full-time positions, including an investigator, a trainer, and an office assistant.

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. Due to the unpredictable nature of such legal costs, including the award of attorney fees to prevailing parties, the Commission usually seeks supplemental funding from the Emergency Board during the interim or from the Legislature during session.

The Commission had investigated alternative funding sources with little success until the reform legislation passed in 2007. The difficulty as an agency funded entirely by the General Fund was that the Commission had to seek funding approval from the same legislators that are subject to its review of conduct. There are an estimated 200,000 public officials subject to Commission jurisdiction, with the vast majority serving at the local government level. On average, only approximately 15% of the Commission's caseload originates from state government; 43% of the cases come from cities and counties, with the remaining 42% from school districts, special districts, and other local jurisdictions. The Commission, however, received no direct revenues from local government entities for their combined 85% share of the Commission's workload.

### Essential Budget Level

The essential budget level for the Commission is $403,618 General Fund and $1,267,719 total funds. This is $18,335 less than the 2007-09 legislatively approved budget as of December 2008. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. It also reflects full funding for positions that were phased-in during the 2007-09 biennium, but will be full-time during the 2009-11 biennium. The essential budget level is also reduced from the 2007-09 legislatively approved budget due to a one-time $75,000 allocation made by the Emergency Board in June 2008 from a special purpose appropriation for costs related to the development of an on-line reporting system. The essential budget level also reflects the fund shift from General Fund to Other Funds of $865,065 to reflect the change to an assessment based funding mechanism.

### Issues and Options

In its 2009-11 agency request budget, the Commission asked for additional resources for Attorney General costs, training positions, a clerical position, reclassification of an existing position, and assessment implementation costs. For the 2009-11 biennium, the Governor's recommended budget includes:

- $16,236 General Fund and $48,708 Other Funds to continue funding for higher Attorney General costs authorized by the Emergency Board in June 2008 for the 2007-09 biennium;
- $72,221 General Fund and $216,680 Other Funds to add 2 positions (2.00 FTE) as trainers, increasing the number of trainers in the agency to three;
- $26,874 General Fund and $80,624 Other Funds to continue a limited duration Administrative Specialist 1 position approved by the Emergency Board in June 2008 as permanent for the 2009-11 biennium;
- $93,332 Other Funds (and a reduction of $84,638 General Fund) for the reclassification of an existing Compliance Specialist 1 position;
- $14,220 General Fund and $42,660 Other Funds for additional Attorney General expenses; and
- $17,166 General Fund and $51,499 Other Funds for Department of Administrative Services' charges related to a half-time accountant for Commission assessment billings and collections.

If these recommendations are approved by the Legislature, the Commission will have experienced a 200% increase in staffing between 2005-07 and 2009-11 and a 191% increase in total budget over the same period.

## Office of the Governor – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 8,168,306 | 11,325,892 | 11,660,967 | 12,612,969 |
| Lottery Funds | 1,674,526 | 2,118,218 | 2,232,071 | 2,289,279 |
| Other Funds | 973,742 | 2,618,987 | 2,862,537 | 2,721,794 |
| Federal Funds | 62,943 | 0 | 0 | 0 |
| **Total Funds** | **$10,879,517** | **$16,063,097** | **$16,755,575** | **$17,624,042** |
| Positions | 46 | 64 | 64 | 62 |
| FTE | 45.50 | 62.56 | 62.56 | 62.00 |

### Agency Overview

The Office of the Governor provides overall direction to state agencies within the Executive Branch to ensure compliance with statutes and efficient and effective management. The Office includes program area policy advisors, a State Affirmative Action Officer, a Citizen's Representative Office, a Minority, Women and Emerging Small Business Advocate, and provides clerical support for appointing members to boards and commissions. Two activities with statewide impact also are located in the Office of the Governor: the state's Economic Revitalization Team and the Arrest and Return program.

### Revenue Sources and Relationships

The Office of the Governor is supported mainly by General Fund. Lottery Funds are used for the Economic Revitalization Team (ERT). Other Funds includes revenue transfers from the Departments of Administrative Services and Consumer and Business Services. These transfers finance the Affirmative Action and Minority, Women and Emerging Small Business (MWESB) programs. The Affirmative Action program is funded from the transfer of a Department of Administrative Services Human Resource Services Division assessment estimated at $640,000 for the biennium. The MWESB program is funded from assessments on agencies that have capital construction funded in their budgets and also receives funds from sponsoring conferences. The Federal Funds in 2005-07 were from a grant for the Office of Rural Policy. The grant is finished and no more Federal Funds are expected.

Additional Other Funds are again provided this biennium through revenue transfers from a number of other state agencies to fund policy advisors and general support staff in the Office.

### Budget Environment

The budget is driven by the number of staff and programs operated out of the Governor's Office. With the exception of the Economic Revitalization Team, which was transferred to the Office of the Governor in 2003, no new programs have been placed in the Governor's Office in recent biennia. Federal Funds were no longer available to support the Office of Rural Policy after the 2005-07 biennium. In the past, the Office of the Governor has augmented the office staff by: borrowing staff from existing agencies; hiring staff and having other agencies pay their salaries by double filling positions; or hiring staff and having agencies reimburse the Office for their costs. The Legislature attempted to end this practice and place these "off-budget" positions and costs in the budget of the Office of the Governor during the 2007-09 biennium.

### Essential Budget Level

The essential budget level for the Office of the Governor is $952,002 General Fund (8.2%) and $57,208 Lottery Funds (2.6%) higher and $140,743 Other Funds (4.9%) lower than the legislatively approved budget as of December 2008. It includes the standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. There is a phase-out of $29,232 General Fund for Services and Supplies associated with the Office of Rural Policy, which was eliminated during the 2007-09 biennium. One-time funding of $200,000 Other Funds for the Education Design Team was also phased-out.

### Issues and Options

The Governor's recommended budget funds the agency at 100% of the calculated essential budget level for General Fund and Lottery Funds. The statewide average for all agencies in the Governor's recommended budget was a 5.4% reduction from the essential budget level for those funds.

Also included in the recommended budget for the Office of the Governor are new funds to support a legislative concept in the Arrest and Return program. The agency is proposing charging a fee to offenders that are on parole or probation and request permission to go to another state. Proceeds from this fee would pay for the return of parolees that violate their parole while in another state and must return to Oregon. The fee is expected to generate $100,000 during the 2009-11 biennium.

## Oregon State Library (OSL) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 2,870,571 | 3,356,952 | 3,418,523 | 3,493,861 |
| Other Funds | 6,615,839 | 6,788,821 | 7,127,506 | 7,181,816 |
| Federal Funds | 3,987,317 | 4,635,732 | 4,687,789 | 4,755,410 |
| **Total Funds** | **$13,473,727** | **$14,781,505** | **$15,233,818** | **$15,431,087** |
| Positions | 44 | 44 | 44 | 44 |
| FTE | 42.47 | 42.27 | 42.84 | 42.47 |

### Agency Overview

The Oregon State Library's (OSL) mission is to provide quality information services to state agencies, reading materials to blind and print-disabled individuals, and leadership, grants, and other assistance to improve local library service. Trustees of the State Library consist of seven members appointed by the Governor who are responsible for setting policy for OSL and adopting long-range plans for library services statewide.

### Revenue Sources and Relationships

Other Funds revenues are generated from three main sources as follows: an assessment on all state agencies, except the Department of Higher Education, for the portion of expenditures that support state agencies; donations; and reimbursements from local libraries for their portion of costs associated with database licensing.

The OSL Donation Fund includes a collection of donations and bequests, most of which are restricted for a specific use. The largest portions of the Donation Fund are attributable to the Talking Book and Braille Services (TBABS) Donation Fund, and the TBABS Endowment Fund. ORS 357.015(6) gives the Library board of trustees authority to "have control of, use and administer the Donation Fund for the benefit of the State Library, except that every gift, devise or bequest for a specific purpose shall be administered according to its terms." The trustees have adopted a policy of using TBABS Donation Funds for TBABS program enhancements (not regular operating funding), and have opted to reinvest interest earnings from the Endowment Fund back into the Endowment Fund to make it larger. The combined ending balance for the TBABS Donation and Endowment Funds for 2009-11 is projected to be $1,018,186.

OSL receives Federal Funds from the Institute of Museum and Library Services under the Library Services and Technology Act (LSTA) per a population-based formula. The essential budget assumes Federal Funds pursuant to this grant in the amount of $4.5 million for 2009-11. The grant requires a 34% match rate as well as a maintenance of effort based on the average of the last three years of non-federal library expenditures relevant to the priorities of LSTA. Reductions in state funding result in an identical percentage reduction in LSTA funding.

### Budget Environment

OSL has been advised by the federal Institute of Museum and Library Services that it is out of compliance and exceeding administrative spending allowances associated with its LSTA grant. If this issue is not resolved, OSL faces a loss of LSTA funding in 2009-11 amounting to $4.5 million, 63% of which is budgeted for special payments to local libraries in the form of grants for service improvements and special projects. In addition, OSL may be required to repay federal grant amounts received for the 2007-09 biennium.

Locally, libraries in Clackamas, Douglas, Jackson, and Josephine Counties have been impacted by the unpredictability of federal timber revenue. The State Library used some federal grant funds to hire a planning consultant through May 2008 to assist southern Oregon libraries in developing alternatives that would keep libraries from closing entirely. Despite the renewal of Federal timber revenues for the immediate future, the local libraries were forced to make decisions based on long-term funding prospects. Branch libraries in Josephine County have closed, a Library District was created in Clackamas County, and library hours in Douglas and Jackson Counties have been curtailed.

Some local libraries are reporting a recent increase in patrons and circulation, presumed to be associated with the current economic downturn; as patrons' discretionary spending for entertainment becomes limited, their use of cost effective alternatives – such as libraries – increases.

### Essential Budget Level

The OSL 2009-11 essential budget level represents a 1.29% increase over the 2007-09 legislatively approved budget.

### Issues and Options

The Governor's budget includes additional General Fund to fund two staff positions in the Library Development program that had been – inappropriately, it turns out – funded with Federal LSTA funds and caused OSL to be out of compliance with administrative funding guidelines, as discussed above. The Governor's recommended budget also provides additional Other Funds limitation to augment staff support for the TBABS Donation Fund.

The Governor's recommendation also reduced the state agency assessment rate requested by OSL to support its Government Research and Electronic Services program. The agency had requested a rate that would generate $7 million in revenue and result in an ending balance equivalent to more than 7 months worth of operations. The Governor's budget reduced the assessment to a rate generating nearly $1 million less than requested, resulting in an ending balance equivalent to three months of program operations. This level of ending balance is in keeping with Department of Administrative Services guidelines.

## OSL – Administration

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 278,451 | 284,015 | 295,375 | 331,083 |
| Other Funds | 774,269 | 826,863 | 882,626 | 898,749 |
| Federal Funds | 111,284 | 123,043 | 134,627 | 122,389 |
| **Total Funds** | **$1,164,004** | **$1,233,921** | **$1,312,628** | **$1,352,221** |
| Positions | 6 | 6 | 6 | 6 |
| FTE | 5.63 | 5.63 | 5.63 | 6.00 |

### Program Description

This program coordinates the mission and goals of the agency and manages the finance, personnel, and volunteer functions of the agency.

### Essential Budget Level

The 2009-11 essential budget level for the Administration program is a 3% increase over the 2007-09 legislatively approved budget.

## OSL – Library Development

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 1,325,031 | 1,674,493 | 1,679,614 | 1,738,801 |
| Other Funds | 996,193 | 864,506 | 864,506 | 887,345 |
| Federal Funds | 3,876,033 | 4,464,421 | 4,502,628 | 4,583,097 |
| **Total Funds** | **$6,197,257** | **$7,003,420** | **7,046,748** | **$7,209,243** |
| Positions | 6 | 6 | 6 | 6 |
| FTE | 5.50 | 5.50 | 5.88 | 5.50 |

### Program Description

This program is responsible for assisting approximately 1,600 local libraries and improving the overall quality of library services in the state through distribution of federal (LSTA) and state (Ready to Read) grants; facilitating school and local library access to a variety of electronic databases; consultation and dissemination of information on youth services; compilation of library statistics; and documenting challenges to library materials.

### Essential Budget Level

The 2009-11 essential budget level for the Library Development program is a 2.3% increase over the 2007-09 legislatively approved budget. At the June 2008 meeting of the Emergency Board, OSL received authorization from the Emergency Board to increase the FTE associated with an existing position by 0.38 and shift the cost of the position to Federal Funds. This change was facilitated by terminating a contract with an outside provider for database support, which was no longer needed due to the evolution of the database to a more user-friendly, open source web-based design. The Library determined that the duties of the position fit within the funding guidelines of the LSTA grant.

### Issues and Options

OSL is proposing to shift funding for the agency's Youth Services Librarian from General Fund to Federal Funds should budget reductions to the 2007-09 budget become necessary. The Governor's budget permanently shifts funding for the position from General Fund to Federal Funds in 2009-11.

As discussed above, OSL is currently exceeding allowable administrative expenses associated with LSTA funds. The Governor's budget included $279,527 General Fund to bring OSL into compliance with LSTA requirements. This funding will support two existing positions – a Library Development manager and a consulting assistant – currently funded from LSTA funds and contributing to the problem. If this issue remains unresolved, the Library reports that it will lose its entire LSTA grant allotment for 2009-11, totaling $4.5 million, and may also be required to payback LSTA funds received in 2007-09.

## OSL – Talking Book and Braille Services

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 1,267,089 | 1,398,444 | 1,443,534 | 1,423,977 |
| Other Funds | 206,506 | 248,903 | 401,719 | 224,924 |
| **Total Funds** | **$1,473,595** | **$1,647,347** | **1,845,253** | **$1,648,901** |
| Positions | 9 | 9 | 9 | 9 |
| FTE | 9.50 | 9.50 | 9.37 | 9.13 |

### Program Description

In cooperation with the Library of Congress, which provides books, tapes, recorders, and postage at no cost to Oregon, this program provides reading materials in audio-recorded or Braille formats to individuals with limited vision or other disabilities that prevent the use of books and printed materials. OSL is responsible for maintaining the inventory of materials and distribution. OSL is in the process of converting its audio library from a tape to a digital recording format. In June 2008, the Emergency Board approved $150,000 additional Other Funds expenditure limitation to purchase digital data recorders for distribution to print-disabled patrons, supplementing the number of recorders expected to be distributed to the state by the Library of Congress. OSL purchased the recorders using TBABS donation funds.

### Essential Budget Level

The 2009-11 essential budget level for the TBABS program is a 10.6% decrease from the 2007-09 legislatively approved budget, primarily due to a phase out of Other Funds expenditure limitation associated with the June 2008 Emergency Board request.

### Issues and Options

The Governor's budget includes a policy option package to establish one permanent part-time student worker position (0.42 full-time equivalent) to work as a fund development assistant for the TBABS program. The position would be funded by $23,287 from the TBABS Donation Fund.

The number of TBABS subscribers has been declining in recent years. The State Library attributes the decrease in patrons to dissatisfaction with cassette players for audio books, and anticipates that the number of patrons will increase as the Library transitions to digital players.

## OSL – Government Research and Electronic Services

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 4,638,871 | 4,848,549 | 4,978,655 | 5,170,798 |
| Federal Funds | 0 | 48,268 | 50,534 | 49,924 |
| **Total Funds** | **$4,638,871** | **$4,896,817** | **$5,029,189** | **$5,220,722** |
| Positions | 23 | 23 | 23 | 23 |
| FTE | 21.84 | 21.84 | 21.84 | 21.84 |

### Program Description

Government Research and Electronic Services (GRES) provides research assistance to state government; develops and maintains the State Library collection, the OSL's on-line information services, and the Oregon.gov search engine; and coordinates a database of periodical holdings of Oregon libraries. 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.

### Essential Budget Level

The 2009-11 essential budget level is a 3.8% increase over the 2007-09 legislatively approved budget level.

## Oregon Liquor Control Commission (OLCC) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 115,365,891 | 124,318,211 | 125,752,357 | 131,416,805 |
| **Total Funds** | **115,365,891** | **124,318,211** | **125,752,357** | **131,416,805** |
| Positions | 225 | 233 | 233 | 231 |
| FTE | 215.46 | 225.68 | 225.68 | 233.72 |

### Agency Overview

The Oregon Liquor Control Commission (OLCC) regulates all individuals and businesses that manufacture, sell, import, export, or serve alcoholic beverages. It also educates and trains liquor licensees, the public, and other groups; and investigates and takes action when necessary against those who violate liquor laws. The five-member Commission is appointed by the Governor and confirmed by the Senate.

### Revenue Sources and Relationships

The Commission is entirely supported by Other Funds revenues generated from liquor sales (96%), privilege taxes on malt beverages (beer) and wines (3%), license fees and fines, server education fees, and miscellaneous income (1%). As required by law, 50% of the privilege tax revenues ($35.6 million for 2009-11) are first allocated for payments to the Mental Health Alcoholism and Drug Services Account ($17.5 million), and $570,000 is assumed to be transferred to the Wine Advisory Board. The remaining privilege tax revenues, along with all other revenues (primarily from liquor sales), are first used to pay contracted liquor agents and to finance Commission operations (including liquor purchases). Under current law, the excess balance ($334 million in the 2009-11 biennium) is apportioned to the state General Fund (56%), and to city (34%) and county (10%) general funds. The 2009-11 essential budget level assumes sales of $874.7 million, with approximately $189 million transferring to the General Fund.

OLCC projects that per capita consumption of distilled spirits and case sales volume will increase slightly, continuing a trend established over the past ten years. The combination of population growth, continuing customer demand for premium, higher-priced products, distillers offering new spirits choices, and an increase in national marketing and advertising, will cause a 2.5% increase in total dollar liquor sales from the 2007-09 estimated sales of $852 million. OLCC estimates that increased liquor revenues will come from inflation in product cost and preference for premium products. Per capita annual consumption is assumed to be about 22.9 gallons per person for malt beverages and 2.9 gallons per person for wine.

Even though Other Funds revenues support OLCC operations, the agency’s expenditures directly affect the General Fund. Per current law, each dollar spent by the Commission represents 56 cents in liquor revenues that will not go into the state’s General Fund, and 44 cents that will not go to local governments. For this reason, an appropriate balance is sought between keeping operating costs as low as possible and making expenditures that are necessary to enhance the generation of revenue while maintaining a controlled distribution environment.

### 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 have increased. Sales have increased by $478 million since 1995-97 and sales in the 2007-09 biennium have met OLCC projections for growth. OLCC is one of a few agencies that contribute resources to the state budget. Policy decisions that weigh the agency’s revenue raising capacity against its regulatory and public safety duties, as well as associated agency operating expenses may be discussed within the context of the state’s economic downturn.

### Essential Budget Level

The essential budget level for OLCC assumes total funds expenditures of $131,416,805, a 4.5% increase from the legislatively approved budget. The essential budget phases out two limited duration positions (1.96 FTE) approved for the 2007-09 biennium as follows: a 1.00 FTE licensing investigator in the Public Safety Services program, and permanent financing actions related to position reclassifications that resulted in the elimination of a low level IS II position equivalent to 0.96 FTE.

### Issues and Options

The Governor's recommended budget includes the following policy option packages:

- Meet the growing demand for distilled spirits which has the effect of increasing revenue to the General Fund, cities, and counties.
- Maintains agent's compensation at an average rate of 8.88% of sales.
- Makes a limited duration licensing investigator position permanent to facilitate faster approval of applications for licensure.
- Provides administrative support to relieve backlogs in investigations and administrative hearings associated with the approval of additional public safety personnel in the 2007-09 legislatively approved budget.
- Provides limitation of a study of long-term information technology needs that support the enhancement and integration of OLCC's business and retail operations.

Issues faced by the agency which may need attention in 2009-11 include the following:

- The agency is likely to have additional enforcement responsibilities associated with the expansion of the state's "bottle bill" (refundable deposits include water bottles as of January 1, 2009, and an interim task force on the subject has discussed the possibility of redemption centers which might be overseen by OLCC).
- Financial accountability associated with the millions of dollars following through the agency and the direct shipment of wine to consumers.

## OLCC – Distilled Spirits

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 15,393,790 | 15,682,984 | 16,028,127 | 17,560,559 |
| Other Funds (NL) | | | | |
| **Total Funds** | **15,393,790** | **15,682,984** | **16,028,127** | **17,560,559** |
| Positions | 63 | 65 | 65 | 65 |
| FTE | 57.20 | 61.42 | 61.42 | 61.42 |

### Program Description

Responsibilities of the Distilled Spirits 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. OLCC's current average markup based on the current sales mix is approximately 102%, which generates funds to finance its expenses and to produce revenue for state and local government general funds. There are two divisions within the Program:

- ***Wholesale Services*** responsibilities include analyzing trends in customer buying and new product availability; purchasing and securely warehousing the liquor; arranging for the shipment of products to 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.
- ***Retail Services*** oversees operation of the statewide retail liquor store system, which consists of 242 retail outlets run by contract agents. Funding for agents' compensation is in a separate program, although it is related to the Retail Services Division of the Distilled Spirits program.

### Budget Environment

OLCC continues to experience a positive rate of growth. As of December 2008, sales were closely matching projections on which the agency's 2007-09 legislatively approved budget is based. OLCC is closely monitoring sales to determine whether the current economic downturn will negatively effect revenue projections.

### Essential Budget Level

The essential budget level of $17,560,559 represents a 9.56% increase over the 2007-09 legislatively approved budget, mostly due to credit card transaction costs which exceed the budgeted rate of inflation, and increases in personal service costs.

### Issues and Options

The Governor's recommended budget includes a policy option package to meet the expected additional demand for distilled spirits. The package would add 6.00 FTE to the distribution center to facilitate the distribution of approximately 380,000 additional cases of product to the state's 242 liquor stores. This translates to an additional $47.8 million in revenue to the statutory distribution formula, $26.8 million of which would go to the state General Fund.

Reductions to operating expenditures in this program area may have a direct impact on revenue potential for the agency and the General Fund.

## OLCC – Public Safety Services

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 14,599,690 | 17,147,437 | 17,857,016 | 18,842,139 |
| **Total Funds** | **14,599,690** | **17,147,437** | **17,857,016** | **18,842,139** |
| Positions | 101 | 108 | 108 | 106 |
| FTE | 97.91 | 104.91 | 104.91 | 103.00 |

### Program Description

The Public Safety Services 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 three divisions:

- ***License Services*** division investigates and processes license applications for annual and temporary licenses and alcohol service permits, handles renewal applications, and oversees server education providers.
- ***Enforcement and Compliance Services*** division operates 10 regional offices throughout the state. Staff in those offices conduct license investigations, respond to complaints, investigate liquor law violations, and work with licensees and local communities to ensure compliance with liquor laws and resolve problems created by licensed businesses or their patrons.
- ***Administrative Policy and Process Services*** is responsible for reviewing investigative reports and related preparations for contested case hearings; and developing, reviewing, and amending administrative rules.

### Budget Environment

The top priority for the Public Safety Services program is preventing underage drinking, reflecting that alcohol continues to be a major contributor in the four leading causes of death among teens and is linked to other crimes. OLCC continues to be challenged by its licensing application process, which takes an average of 112.6 days to complete. OLCC reports that its licensing and enforcement staff are struggling to keep up with responsibilities associated with over 10,000 licensed businesses, a number which has increased 74% since 1990. The total number of licensees is around 12,800, and includes businesses that sell alcohol, distilleries, servers, wineries, and breweries.

### Essential Budget Level

The essential budget level for the Public Safety Services program represents a 5.52% increase over the 2007-09 legislatively approved budget primarily due to personal service cost increases.

### Issues and Options

The Governor's recommended budget includes a policy option package to add a 1.00 FTE licensing investigator position to increase the timeliness of liquor license issuance. A second package would add a 1.00 FTE Compliance Specialist III and an 1.00 FTE Administrative Specialist I to process the additional enforcement actions that have resulted since the addition of five liquor inspectors approved in the 2007-09 biennium; the cost of these two positions is assumed to be offset by a reduction in the need for Attorney General services provided through the Department of Justice.

## OLCC – Administration and Support Services

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 14,275,047 | 15,592,707 | 15,972,131 | 16,820,962 |
| **Total Funds** | **14,275,047** | **15,592,707** | **15,972,131** | **16,820,962** |
| Positions | 61 | 60 | 60 | 60 |
| FTE | 60.35 | 59.35 | 59.35 | 59.3 |

### Program Description

The Administration and Support Services program consists of the following divisions:

- ***Administration*** includes human resources and is responsible for ensuring that the goals of the agency are implemented and that policy as articulated by the Commission is carried out.
- ***Management Consulting Services*** was organized in 2005-07 to centrally coordinate and provide services, such as internal auditing, performance measurement, research and analysis, staff training, and coordinating input from stakeholders.
- ***Administrative Services*** handles activities such as purchasing, contracting, motor pool, facilities maintenance, and mail.
- ***Communications*** is responsible for internal and external agency communications, including print and electronic materials.
- ***Financial Services*** develops and implements systems that provide fiscal accountability for Commission operations, produces and maintains fiscal records, and develops and monitors execution of the agency's budget.
- ***Information Services*** develops and supports electronic data systems for staff ranging from desk top PCs to distribution center inventory control applications.

### Budget Environment

In past biennia, the majority of legislative policy direction concerning investments in OLCC has centered on the distilled spirits and public safety programs. Conversely, except for additional limitation granted for inflation, resources devoted to administrative support functions including financial auditing of privilege tax revenue and liquor agents sales have remained relatively unchanged, despite significant increases in the number of licensees and total dollars flowing through the agency. The information services section is also in the process of trying to modernize and enhance IT systems related to license processing, enforcement databases, and the distilled spirits business system. Goals include implementing more web-based functionality for licensing and inventory reporting, and upgrades which will eventually facilitate linking the various business operations to the financial services division.

### Essential Budget Level

The essential budget level for the Public Safety and Support Services program represents a 5.31% increase over the 2007-09 legislatively approved budget due to costs associated with projected credit card transactions, state government service charges, and personal services costs.

### Issues and Options

The Governor's recommended budget includes a policy option package totaling $1,296,000 for a feasibility study for improvements and upgrades to the agency's information systems. The study will outline and address challenges facing OLCC resulting from its aging IT system that manages Distilled Spirits operations and inventory control. Policy option packages requested by the agency but not included in the Governor's budget include requests for additional auditing and accounting resources to ensure financial accountability.

## OLCC – Store Operating Expenses

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 64,625,504 | 75,685,000 | 75,685,000 | 77,977,180 |
| **Total Funds** | **64,625,504** | **75,685,000** | **75,685,000** | **77,977,180** |

### Program Description

This program includes an expenditure limitation for liquor revenues to pay contract agents who operate the state's 242 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. From 1980 to 1985 the basic formula did not change, but the Legislature added annual cost of living increases to the formula. In 1985, the Legislature directed OLCC to allocate agents' compensation based on a re-designed compensation schedule. The store formula is reviewed and adjusted by the agency every six months. The goal is to provide basic support, while encouraging sound retail practices and rewarding sales performance. During the 1997 session, the formula, which had been in effect since 1993, was revised to provide the following compensation:

- ***Non-exclusive stores***: 14.25% of the first $10,000 of monthly sales, plus 7.95% of all monthly consumer sales (up from 7.15% in 2001-03); and 6.20% of all monthly dispenser sales (up from 5.58% in 2001-03), plus up to $118 monthly for deferred compensation if matched by the agent.
- ***Exclusive stores***: based on six sales classifications – 14.25% of the first $10,000 of monthly sales for annual sales up to $210,000 and five compensation bases ranging from $1,660 to $2,700 per month for sales between $210,000 to more than $1.65 million per year; plus 7.55% of all monthly consumer sales (up from 7.15% in 2001-03); 5.89% of all monthly dispenser sales (up from 5.58% in 2001-03); plus up to $150 monthly for deferred compensation to the extent matched by the agent.

### Essential Budget Level

The average compensation rate of 8.88% of forecasted liquor sales results in an expenditure limitation of $77.9 million for the 2009-11 biennium, based on projected sales at the essential budget level. Agents' compensation increases when consumption or prices increase. OLCC requests an increase in the expenditure limitation from the Emergency Board if actual sales exceed forecasted amounts.

### Issues and Options

An independent study authorized by the Legislature and completed in 2007 found that some agents incur costs (primarily store leasing and personnel) that are purported to rise at a faster rate than consumption or sales, putting pressure on these agents' operations. The study was followed up by an OLCC organized task force comprised of agency personnel, agents, distillery representatives, and other partners. The task force reviewed the independent study and made recommendations to the Commission. In response, OLCC included several policy option packages in the agency request budget, including the following:

- Making Store Operating Expenses a Nonlimited expenditure item, which would remove legislative oversight and authority related to this budget category.
- Providing a pool of funds to provide agents that experience year over year sales growth with additional compensation.
- Increasing the average compensation rate for agents from 8.88% of sales to 9.5%.

None of these packages were included in the Governor's recommended budget. However, the Governor's budget does include a package for additional expenditure limitation to maintain the average compensation rate of 8.88% of sales associated with additional investments in the distilled spirits program; this package totals $8,642,000.

## OLCC – Capital Improvements and Construction

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 6,471,860 | 210,083 | 210,083 | 215,965 |
| **Total Funds** | **6,471,860** | **210,083** | **210,083** | **215,965** |

### Program Description

The Capital Improvement program reflects OLCC costs of major deferred maintenance and improvements to OLCC facilities. OLCC owns an office and distribution center complex in Milwaukie, which ships all bottled distilled liquor and houses most agency personnel. In 2006, the Emergency Board approved additional expenditure limitation of over $8 million to allow OLCC to purchase a warehouse adjacent to its distribution center and make improvements to both facilities.

### Budget Environment

In the past, OLCC 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. The new warehouse will meet the agency's projected space needs to meet consumer demand for additional variety and volume of products for another 10 to 15 years.

### Essential Budget Level

The essential budget enables OLCC to complete routine maintenance and upkeep, according to a perpetual ten-year maintenance plan. In 2009-11, scheduled projects include repair or replacement of sections of the warehouse roof, replacement of the boiler system, replacement of worn carpeting and flooring, and repair and recoating the exterior of the warehouse.

## Public Employees Retirement System (PERS) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 80,167,511 | 86,960,346 | 86,960,346 | 60,831,964 |
| Other Funds (NL) | 5,401,795,835 | 6,286,947,122 | 6,286,947,122 | 6,476,885,664 |
| **Total Funds** | **$5,481,963,346** | **$6,373,907,468** | **$6,373,907,468** | **$6,537,717,628** |
| Positions | 401 | 401 | 401 | 296 |
| FTE | 386.71 | 394.88 | 394.88 | 295.05 |

### Agency Overview

The Public Employees Retirement System (PERS) administers the retirement system that covers employees of state agencies; public school districts; and most cities, counties, and special districts in Oregon. PERS also administers a voluntary deferred compensation program for the state and some 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 five-member Public Employees Retirement Board has broad authority for operation of the programs. Day-to-day operations are carried out by the Board-appointed Director and agency staff.

Investment returns the past few years have resulted in a lowering of actuarially determined employer contribution rates for 2009-11. However, recent turmoil in the investment markets has caused the value of the entire Public Employees Retirement Fund portfolio to drop since the rates were developed using December 2007 census and fund balance data. A continued market decline, or lack of demonstrable recovery, will affect employer contribution rates in future biennia. The Public Employees Retirement Board has set aside certain reserves and has taken other actions to help limit employer contribution rate volatility. However, limiting volatility does not eliminate volatility, and employers may well see relatively marked rate adjustments for the 2011-13 biennium.

## PERS – Tiers 1 and 2 Plan

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds (NL) | 5,349,196,400 | 6,232,224,146 | 6,232,224,146 | 6,278,531,664 |
| **Total Funds** | **$5,349,196,400** | **$6,232,224,146** | **$6,232,224,146** | **$6,278,531,664** |

### Program Description

The Tiers 1 and 2 Plan program accounts for account balance refunds and retirement benefit payments ($5.96 billion); health insurance premiums and subsidy payments ($312 million); and third-party health insurance plan administrator costs ($5.6 million). This program is now a closed program (no new members can be added to the Tiers 1 and 2 plans) because of PERS reform legislation passed during the 2003 legislative session. Tier 1 plan members are employees that were hired before January 1, 1996. The 1995 Legislature established a different level of benefits for employees hired on or after January 1, 1996. These employees are known as Tier 2 plan members. Direct administrative costs of this program are budgeted under PERS Operations below. The administrative costs are funded by revenue transfers from this program to the Operations program where legislative oversight and control is provided through the budget process.

### Revenue Sources and Relationships

The Other Funds revenue is mainly from employer contributions to the retirement system ($2.2 billion) and retirement trust fund investment earnings ($5.5 billion). A nominal amount of revenue comes from employee contributions by judges and retiree payments for health care insurance. 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.

### Essential Budget Level

The essential budget level provides for payment of refunds, health insurance, retirement benefits, and health plan third-party administrator costs expected during the biennium. The Governor's recommended budget is at the essential budget level.

## PERS – Oregon Public Service Retirement Plan

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds (NL) | 52,599,435 | 54,722,976 | 54,722,976 | 198,354,000 |
| **Total Funds** | **$52,599,435** | **$54,722,976** | **$54,722,976** | **$198,354,000** |

### Program Description

The 2003 Legislature established a new Oregon Public Service Retirement Plan (OPSRP) with yet a different benefit structure for employees hired after August 28, 2003. OPSRP provides for an employer funded retirement benefit and a mandatory employee contribution of 6% of salary and wages into an Individual Retirement Program (IAP) account. The same legislation redirected Tier 1 and Tier 2 member employee contributions into IAP accounts beginning January 1, 2004. The OPSRP program accounts for IAP third-party administrator costs ($4.8 million) and anticipated payments out of members' individual accounts ($193.6 million). The other administrative costs of this program are budgeted under PERS Operations below. Those administrative costs are funded by revenue transfers from this program to the Operations program where legislative oversight and control is provided through the budget process.

### Revenue Sources and Relationships

The Other Funds revenue is mainly from employer and employee contributions to the retirement system ($1.18 billion) and retirement trust fund investment earnings ($405 million). Employer contribution rates are established by the Public Employees Retirement Board based upon advice from its consulting actuary.

### Essential Budget Level

The essential budget level provides for payment of IAP third-party administrator costs and payments to members leaving the system expected during the biennium. The Governor's recommended budget is at the essential budget level.

## PERS – Operations

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 74,446,561 | 81,251,146 | 81,251,146 | 59,408,889 |
| **Total Funds** | **$74,446,561** | **$81,251,146** | **$81,251,146** | **$59,408,889** |
| Positions | 401 | 401 | 401 | 296 |
| FTE | 388.71 | 394.88 | 394.88 | 295.05 |

*The 2005-07 Actual positions in Operations include limited duration positions PERS was allowed to administratively establish during the biennium.*

### Program Description

The Operations program is responsible for the administrative costs of maintenance of employer and employee accounts, processing of retirements, determination of disability retirement benefits, and payment of retirement benefits. It also administers group health insurance plans for retirees and the federally mandated Social Security Administration program. Additionally, the Operations program administers deferred compensation programs for state employees and employees of local governmental units. Operations activities have been divided into six separate divisions.

***Central Administration*** provides the central direction, planning, and leadership for the PERS organization. It consists of the Board, Director, Deputy Director, Human Resources, and Internal Audits. Additionally, the deferred compensation and health insurance programs are located in Central Administration.

| | 2005-07 Actual | 2007-09 Leg. Adopted | 2007-09 Leg. Approved | 2009-11 EBL |
|---|---|---|---|---|
| Other Funds | $4,341,617 | $4,752,468 | $5,016,323 | $5,134,377 |
| Positions | 27 | 27 | 27 | 25 |
| FTE | 27.00 | 27.00 | 27.00 | 25.00 |

***Benefit Payments*** is primarily responsible the calculation and issuance of retiree benefits. Other responsibilities include processing divorce orders, disability claims, death benefits, and benefit adjustments. The Division was also responsible for making a number of adjustments to Tier 1 member account balances that resulted from court decisions relating to the Board's allocation of 1999 fund earnings to Tier 1 member accounts, and invalidating a portion of the 2003 PERS reform legislation. The recalculations will be substantially completed by the end of the 2007-09 biennium.

| | 2005-07 Actual | 2007-09 Leg. Adopted | 2007-09 Leg. Approved | 2009-11 EBL |
|---|---|---|---|---|
| Other Funds | $10,018,819 | $12,931,640 | $13,621,882 | $7,428,388 |
| Positions | 107 | 107 | 107 | 50 |
| FTE | 103.79 | 105.25 | 105.25 | 50.00 |

***Fiscal Services*** provides most business and central support services to the other agency divisions. This includes financial reporting, coordination of actuarial information, accounting, trust tax compliance, and fiscal operation functions such as procurement, cash receipts and disbursements, payroll, budget, and cost allocation. Other responsibilities include shipping and receiving, building management, and mail services.

| | 2005-07 Actual | 2007-09 Leg. Adopted | 2007-09 Leg. Approved | 2009-11 EBL |
|---|---|---|---|---|
| Other Funds | $11,580,388 | $11,649,992 | $11,993,432 | $12,047,657 |
| Positions | 45 | 43 | 43 | 37 |
| FTE | 43.92 | 42.75 | 42.75 | 36.92 |

***Information Systems*** provides all data processing and telecommunications services for the agency. It maintains the aging Retirement Information Management System (RIMS), and the newly acquired *jClarety* retirement system. The Division continues the conversion of necessary data and applications from the existing RIMS to the new *jClarety* processing system. The Division also provides systems development services, and handles the scheduling and processing of agency data. It also is responsible for the management, retention, storage, and retrieval of agency records.

| | 2005-07 Actual | 2007-09 Leg. Adopted | 2007-09 Leg. Approved | 2009-11 EBL |
|---|---|---|---|---|
| Other Funds | $33,419,332 | $33,982,839 | $31,806,046 | $18,551,021 |
| Positions | 102 | 98 | 98 | 83 |
| FTE | 97.00 | 96.38 | 96.38 | 82.63 |

***Policy, Planning, and Legislative Analysis*** is responsible for fiscal and administrative policy coordination, legal services management, contested case hearings, administrative and business rules, and legislative analysis. It is also responsible for the Social Security Administration program for Oregon's public employers.

| | 2005-07 Actual | 2007-09 Leg. Adopted | 2007-09 Leg. Approved | 2009-11 EBL |
|---|---|---|---|---|
| Other Funds | $3,478,807 | $3,933,602 | $4,049,060 | $2,753,848 |
| Positions | 14 | 14 | 14 | 9 |
| FTE | 13.50 | 13.5 | 13.5 | 8.50 |

| *Customer Services* oversees employer reporting, maintains member employment and account information, and provides employee member counseling, education, and communications services for the Tier 1 and 2 plans and the Oregon Public Service Retirement Plan. | | | | |
|---|---|---|---|---|
| | 2005-07 Actual | 2007-09 Leg. Adopted | 2007-09 Leg. Approved | 2009-11 EBL |
| Other Funds | $11,607,598 | $14,000,605 | $14,764,403 | $13,493,598 |
| Positions | 106 | 112 | 112 | 92 |
| FTE | 101.50 | 110.00 | 110.00 | 92.00 |

### Revenue Sources and Relationships

The Operations program revenue is mainly from revenue transfers received from the Tiers 1 and 2 and OPSRP programs ($53.5 million). Additionally, revenue to support the deferred compensation program is from a charge of 0.08 of 1% on deferred compensation trust fund assets ($2.8 million). Revenue from charges for IAP administrative costs is estimated to be $7.6 million. Revenues also are from other administrative fees assessed on participants and employers for social security administration activities and other miscellaneous non-customary services ($500,000).

### Budget Environment

PERS Operations have been in a state of transition since the PERS reform legislation of 2003. A new Board was appointed and began operating September 1, 2003. The Board replaced the former Director and new management has been brought in or appointed in all operating divisions. These operational changes occurred while record numbers of members retired, the aging RIMS capabilities continued to deteriorate, and a new *jClarety* system was acquired and installed to service the new Oregon Public Services Retirement Plan. Individual accounts had to be set up for more than 153,000 active members, and employers were required to change their PERS reporting to accommodate the new *jClarety* system. Additionally, Supreme Court decisions handed down in 2005 on PERS reform legislation and a settlement of a lower court decision on the Board 1999 earnings crediting decision have required PERS to recalculate account balances of Tier 1 members, active, inactive, and retired. The Legislature has provided PERS with a number of limited duration positions over the years to deal with transition issues.

The Board is looking to have operations essentially stabilized by the end of the 2007-09 biennium.

### Essential Budget Level

The essential budget level reflects largely the workload associated with operating requirements that existed before the 2003 reform legislation. The Legislature has provided some additional permanent positions and funding to deal with increased workload. The remaining workload has been addressed using limited duration positions and one-time funding packages that are not considered in the development of the essential budget level budget.

### Issues and Options

The essential budget level is no longer reflective of PERS operating needs. Creation of the Individual Account Program (IAP) has added dramatically to the workload involved maintaining accurate member data records and with the processing of withdrawals and retirements. Tiers 1 and 2 members who withdraw accounts can now withdraw from their regular and variable accounts and their IAP accounts; and there are different withdrawal options for the accounts. The essential budget level also is based on an expectation of processing 4,000 retirements annually. PERS is now processing about 6,000 retirements annually and expects that number to grow to 8,000 in the following biennium. Additionally, the number of members served; active, inactive, and retired, continues to grow.

PERS not only has to maintain records for, and deal with active and inactive members. Retirees also require continued support and assistance from PERS staff. Issues about health care plans, publicized investment returns, annual 1099R statements, and others all tend to generate contacts from retirees. While PERS tries to communicate as much as possible via the internet and newsletters, retirees continue to seek additional information. They may do it via emails, letters, or telephone calls. All of which require some form of response from staff.

The PERS budget submitted by the Governor includes a number of Policy Option Packages (POPs) that are intended to bring the PERS budget in line with what is deemed to be its current essential budget level. It adds 63 permanent positions to deal with ongoing workload and continues three limited duration positions to help complete transition activities begun in prior biennia. The cost of the seven POPs is $23.1 million: almost all of which would then be built into future calculations of the PERS essential budget level. A brief description of each package is provided here.

| POP No. | Description | Amount |
|---|---|---|
| 101 | Adds five permanent positions to create a Business Process Owners Team to facilitate operational changes in the future | $860,000 |
| 102 | Adds 43 permanent positions, continues one limited duration position, and increases one part-time position to full-time to meet ongoing business needs | $5,962,000 |
| 103 | Adds two permanent positions and continues one limited duration position, extends the use of leased office space and funds maintenance and equipment needs | $3,143,000 |
| 104 | Adds three permanent positions, one limited duration position, and continues professional services to complete the RIMS conversion project | $9,723,000 |
| 105 | Provides funding to additional actuarial services costs, an actuarial audit, internal audit peer review, and a standardized internal financial reporting package | $755,000 |
| 106 | Adds ten permanent positions to deal with agency transactions that, because of their peculiarity, must be processed manually (estimated at 20% of applicable transactions) | $1,609,000 |
| 107 | Continues funding for outside legal counsel for fiduciary, federal tax plan compliance, and litigation issues | $1,000,000 |

## PERS – Debt Service

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 5,720,950 | 5,709,200 | 5,709,200 | 1,423,075 |
| **Total Funds** | **$5,720,950** | **$5,709,200** | **$5,709,200** | **$1,423,075** |

### Program Description

Debt Service accounts for the debt service requirements of the agency. Debt service is required on certificates of participation (COPs) that were issued for purchase of land and construction of agency headquarters in Tigard. COPs were also issued in 2003 for the acquisition of the *jClarety* pension system for the new OPSRP.

### Revenue Sources and Relationships

Revenue transfers from the Tiers 1 and 2 Plan support 2009-11 debt service payments. Debt service for the OPSRP technology platform has been supported by revenue transfers from OPSRP; that debt is scheduled to be paid off in May 2009.

### Essential Budget Level

The essential budget level is for debt service on the COPs issued for the PERS headquarters only. The Governor's recommended budget is for existing debt service requirements.

## Racing Commission – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 4,983,295 | 5,658,842 | 5,848,854 | 6,114,165 |
| **Total Funds** | **$4,983,295** | **$5,658,842** | **$5,848,854** | **$6,114,165** |
| Positions | 16 | 16 | 16 | 16 |
| FTE | 13.22 | 14.52 | 14.52 | 14.52 |

### Agency Overview

The Oregon Racing Commission regulates all aspects of the pari-mutuel industry in Oregon. The Commission oversees horse racing at Portland Meadows Racetrack and at five county fair race sites. The Commission also regulates off-site simulcast of races and Multi-jurisdictional Simulcasting and Interactive Wagering Totalizer Hubs (Hubs). The Commission's goals include promoting horse racing in Oregon while 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 derived from the state share of wagering receipts, license fees, and licensee fines. All fee revenues received are used for Commission expenses. Any Commission revenues in excess of expenses and maintenance of a prudent ending balance are transferred to the General Fund. The state's share of total bets made at horse racing tracks and on simulcast horse races is 1%. Live racing-related revenues for 2009-11 are projected to remain static.

The 1997 Legislature authorized the establishment of 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, allows each Hub to select one of three tax formula options. In general, these options result in the Commission collecting about 0.25% of gross wagering receipts. One of the options sets a cap on how much any one Hub will pay during a fiscal year. Of the taxes collected, one-third is transferred to the General Fund. The remaining two-thirds is deposited in the Racing Development Fund to be used by the Commission for "the benefit of the Oregon pari-mutuel racing industry." This money has been used in the past to enhance race purses, make safety improvements at race meet sites, provide jockey incentives, and promote thoroughbred breeding. The Commission also collects a license fee of $200 per operating day from Hubs. There are currently nine Hubs licensed in Oregon. Revenue from the pari-mutuel tax on Hub wagers should increase slightly in 2009-11.

The 2009-11 Governor's recommended budget transfers $1,403,909 in revenues to the General Fund.

### Budget Environment

Live racing in Oregon is in an era of uncertainty. Multnomah Greyhound Park ended operations in December 2005 and no live greyhound racing is expected to occur in the state during the 2009-11 biennium. The Oregon horse racing industry has also been challenged due to competing forms of gambling, including those offered by tribal casinos and the Oregon Lottery. Magna Entertainment Corporation, the owner of Portland Meadows, placed the track up for sale in November 2007 as part of a debt elimination plan. Magna's latest 2008 financial report indicates the company is in discussions with potential buyers. However, the racing season at the track is currently underway and 2009-11 Governor's budget anticipates continued racing at Portland Meadows.

Commission operations and the five summer race meets have become increasingly dependent on revenues from Hubs. The 2009-11 Governor's budget assumes all currently licensed Hubs will continue to operate. The associated revenue is somewhat at risk as other states have become more aggressive in trying to recruit Hubs to relocate. The Commission's approval of hub revenue caps was intended to help reduce this risk.

### Essential Budget Level

The essential budget level for the Commission is a 4.5% increase over the 2007-09 legislatively approved budget at December 2008. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

The Governor's recommended budget funds the agency at the calculated essential budget level, which is consistent with the agency's budget request.  The Governor's budget includes an ending balance that would support approximately two months of operating expenses, which is on the low end of what is usually considered a sufficient operating reserve.  Updated projections for 2007-09 actual revenues and 2009-11 revenue assumptions will need to be reviewed carefully by the Legislature.  Adjustments to General Fund revenue transfers or agency expenditures may be needed to ensure a balanced budget.

## Department of Revenue (DOR) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 134,178,423 | 148,277,511 | 150,874,321 | 160,041,827 |
| Other Funds | 29,164,504 | 32,306,994 | 34,861,981 | 35,263,057 |
| Other Funds (NL) | 220,487 | 231,313 | 240,508 | 237,790 |
| **Total Funds** | **$163,563,414** | **$180,815,818** | **$185,976,810** | **$195,542,674** |
| Positions | 1,076 | 1,048 | 1,048 | 1,027 |
| FTE | 997.34 | 968.22 | 968.22 | 962.11 |

### Agency Overview

The Department of Revenue (DOR) 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 96% of General Fund revenue and 88% 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 administrative costs. Time and activity studies are used to determine each program's administrative costs and corresponding charges. A statewide grant program also helps pay for assessment and taxation costs, providing Other Funds revenue to DOR and to counties. The associated funding comes 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 to improve the administration of the property tax system.

The following table displays sources and amounts of estimated Other Funds revenues for 2009-11:

| SOURCE (2009-11 Essential Budget Level) | AMOUNT |
|---|---|
| Cigarette and Other Tobacco Tax Collections | $ 6,000,000 |
| State Agency Collections | $ 10,100,000 |
| Assessor Funding Program | $ 5,700,000 |
| Employer-Employee Taxes (primarily Tri-Met and Lane Districts) | $ 5,300,000 |
| Senior and Disabled Citizens' Property Tax Deferral | $ 1,500,000 |
| Oregon Map Project (ORMAP) | $ 3,800,000 |
| Others | $ 3,100,000 |
| **TOTAL REVENUES** | **$35,500,000** |

The Governor's recommended budget for the agency includes revenue changes and associated transfers related to proposed cigarette, other tobacco products, and corporate income tax changes. The changes reflect increases to tax rates and generally do not drive increased costs for the Department.

### Budget Environment

The current economic forecast projects modest population growth and slow economic growth with limited recovery for the 2009-11 biennium. Over the past several biennia, the Department has been successful in addressing funding constraints and increased workloads by incrementally developing and enhancing automated systems, implementing an aggressive employee training program, reorganizing, and revising operating procedures.

### Essential Budget Level

The agency's essential budget level (EBL) is a 5.1% total funds increase over the 2007-09 legislatively approved budget at December 2008. EBL includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, uniform rent, and state government service charges.

### Issues and Options

The Governor's recommended budget is an increase of $4.5 million General Fund and 55 positions (54.79 FTE) from the agency's calculated essential budget level; the total funds percentage increase is just over 2%. The increase is primarily due to adding resources to increase revenue collections across the agency. The agency's budget reduction options include reducing support for compliance activities in the income tax and transit tax programs. Very few of the agency's programs can be reduced without directly impacting the state's General Fund revenue stream. Pass-through payments to counties fall in this category, but may be difficult to support or mitigate in the current fiscal climate. The only reduction in the Governor's recommended budget is $1 million General Fund decrease in the Elderly Rental Assistance (ERA) program.

The Governor's recommended budget does include $5.6 million General Fund and 44 positions (44.00 FTE) to increase tax collection field calls, research compliance issues, pursue complex filing enforcement cases, and added automated tools. This initiative is projected to increase General Fund receipts by $20.7 million in the Governor's budget, based on actually beginning the effort during 2007-09. It is not unusual for the Department to request or receive new positions toward increasing revenue collections, even in poor economic times. The package is tempting to support solely based on its net revenue aspect. However, the Legislature will need to thoroughly evaluate the initiative, including the agency's assumptions regarding its capacity to generate additional revenue and its ability to discretely measure the return on investment, before making a decision.

During 2007-09, the Department developed a strategic vision and business case for a comprehensive overhaul of its current technology foundation and organization. DOR's proposal is for a multi-biennium project that would ultimately result in building what the agency is calling the "Technology Foundation for 21st Century Tax Administration." With an agency-wide focus, the initiative would address several DOR concerns, including aging core systems, customer expectations, leveraging technology, and the overall modernization of business processes. The initial or foundational phase of the project, which was the agency's top priority in its 2009-11 budget request, is estimated to cost about $10.7 million total funds.

This package is not part of the Governor's recommended budget due to General Fund constraints. Poor timing aside, the Legislature may want to carefully examine the agency's assessment of its current systems and their future viability. Any risk of inaction could then be evaluated within the context and priorities of the statewide budget.

## DOR – Executive Section

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 2,834,915 | 3,476,355 | 3,517,371 | 3,535,672 |
| Other Funds | 527,756 | 394,559 | 428,660 | 424,895 |
| **Total Funds** | **$3,362,671** | **$3,870,914** | **$3,946,031** | **$3,960,567** |
| Positions | 16 | 16 | 16 | 15 |
| FTE | 15.58 | 15.13 | 15.13 | 14.74 |

### 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.

### Essential Budget Level

The essential budget level is slightly higher than the 2007-09 legislatively approved budget at December 2008. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

The Governor's recommended budget funds the Executive Section at the calculated essential budget level, which is consistent with the agency's budget request.

## DOR – General Services Section

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 16,244,229 | 5,365,508 | 5,357,731 | 5,514,696 |
| Other Funds | 1,547,183 | 466,198 | 1,791,810 | 496,776 |
| **Total Funds** | **$17,791,412** | **$5,831,706** | **$7,149,541** | **$6,011,472** |

### Program Description

The General Services Section is used to budget for a portion of expected central agency costs for postage, legal expenses, and other expenditures that tend to vary from biennium to biennium between operating divisions. For internal budgetary purposes, the receipt and distribution of the various tax revenues are accounted for in this section.

### Essential Budget Level

For General Fund, the essential budget level is 2.9% higher than the 2007-09 legislatively approved budget at December 2008. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

The Other Funds component also includes inflationary increases but nets out lower than the 2007-09 legislatively approved budget due to the phase-out of costs associated with the 2007 kicker distribution.

### Issues and Options

The Governor's recommended budget funds the General Services Section at the calculated essential budget level, which is consistent with the agency's budget request.

## DOR – Administrative Services Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 41,770,232 | 47,821,302 | 48,339,950 | 52,732,577 |
| Other Funds | 6,315,741 | 5,866,504 | 6,149,773 | 6,715,789 |
| **Total Funds** | **$48,085,973** | **$53,687,806** | **$54,489,723** | **$59,448,366** |
| Positions | 354 | 344 | 344 | 338 |
| FTE | 301.30 | 293.22 | 293.22 | 290.33 |

### Program Description

The Administrative Services 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, 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 professionals are needed to maintain computer systems. Additionally, changes in other divisions impact the demand for services of its other support functions.

### Essential Budget Level

The essential budget level is 9.1% higher than the 2007-09 legislatively approved budget at December 2008. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, uniform rent, and state government service charges. Also included in EBL are a phase-in for banking machine lease costs and phase-outs for one-time costs for document management and remote capture systems.

### Issues and Options

The Governor's recommended budget funds the Division above its essential budget level, adding $542,952 General Fund, $60,661 Other Funds, and five positions (5.00 FTE) to support the agency's collections and filing enforcement effort. The funding in this unit provides infrastructure and technical support.

## DOR – Property Tax Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 12,020,706 | 20,300,495 | 20,677,330 | 22,322,699 |
| Other Funds | 7,979,571 | 10,028,694 | 10,269,712 | 10,919,982 |
| **Total Funds** | **$20,000,277** | **$30,329,189** | **$30,947,042** | **$33,242,681** |
| Positions | 128 | 123 | 123 | 123 |
| FTE | 124.45 | 120.21 | 120.21 | 119.89 |

### Program Description

The Property Tax Division oversees the property tax system and ensures that Oregon's 36 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; appraising all utility, transmission, communication, and transportation properties; and administering several timber tax programs.

The Division also oversees the Oregon Map Project (ORMAP). The project is responsible for development of a statewide property tax lot base map that is digital, continually maintained, and publicly accessible. The move from paper to computer-based mapping will improve the administration of Oregon's property tax system and will support an array of public and private geographic information systems applications by October 2012. Funding for the project comes from a $1 addition to document recording fees.

### Budget Environment

Most of the Division's budget is supported by General Fund. Since 1989, the Division has received Other Funds from the County Assessment Function Funding Assistance (CAFFA) account, which is supported by document recording fees and a portion of the interest from delinquent property taxes. Each biennium CAFFA monies of about $40 million, along with about $5 million General Fund, help counties pay for essential assessment and taxation functions. These include valuation, administration, appeals, tax collection and distribution, mapping, and information processing support. The account also helps pay for a portion of the Division's industrial and utility property appraisal responsibilities and the administration of the CAFFA program.

Even with some dedicated funding, Oregon's overall property tax system is still dependent on General Fund to stay sound. County budgets feel the impact of property tax limitations (Measure 50), a poor real estate market, a slumping economy, and vanishing federal timber payments. Historically, county assessment and taxation programs have unsuccessfully competed for funding with other local government services. A reduction in these functions can result in out of date records, inaccurate property values, missed deadlines, customer frustration, a skewed distribution of the property tax burden, and decreased revenues.

If a county cannot commit adequate resources to its assessment and taxation program, that county may lose its CAFFA grant. Additionally, ORS 308.062 requires DOR to take responsibility for a county's assessment and taxation function if a county fails to perform its statutory duties. The Department's main focus for 2009-11 will be trying to help counties find ways to keep programs intact during difficult financial times.

### Essential Budget Level

The essential budget level is 7.4% higher than the 2007-09 legislatively approved budget at December 2008. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, uniform rent, and state government service charges.

### Issues and Options

The Governor's recommended budget funds the Property Tax Division at the calculated essential budget level.

The agency's 2009-11 budget request included $12.8 million General Fund for distribution to Oregon counties to be used for property tax administration purposes. The intent of the proposal, which is a recommendation from the Governor's Task Force on County Funding, is to compensate counties for assessment and taxation efforts made behalf of education districts (considered a "state" benefit under this concept) by picking up the costs with General Fund. This package is not part of the Governor's recommended budget.

## DOR – Personal Tax and Compliance Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 42,449,721 | 49,469,008 | 50,841,410 | 52,935,630 |
| Other Funds | 1,305,677 | 1,675,237 | 1,758,978 | 1,807,082 |
| **Total Funds** | **$43,755,398** | **$51,144,245** | **$52,600,388** | **$54,742,712** |
| Positions | 394 | 376 | 376 | 372 |
| FTE | 378.93 | 363.46 | 363.46 | 362.17 |

### 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 informational publications.

### Budget Environment

The Division's workload had been increasing over time as the state's population was growing. The number of personal income tax returns filed annually is about 1.8 million. More than half of returns are being filed electronically. The Division has added and improved automated systems to help handle the workload. Compliance efforts are now affecting the Division's workload. As more taxpayer data becomes available from federal and other sources, the Department has increased its efforts to pursue non-filers, and those that may have under- or not-reported income or over-reported deductions. The Department expects to address collection issues through re-engineering of existing systems and processes and through new positions requested to enhance revenue collections.

### Essential Budget Level

The essential budget level is 4.1% higher than the 2007-09 legislatively approved budget at December 2008. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, uniform rent, and state government service charges.

### Issues and Options

The Governor's recommended budget funds the Division above its essential budget level, adding $3,787,421 General Fund, $77,301 Other Funds, and 28 positions (28.00 FTE) to support compliance and collection efforts in personal income tax programs. The increased staffing level would allow the Division to target more complex filing enforcement cases, increase the number of field calls to debtors, and work more difficult accounts. The package also proposes adding technology – an Automatic Call Distributor – to more efficiently manage incoming calls and streamline work flow.

## DOR – Business Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 12,314,349 | 14,344,842 | 14,640,528 | 15,500,552 |
| Other Funds | 11,488,576 | 13,875,802 | 14,463,048 | 14,898,533 |
| **Total Funds** | **$23,802,925** | **$28,220,644** | **$29,103,576** | **$30,399,085** |
| Positions | 184 | 189 | 189 | 179 |
| FTE | 177.08 | 176.20 | 176.20 | 174.98 |

### 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

Collection of the state's past due accounts has been a legislative concern, and the Division has an important role in this activity. Currently, the Division is collecting on over 200,000 accounts owed to 284 state offices and agencies. The number of delinquent accounts is expected to increase. The Division is using more automation to help handle workload growth, but is also seeking additional staff resources. Other state agencies have also identified about 150,000 delinquent accounts for collection through the automated refund offset program.

This Division also collects revenues from cigarette tax stamps and taxes on other tobacco products. Due to tax evasion issues, in 2001 the Legislature provided positions and funding for a Tobacco Tax Compliance Task Force that included personnel from the Department of State Police (OSP) and the Department of Justice (DOJ). The group was charged with increasing education and civil enforcement, along with pursuing criminal activity. Funding for the Task Force has been authorized to come from Other Funds taxes collected on cigarette and other tobacco taxes. Due to increased compliance rates, the formal Task Force was disbanded in July 2008. The Division plans to continue its educational, enforcement, and collection activities. Investigative and criminal assistance would be provided by OSP and DOJ as needed.

### Essential Budget Level

The essential budget level is 4.5% higher than the 2007-09 legislatively approved budget at December 2008. It includes standard adjustments for personal services costs, inflation, rate increases for the Attorney General, uniform rent, and state government service charges.

### Issues and Options

The Governor's recommended budget funds the Division above its essential budget level, adding $1,274,771 General Fund, $627,870 Other Funds, and 11 positions (11.00 FTE) to support compliance and collection efforts in payroll tax programs. The increased staffing level would allow the Division to perform more in depth research into non-reported and under-reported withholding and transit payroll taxes. Additional staff would provide resources needed to adequately partner with other agencies on investigation and compliance activities. The package also proposes developing a system to capture electronic W-2 information and make it usable as a data source for determining tax compliance.

Growth in the Other Agency Accounts program, which is responsible for collecting delinquent debt for other state entities, is driving the Division's request for 13 positions (10.79 FTE) and $1.5 million Other Funds. The package would decrease caseloads from 7,000 to about 5,000 cases per revenue agent; collection costs are recovered through fees charged to the client agencies. This package is included in the Governor's recommended budget.

To reflect dissolution of the Tobacco Compliance Task Force, the Governor's budget removes $2.7 million Other Funds, formerly being paid to OSP and DOJ for investigative and criminal services. The Legislature may want to review the functions, capacity, and budget of the remaining program, including the “ad-hoc” OSP and DOJ component.

## DOR – Multistate Tax Commission

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds (NL) | 220,487 | 231,313 | 240,508 | 237,790 |
| **Total Funds** | **$220,487** | **$231,313** | **$240,508** | **$237,790** |

### Program Description

Through the Department of Revenue, Oregon is a compact member of the Multistate Tax Commission, which has 26 dues-paying members (states). The Commission works on behalf of states and taxpayers to equitably administer tax laws that apply to multistate enterprises. It also promotes uniformity or compatibility in tax systems and taxpayer convenience. 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.

### Essential Budget Level

The essential budget level is slightly less than the 2007-09 legislatively approved budget at December 2008. This is due to a 2007-09 administrative increase for actual costs that has not been carried forward into 2009-11. The EBL does include a standard inflationary adjustment of 2.8%.

### Issues and Options

The Governor’s recommended budget adjusts for updated 2009-11 cost projections by adding $26,040 Other Funds Nonlimited.

## DOR – Elderly Rental Assistance

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 6,544,271 | 7,500,000 | 7,500,000 | 7,500,000 |
| **Total Funds** | **$6,544,271** | **$7,500,000** | **$7,500,000** | **$7,500,000** |

### 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 incomes under $10,000, with household assets (if under age 65) that do not exceed $25,000, and having gross rent in excess of 20% of household income. 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

This program has experienced a steady decline in payments to renters over the last several biennia; in 2005-07 actual expenditures were about $1.5 million less than the amount budgeted. In part this has been because fewer individuals are meeting the program’s eligibility criteria, which are not indexed to inflation. Payments are expected to level off as the decline in payments to renters is being offset by payments to local governments for tax-exempt housing for the elderly.

### Essential Budget Level

The essential budget level maintains the program at the 2007-09 funding level. However, the Governor’s recommended budget is 14.5% below EBL.

### Issues and Options

The Governor's recommended budget reduces this program by $1,090,000 General Fund based on updated cost projections.

## DOR – Senior Citizens' and Disabled Citizens' Property Tax Deferral

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 0 | 1 | 1 | 1 |
| **Total Funds** | **$0** | **$1** | **$1** | **$1** |

### 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. As properties are disqualified and their deferred taxes are paid, monies received finance the taxes the state pays under the program. For income tax year 2008 (property tax year 2009-10) the household income limit to qualify for the program is $39,000. The program also is available to disabled persons meeting household income limits.

### Budget Environment

The Senior Citizens' component of the program has about 7,700 accounts. The Disabled Citizens' component of the program has about 790 participants. In the past, General Fund has covered any shortfall in the program, but in recent biennia tax repayments have exceeded tax payments. No shortfall in 2009-11 is anticipated.

The Legislature, in 2005, determined that excess cash in the account should be used to fund assistance to seniors through Oregon Project Independence (OPI). As a result, beginning July 1, 2007, the Department annually, on November 30th, will determine the balance in the account. Any amount in excess of the greater of 1) 35% of the amounts paid to counties for deferred taxes in November, or 2) $5 million will be transferred to Oregon Project Independence. It is estimated that $3.5 million will be transferred to OPI in 2009-11.

### Essential Budget Level

The essential budget level includes a $1 General Fund placeholder to highlight the potential obligation of General Fund to support the program.

### Issues and Options

The Governor's recommended budget funds these property tax deferral programs at the essential budget level, which is consistent with the agency's budget request.

## Secretary of State (SOS) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 11,413,725 | 11,679,030 | 14,019,697 | 11,688,558 |
| Other Funds | 32,004,781 | 38,566,820 | 39,656,419 | 37,536,318 |
| Federal Funds | 5,747,937 | 9,156,577 | 9,222,719 | 7,520,712 |
| **Total Funds** | **$49,166,443** | **$59,402,427** | **$62,898,835** | **$56,745,588** |
| Positions | 201 | 199 | 199 | 198 |
| FTE | 200.50 | 198.50 | 198.50 | 197.50 |

### Agency Overview

The Office of the Secretary of State is one of three constitutional offices 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 which manages state-owned lands.

### Revenue Sources and Relationships

Other Funds revenues are received from various sources, including:

- ***Assessments*** to state agencies based on a pro-rata share of four risk factors (cash, revenues, expenditures, and full-time equivalent positions) are the primary funding source for the Audits Division. However, agencies whose operations are predominately funded with dedicated trust funds (e.g., Department of Transportation) are billed for actual audit costs rather than an assessment. The Archives Division also assesses agencies for the storage and retrieval of inactive, non-permanent records maintained by the Division.
- ***Fees for services*** are collected from business filings, secured transactions, and notary public to support the Corporations Division; and municipal audits for the Audits Division. HB 3656 (2003) increased the business registry fees to $50 from $20 and directed the additional revenue be transferred to the General Fund. The Secretary of State anticipates $26.3 million will be transferred to the General Fund in the 2009-11 biennium. The Secretary may only retain a cash balance that is equivalent to two months of operating expenditures for the Corporation Division. Voters' pamphlet and election filing fees and penalties collected by the Elections Division are also deposited into the General Fund rather than directly supporting the agency's budget.
- ***Sale of publications***, including the annual Oregon Administrative Rules Compilation, the monthly Oregon Bulletin which provides updates to the Compilation, and the Oregon Blue Book, generate revenues for the Archives Division.
- ***Internal transfers*** are made to the Executive Office, Business Services, Information Systems, and Personnel Resources Divisions by the Audits and Corporations Divisions for a proportionate share of administrative costs.
- ***Miscellaneous*** document and copier charges are also collected by the Archives and Elections Divisions.

In past biennia, Federal Funds revenues were received primarily under the Help America Vote Act (HAVA). As was the case for the 2007-09 biennium, the HAVA program will expend existing Federal Funds revenues already received by the state. There is no need for General Fund for the state's matching portion of these funds.

### Budget Environment

The Secretary of State is a separately elected, constitutional office, and as such, has not been subject to the Governor's budget review. SB 1101 (2005) modified the statutes relating to the Governor's budget development and allotment system to include the Secretary of State and the State Treasurer in those processes. SB 66 (2007) was amended to again exclude the two offices from the Governor's review process. Even though the Governor does not make a recommendation of the Secretary's budget, he has included a 6.9% reduction to the agency's General Fund budget from the essential budget level in his recommended budget. Usually the Governor includes a reduction that equals the statewide average reduction to all General Fund budgets. It is unclear how the reduction percentage was calculated for the Secretary of State, since the statewide average is only a 5.4% reduction.

General Fund expenditures for the Secretary of State will fluctuate depending on the number and type of elections conducted. For primary and general elections, the counties are responsible for the costs of conducting the elections. When statewide special elections are held, the Secretary will reimburse counties for those costs. Costs associated with the production and distribution of voters' pamphlets will also vary depending on the number of candidates, measures, and measure arguments filed.

Implementation of HAVA requirements will continue to influence the Secretary of State's budget in the foreseeable future. HAVA was passed in October 2002 and contains minimum federal standards on various aspects of election administration which include developing a centralized voter registration system, replacement of punch card machines, privacy and independence in the voting process, access for people with disabilities, and voter outreach.

## SOS – Administrative Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 284,539 | 294,662 | 301,061 | 293,445 |
| Other Funds | 1,091,835 | 1,220,760 | 1,261,806 | 1,287,541 |
| **Total Funds** | **$1,376,374** | **$1,515,422** | **$1,562,867** | **$1,580,986** |
| Positions | 6 | 6 | 6 | 6 |
| FTE | 6.00 | 6.00 | 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.

### Essential Budget Level

The essential budget level for the Administrative Division is $7,616 General Fund (2.5%) less and $25,735 Other Funds (2%) more than the 2007-09 legislatively approved budget through December 2008. It includes the standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

## SOS – Archives Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 3,489,876 | 3,526,336 | 3,602,540 | 3,832,484 |
| Other Funds | 1,684,348 | 2,282,154 | 2,319,001 | 2,444,062 |
| **Total Funds** | **$5,174,224** | **$5,811,490** | **$5,921,541** | **$6,276,546** |
| Positions | 22 | 22 | 22 | 22 |
| FTE | 22.00 | 22.00 | 22.00 | 22.00 |

### Program Description

The Archives Division stores public records and protects and provides public access to Oregon's documentary heritage. The Division provides records management advice and assistance to state and local agencies and publishes the state's administrative rules.

### Essential Budget Level

The essential budget level for the Archives Division is $229,944 General Fund (6.4%) and $125,061 Other Funds (5.4%) more than the 2007-09 legislatively approved budget through December 2008. It includes the standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. It also includes a 17% increase in rent for the Archives Building. The Department of Administrative Services (DAS) notified the Secretary of State that they had made a mistake calculating rent at a lower rate for 2007-09 and it would need to be corrected for the 2009-11 biennium. DAS had testified during the budget hearings during the 2007 session that savings could be captured for the Archives Building based on a different rent model. DAS now says that the new rent model did not include all of the costs and it will charge a much higher rate for 2009-11.

#### Issues and Options

The agency is requesting four policy option packages for the Archives Division. These include a dedicated local government archives and record management program ($1,239,100 Other Funds), a change in the fee model for administrative rules, a new fee for the storage of microfilm, and an administrative support position ($102,239 General Fund).

## SOS – Audits Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 12,122,386 | 14,611,170 | 15,134,069 | 16,163,230 |
| **Total Funds** | **$12,122,386** | **$14,611,170** | **$15,134,069** | **$16,163,230** |
| Positions | 72 | 72 | 72 | 72 |
| FTE | 72.00 | 72.00 | 72.00 | 72.00 |

#### 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 with legal requirements. The Division performs, or contracts for, financial and compliance audits and performance audits of state agencies.

#### Essential Budget Level

The essential budget level for the Audits Division is $1,029,161 Other Funds (6.8%) more than the 2007-09 legislatively approved budget through December 2008. It includes the standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

#### Issues and Options

The Secretary of State is requesting one policy option package for the Audits Division. The package would allow the agency to retain the interest earned by funds in the Audits Division Account. The agency claims that the change is necessary in order to comply with federal A-87 requirements.

## SOS – Business Services Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 286,368 | 320,917 | 328,696 | 354,155 |
| Other Funds | 2,492,960 | 2,735,048 | 2,831,576 | 2,997,216 |
| **Total Funds** | **$2,779,328** | **$3,055,965** | **$3,160,272** | **$3,351,371** |
| Positions | 16 | 16 | 16 | 16 |
| FTE | 16.00 | 16.00 | 16.00 | 16.00 |

#### Program Description

The Business Services Division provides accounting, budgeting, cashiering, payroll, purchasing, contract administration, safety and risk management, fixed assets, and inventory control services for the agency.

#### Essential Budget Level

The essential budget level for the Business Services Division is $25,459 General Fund (7.8%) and $165,640 Other Funds (5.9%) more than the 2007-09 legislatively approved budget through December 2008. It includes the standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. It also includes extraordinary inflation for increased Treasury charges related to increased volume in e-government transactions.

### Issues and Options

The Secretary of State is requesting one policy option package for the Business Services Division. The package would reclassify a position from an Accountant 2 to an Accountant 3 ($453 General Fund and $5,207 Other Funds).

## SOS – Corporation Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 6,998,284 | 7,361,537 | 7,577,515 | 7,594,496 |
| **Total Funds** | **$6,998,284** | **$7,361,537** | **$7,577,515** | **$7,594,496** |
| Positions | 36 | 36 | 36 | 36 |
| FTE | 35.50 | 35.50 | 35.50 | 35.50 |

### 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.

### Essential Budget Level

The essential budget level for the Corporation Division is $16,981 Other Funds (0.2%) more than the 2007-09 legislatively approved budget through December 2008. It includes the standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

### Issues and Options

The Secretary of State is requesting one policy option package for the Corporation Division. The package would reclassify a position from a Research Analyst 3 to a Research Analyst 4 ($6,477 Other Funds). There are also a number of information technology projects that are funded with business registration filing fees for the Corporation Division. The approval of those packages may have an impact on the General Fund, as the agency is required to transfer a portion of those unused fees to the General Fund. The policy option packages are included in the Information Systems Division.

## SOS – Elections Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 5,486,790 | 6,318,976 | 8,536,003 | 5,946,858 |
| Other Funds | 93,054 | 123,458 | 123,458 | 126,914 |
| **Total Funds** | **$5,579,844** | **$6,442,434** | **$8,659,461** | **$6,073,772** |
| Positions | 15 | 15 | 15 | 15 |
| FTE | 15.00 | 15.00 | 15.00 | 15.00 |

### Program Description

The Elections Division administers state and federal elections laws, provides training to county and city election officials, political party representatives, and candidates; publishes statewide voter's pamphlets; and administers the filing and verification of initiative, referendum, and recall petitions.

### Essential Budget Level

The essential budget level for the Elections Division is $2,589,145 General Fund (30.3%) less and $3,456 (2.8%) more than the 2007-09 legislatively approved budget through December 2008. It includes the standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The large reduction in General Fund is due to a large decrease in state government service charges and one-time funding for a special election in 2007-09 that is not anticipated for the 2009-11 biennium.

#### Issues and Options

The Secretary of State is proposing two policy option packages for the Elections Division. The first package proposes having the Secretary of State perform signature verification for state initiatives and referendums ($524,222 General Fund). The other policy package requests a permanent Office Specialist 2. The agency has covered the duties of this position with temporary employees in the past and is now requesting a permanent position.

### SOS – Information Systems Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 1,112,807 | 1,148,241 | 1,182,892 | 1,188,075 |
| Other Funds | 6,374,047 | 9,669,617 | 9,825,129 | 6,287,898 |
| Federal Funds | 0 | 1,920,000 | 1,920,000 | 0 |
| **Total Funds** | **$7,486,854** | **$12,737,858** | **$12,928,021** | **$7,475,973** |
| Positions | 24 | 24 | 24 | 24 |
| FTE | 24.00 | 24.00 | 24.00 | 24.00 |

#### Program Description

The Information Systems Division provides centralized information technology services including database administration, Internet development, and application development and maintenance for the agency.

#### Essential Budget Level

The essential budget level for the Information Systems Division is $5,183 General Fund (0.4%) more and $3,537,231 Other Funds (36%) less than the 2007-09 legislatively approved budget through December 2008. The essential budget level also eliminates $1,920,000 in Federal Funds that were used for one-time funding of projects in 2007-09. It includes the standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The large reduction in Other Funds is due to the elimination of funding for information technology projects that were completed in 2007-09.

#### Issues and Options

The agency is proposing a number of policy option packages within the Information Systems Division. The first package requests a new Junior Developer position and a new Help Desk Support position ($94,079 General Fund and $199,922 Other Funds). Another package would continue work on Corporation Division projects and is funded with Corporation Division resources ($1,800,000 Other Funds). Two other packages would provide hardware and software maintenance and support ($495,000 Other Funds) and infrastructure redundancy ($350,000 Other Funds). There is a proposal to fund an automated procurement system ($200,000 Other Funds) for the Business Services Division. Finally, the agency is requesting General Fund support for a portion of the Elections Business System conversion to the Oregon Elections System for Tracking and Reporting that is not eligible for federal funds ($225,000 General Fund).

While a number of these proposals are requesting Other Funds limitation, a large portion of the source of those funds would be transferred to the General Fund if they are not used by the Secretary of State for these projects.

### SOS – Personnel Resources Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 53,345 | 66,898 | 68,505 | 73,541 |
| Other Funds | 447,867 | 536,076 | 583,865 | 634,961 |
| **Total Funds** | **$501,212** | **$629,974** | **$652,370** | **$708,502** |
| Positions | 3 | 3 | 3 | 3 |
| FTE | 3.00 | 3.00 | 3.00 | 3.00 |

**Program Description**

The Personnel Resources Division provides advice on human resources policies and procedures, maintains employee records, and provides recruitment and training services for the agency.

**Essential Budget Level**

The essential budget level for the Personnel Resources Division is $5,036 General Fund (7.4%) and $51,096 Other Funds (8.8%) more than the 2007-09 legislatively approved budget through December 2008. It includes the standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

## SOS – Help America Vote Act

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 700,000 | 0 | 0 | 0 |
| Other Funds | 700,000 | 0 | 0 | 0 |
| Federal Funds | 5,747,937 | 7,236,577 | 7,302,719 | 7,520,712 |
| **Total Funds** | **$7,147,937** | **$7,236,577** | **$7,302,719** | **$7,521,712** |
| Positions | 7 | 5 | 5 | 4 |
| FTE | 7.00 | 5.00 | 5.00 | 4.00 |

**Program Description**

The federal Help America Vote Act (HAVA) requires states to implement a variety of election process reforms including replacing punch card voting systems, purchasing voting equipment that is accessible to people with disabilities, and developing a centralized voter registration system.

**Essential Budget Level**

The essential budget level for HAVA is $217,993 Federal Funds (3%) more than the 2007-09 legislatively approved budget through December 2008. It includes the standard adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges.

**Issues and Options**

The one policy package for the HAVA program would classify the Electronic Publishing Design position to an Operations and Policy Analyst and make the position permanent ($52,081 Federal Funds).

## Treasurer of State (Treasurer) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 22,086,571 | 28,590,470 | 30,162,234 | 31,195,709 |
| Other Funds (NL) | 2,131,580 | 3,500,000 | 3,500,000 | 3,500,000 |
| **Total Funds** | **$24,218,151** | **$32,090,470** | **$33,662,234** | **$34,695,709** |
| Positions | 76 | 83 | 84 | 82 |
| FTE | 74.10 | 80.85 | 81.24 | 81.10 |

### Agency Overview

The Treasurer of State acts as the "banker" for the State of Oregon by maintaining all state agency financial accounts, and by investing state funds that are not needed to meet current expenditure demands, including the state's Trust Funds and bond fund proceeds. 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 529 College Savings Network.

## Treasurer – Treasury Services

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 19,979,143 | 25,763,896 | 27,318,370 | 28,216,690 |
| **Total Funds** | **$19,979,143** | **$25,763,896** | **$27,318,370** | **$28,216,690** |
| Positions | 74 | 81 | 82 | 80 |
| FTE | 72.10 | 78.85 | 79.24 | 79.10 |

### Program Description

Treasury Services houses the operations of five Treasury programs. The **Investments Program** invests state held funds including the Oregon Public Employees Retirement Fund, the State Accident Insurance Fund, the Common School Fund, and other smaller funds; the **Oregon Short Term Fund Program** manages and invests state monies (and the funds of local governments that choose to participate) that are not needed for immediate demands in short-term securities; the **Banking Program** processes monetary transactions for all state agencies and over 1,500 local government accounts; the **Debt Management Program** coordinates and approves issuance of state agency and authority bonds; and the **Collateral Pool Program** assures that public funds held in financial institutions are properly collateralized, and acts as pool manager for Oregon banks.

### Revenue Sources and Relationships

Approximately 70% of Treasury Services Other Funds revenue consists of revenue from charges the Treasury imposes to administering investments in the Investments Program and to administering the Oregon Short Term Fund. These charges are levied as a percentage of the value of the administered funds, and the revenues received therefore vary directly with the fund balance levels. Revenue from these administrative charges is projected to total $23.7 million in the 2009-11 biennium (an increase of 48% over the 2007-09 biennium level).

Statutes limit the Treasury administrative charge to no more than 0.052% per year of the Oregon Short Term Fund's balance, and to no more than 0.03% per year of other investment fund balances. The Treasury's actual administrative charges, however, have been less than these statutory maximums. The imposed charge for administration of the Oregon Short Term Fund has been 0.036% of the Fund's balance, and the charges imposed for administering the other designated investment funds vary, but are below the allowed maximum. For the largest of the designated investment funds, the Oregon Public Employees Retirement Fund, the administrative charge assessed has been only 0.007% per year for most of that Fund's balance.

Other Treasury Services revenues include charges to state agencies for banking services, estimated at $6.3 million (up 10.4% over the 2007-09 biennium level), 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 $3.7 million (up 33%), and charges to banks that use the Treasurer as a collateral pool manager, estimated at $647,000 (up 215%). The combined sum of these revenues is projected to total $34.3 million in the 2009-11 biennium, a 39% increase over the prior biennium level.

### 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, State Accident Insurance Fund, Oregon Short Term Fund, and Common School Fund account for most of the Treasurer's investment activity. Generally, growth of these funds has increased investment costs and revenues. The Treasurer has relied heavily on automation to service this growth, without a corresponding growth in personnel.

In 2007, however, the Legislature added seven full-time positions, five in the Investment Division, one in the Debt Management Division, and one in the Finance Division. The five Investment Division positions were added to address workload needs due to growth in investment portfolios, particularly in the Oregon Public Employees Retirement Fund. The additional staff help the Division take advantage of new investment opportunities in its private equity portfolio, and search out other investment opportunities for up to 3% of the PERS portfolio, currently $1.4 billion. The new debt management position addresses increasingly complex federal and securities laws and the application of innovative financial products in agency bond programs. The additional Finance Division position deals with increased workload associated with a statutory change to the administration of the collateral pool for banks that hold state funds.

### Essential Budget Level

The essential budget level includes the standard adjustments for personnel cost increases and for inflation in services and supplies costs and state government service charges. It additionally includes two-years of funding for two positions that were added in 2007 but not funded for the full 2007-09 biennium, and an adjustment to fully finance up the maximum potential annual bonus payments for investment officers for the first of the two years of the 2009-11 biennium.

Growth in the Treasury Services budget has been robust. The 2009-11 biennium essential budget level represents a 41.2% increase over 2005-07 (even though the EBL does not include potential second-year bonuses for investment officers). This increase has resulted primarily from the authorization of additional positions, and from salary increases awarded as a result of position reclassifications and other compensation rate increases. Of particular note have been the salary increases awarded to the agency's investment officers through compensation plan changes that increased their maximum annual bonus payments from 10% to 30% of salary. Under the Treasurer's compensation plan, 14 agency investment officers are eligible for annual bonus payments equal to up to 30% of salary, based on the performance of the portfolios they manage relative to the similar investment portfolios in other states. Because of the increase in the maximum bonus rate, the increase in the number of investment officers eligible for bonuses, and the increases in investment officer base salary rates, total bonus payments have grown rapidly. Investment officer bonus payments totaled approximately $72,000 in the 2005-07 biennium. In the 2009-11 biennium, investment officers will be eligible for potential bonuses totaling approximately $1.4 million.

The essential budget level includes sufficient Other Funds expenditure limitation to support payment of the maximum potential investment officer bonus payments for the first of the two possible annual bonuses awarded in the biennium. Payment of second-year bonuses will require the Legislature to approve a policy package or the Emergency Board to approve an Other Funds expenditure limitation increase.

### Issues and Options

The Treasurer is asking the Legislature to approve a number of additions to the Treasury Services budget totaling $2.8 million Other Funds. These include:

- a one-time $1.04 million Other Funds information technology project to acquire a Web-based state and local debt tracking system (financed with $800,000 of Certificates of Deposit proceeds, and which includes debt service costs of $210,000 this biennium and $311,000 in the 2011-13 biennium);
- $1.03 million Other Funds to pay potential second-year bonuses to eligible investment officers;

- $846,157 Other Funds to add two full-time Accountant positions and additional services and supply expenditures in support of the Treasury's in-house public equity trades and its management of external portfolios;
- $232,563 Other Funds for one full-time position, to continue authority for the Chief Audit Executive position approved by the Emergency Board in June 2008; and
- $45,718 Other Funds to reclassify two Accountant positions in the Banking Program.

A large portion of Treasury Services expenditures is financed from administrative fee revenues that are directly dependent on the value of the portfolios that the Treasury manages. Most of the funds managed outside of the Oregon Short Term Fund are invested in the Oregon Public Employees Retirement Fund. At the time of this writing, sharp declines in equity and bond values have reduced the balances of the Oregon Public Employees Retirement Fund and of other invested funds. These declines put the revenue projections included in the budget, which were made before most of the recent market decline and which are quite robust (up 48% over the prior biennium), in jeopardy, absent the Treasury increasing its fees. The balance in the Oregon Public Employees Retirement Fund, for example, peaked at $64.6 billion in November 2007. This fund's balance had declined by 26%, however, to only $47.7 billion, as of October 2008. Other investment fund balances have declined too, reducing administrative fee collections from both earlier levels and from previously-forecast levels.

If administrative fee collections for the Oregon Short Term Fund and for other designated investment funds remain at their October 2008 levels throughout the 2009-11 biennium, then the expenditure authority the Treasurer is requesting would result in a negative $7 million ending balance in Treasury Services. Alternatively, the Treasurer would have to increase administrative fees by an average of 64% over current levels to avoid this loss and to retain an optimal-size ending balance for the Treasury Services programs.

## Treasurer – Oregon 529 College Savings Network

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds | 2,107,428 | 2,826,574 | 2,843,864 | 2,979,019 |
| **Total Funds** | **$2,107,428** | **$2,826,574** | **$2,843,864** | **$2,979,019** |
| Positions | 2 | 2 | 2 | 2 |
| FTE | 2.00 | 2.00 | 2.00 | 2.00 |

### Program Description

The Oregon 529 College Savings Network administers three savings programs designed to encourage people to save money for future education costs. The Oregon 529 College Savings Board, which is chaired by the Treasurer of State, establishes policies and oversees the program. Participants can choose from a variety of investment options. Earnings on the investments are exempt from income taxes if used for qualified educational expenses when withdrawn, and some contributions may be claimed as a deduction against income for state income tax purposes. Although administered by the Treasurer, participant enrollment, investment management, and participant support is provided by third party contractors.

### Revenue Sources and Relationships

The program was started with advances from the General Fund, but is now fully-supported from fees (Other Funds). The program receives Other Funds from an annual assessment on plan assets of 10 basis points (0.10%) and from interest earned on the assessment revenues. As such, program revenues vary directly with the total balance in participants' accounts. The program has grown in size to the point that these revenues are sufficient to cover the Treasurer's administrative costs. Revenues from these sources are projected to total $4 million in the 2009-11 biennium, an increase of 44% over the 2007-09 biennium level.

### Budget Environment

The program was initiated during the 1999-2001 biennium. By May 2008, the program had expanded to nearly 111,000 participant accounts, and total balances peaked at more than $1.05 billion. Since that time, however, stock and bond market declines have reduced the value of participants' accounts. As of November 2008, the number of accounts had increased further to more than 116,000, but the total balances in the accounts had declined nonetheless by 30% from the May 2008 level, to $735.4 million.

### Essential Budget Level

The increase in the essential budget level over 2007-09 biennium expenditure levels incorporates only the standard adjustments for personnel cost increases, and for inflation in services and supplies costs and state government service charges.

### Issues and Options

The Treasurer is requesting legislative authority to increase program administrative cost expenditures by $1.07 million (or 36%). Almost all of the additional expenditures would be to expand marketing for the program to both in-state and out-of-state customers, with the intent of expanding program participation. Even with the 43% increase in program revenues over 2007-09 biennium levels projected in the budget, program expenditures would exceed revenues, thereby reducing fund balances during the biennium. If program revenues fail to realize the projected 43% growth rate, reliance on fund balances would further increase.

Recent sharp declines in stock and bond prices have reduced the value of many participants' accounts. It remains to be seen what effect this will have on participation and investment in the Oregon 529 College Savings Network programs. Since the revenues supporting the administrative costs of the program vary directly with the value of the invested funds, declines in participation, or in the portfolio values of participants' accounts, will directly reduce these revenues. Unless recent market declines are soon reversed, the Network will not be able afford its requested expenditures without raising fees.

## Treasurer – Nonlimited

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| Other Funds (NL) | 2,131,580 | 3,500,000 | 3,500,000 | 3,500,000 |
| **Total Funds** | **$2,131,580** | **$3,500,000** | **$3,500,000** | **$3,500,000** |

### Program Description

Payments for cash management services are not limited in the budget. These represent the fees the Treasury pays to financial institutions for direct banking services.

### Revenue Sources and Relationships

The Treasury recovers the cost of banking fees related to banking services from state agencies and local governments. These recoveries are calculated on the basis of the agency's or government's actual banking transactions.

### Budget Environment

State funds, and the funds of participating local governments, are deposited in Treasury accounts in commercial financial institutions. These institutions levy fees to the Treasury for certain banking transactions. The Treasury has no direct control over these fees, since they are incurred when state agencies or participating local governments make transactions that are subject to bank fees. The Nonlimited expenditures include these transaction-based banking costs. The Treasury collects funds to support the Nonlimited expenditures (i.e., to pay the bank fees) from the state agencies and local governments making the financial transactions.

### Essential Budget Level

The essential budget level is equal to the level approved for the 2007-09 biennium.

### Issues and Options

The total amount of Nonlimited banking fees is not forecast to change from current biennium levels.

# LEGISLATIVE BRANCH

## Legislative Branch (LEG) – Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 63,211,645 | 81,175,841 | 86,414,817 | 82,648,989 |
| Other Funds | 5,018,671 | 39,047,886 | 39,150,487 | 3,797,014 |
| Other Funds (NL) | 1,500,896 | 1,573,061 | 1,573,061 | 1,415,161 |
| **Total Funds** | **$69,731,212** | **$121,796,788** | **$127,138,365** | **$87,861,164** |
| Positions | 686 | 696 | 696 | 695 |
| FTE | 393.90 | 403.92 | 403.92 | 403.51 |

### Overview

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.

Even though the Governor does not make a recommendation of the Legislative Branch budget, he has included a 6.6% reduction to the branch's General Fund budget from the essential budget level in his recommended budget. Usually the Governor includes a reduction that equals the statewide average reduction to all General Fund budgets. It is unclear how the reduction percentage was calculated for the Legislative Branch, since the statewide average is only a 5.4% reduction.

## LEG – Legislative Assembly

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 27,722,266 | 33,610,472 | 36,772,454 | 32,298,773 |
| Other Funds | 83,481 | 202,969 | 202,969 | 208,653 |
| Other Funds (NL) | 89,792 | 86,789 | 86,789 | 89,219 |
| **Total Funds** | **$27,895,539** | **$33,900,230** | **$37,062,212** | **$32,596,645** |
| Positions | 444 | 443 | 443 | 443 |
| FTE | 216.95 | 216.20 | 216.20 | 216.20 |

### Program Description

The Legislative Assembly budget includes salaries and per diem for legislative members and their staffs, the leadership and caucus offices, the Secretary of the Senate, the Chief Clerk of the House, session staff, and Senate Executive Appointments.

### Revenue Sources and Relationships

The General Fund supports 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 Account, established in ORS 171.117, which receives payments from legislative members for food services, to be used to pay for the costs of food served in members' lounges.

### Budget Environment

The primary responsibility of the Legislative Assembly is to produce a balanced budget that complies with state and federal laws, represents the priorities established by the Legislature, receives an affirmative vote by a majority of each chamber, and is signed into law by the Governor. The Legislature also considers thousands of policy issues each biennium and, ultimately, enacts laws on behalf of the citizens they represent.
The Legislature meets in session every other year and enacts a biennial budget. During the interim, interim committees examine specific topics or program areas and a Joint Committee, the Emergency Board, is appointed to meet periodically to address certain fiscal issues that cannot be put off until the next regular session. The

Emergency Board has limited authority so there are fiscal circumstances that can require the full Legislature to meet in a special session to ensure the budget remains balanced.

The portion of the Legislative Assembly budget to cover the costs for members is divided to reflect session and interim activities as well as House and Senate costs. The remainder of the budget which covers the costs of leadership offices and the Office of the Secretary of the Senate and the Office of the Chief Clerk of the House is provided for the normal biennial period.

### Essential Budget Level

The essential budget level (EBL) for the Legislative Assembly is $4,473,681 General Fund (12.2%) less than the 2007-09 legislatively approved budget through December 2008. The main reason for this decrease was one-time funding for the 2007-09 biennium that was provided for legislators' interim budgets to help them better fulfill their responsibilities to the public and to increase the professionalism of the Legislature. The funds were not continued as part of the essential budget level. The EBL is also $5,684 Other Funds (2.8%) and $2,430 Other Funds Nonlimited (2.8%) more than the legislatively approved budget. It includes the standard adjustments for personal services costs, inflation, and state government service charges.

## LEG – Legislative Administration Committee

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 21,817,506 | 30,830,305 | 32,378,248 | 31,952,708 |
| Other Funds | 3,936,240 | 37,419,648 | 37,454,960 | 2,068,464 |
| Other Funds (NL) | 489,447 | 597,778 | 597,778 | 597,932 |
| **Total Funds** | **$26,243,196** | **$68,847,731** | **$70,430,986** | **$34,619,104** |
| Positions | 151 | 155 | 155 | 155 |
| FTE | 103.39 | 107.45 | 107.45 | 107.45 |

### Program Description

The Legislative Administration Committee (LAC) appoints an administrator to direct and manage the service and support systems for the Legislative Assembly and Legislative Branch agencies. Services include: 1) 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 typically supports 90% of LAC's requested expenditures, but it only accounted for 45% of the 2007-09 budget. This was due to a large increase in Other Funds revenue from the issuance of certificates of participation for the Capitol renovation project. There is also Other Funds revenue from Capitol Building office space and hearing room rent, parking fees, donations for Holidays at the Capitol, equipment rentals, sales of publications and audio tapes, and copy/vending machine usage. LAC adopts the same rental rate for occupants of the Capitol, except Legislative Administration and the Legislative Assembly, as the rate imposed by the Department of Administrative Services for occupants of other state buildings. There was direction from the 2007 Legislature to review the rent model for the Capitol and present various options at the next regular session in 2009. Parking fees and revenue from rentals, pay phones, and vending machines go into the State Capitol Operating Account which is used to partially cover expenses incurred in operating, maintaining, protecting, and insuring the Capitol. A Nonlimited Stores Revolving Account accommodates revenue from retail sales in the Capitol Gift Shop and a Nonlimited Property and Supply Stores Account accommodates revenue from the sale of supplies to legislative agencies.

### Budget Environment

Significant factors affecting LAC costs are the continued demand for improved information systems; maintenance and repair of the Capitol, including security needs; and meeting the needs of 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. As a result of this focus, the Information Systems unit has become the largest component of the ongoing LAC budget. Many technology plans for the 2003-05 biennium were postponed due to fiscal constraints, including the bill drafting system and the recording and archiving system. Funding to advance these projects was approved for the 2005-2007 biennium and continued in the 2007-09 budget. The bill drafting system project is particularly important since this is the system that is relied upon to prepare all legislative measures, perform law searches, change bills into statutes, and publish adopted laws.

Another major cost driver for LAC is maintenance and repair of the Capitol. Several large projects were completed prior to the 2003-05 biennium, including re-roofing, replacing aging wiring and transformers, upgrading elevators to meet building code requirements, remodeling of hearing rooms, and planning for the upgrade of the wings. An upgrade of the infrastructure (plumbing, electrical, fiberglass fiber in ceilings, and carpet) of the two wings of the Capitol was planned to occur during 2003-05, but was not authorized by the 2003 Legislative Assembly due to budget constraints. The renovation project for the wings was approved and was completed during the 2007-09 biennium.

### Essential Budget Level

The essential budget level for the Legislative Administration Committee is $425,540 General Fund (1.3%) and $35,386,496 Other Funds (94.5%) less and $154 Other Funds Nonlimited more than the 2007-09 legislatively approved budget through December 2008. The main reason for the decrease in General Fund was a phase-out of some one-time data processing costs. The large decrease in Other Funds is the elimination of one-time costs for the Capitol wings renovation project. It includes the standard adjustments for personal services costs, inflation, and state government service charges.

## LEG – Legislative Counsel

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 7,241,019 | 8,652,295 | 8,958,117 | 9,561,610 |
| Other Funds | 998,629 | 1,419,160 | 1,486,449 | 1,513,617 |
| Other Funds (NL) | 921,657 | 888,494 | 888,494 | 728,010 |
| **Total Funds** | **$9,161,305** | **$10,959,949** | **$11,333,060** | **$11,803,237** |
| Positions | 64 | 67 | 67 | 67 |
| FTE | 46.81 | 50.27 | 50.27 | 50.36 |

### Program Description

The Office of the Legislative Counsel (LC) drafts legislation for legislators, legislative committees, and state agencies. LC also provides research services and legal advice to legislators and legislative committees. LC prepares indexes and tables for all measures introduced during a legislative session and, every two years following each session creates, annotates, indexes, publishes, and sells the only official codification of the *Oregon Revised Statutes (ORS)* and session laws (*Oregon Laws*). LC also conducts a review of all new administrative rules adopted by state agencies to determine if they are consistent with the agencies' statutory authority.

Legislative Counsel is charged by statute (ORS 173.335) with providing necessary drafting services "as legislative priorities permit" to the Oregon Law Commission. The Commission was established in 1997 to identify defects or anachronisms in the law and recommend needed reforms to the Legislative Assembly.

### Revenue Sources and Relationships

The General Fund at the agency request level supports 79% of LC's expenditures. Other Funds are derived from sales of the *Oregon Revised Statutes*, *Oregon Laws*, bill drafting services, and other LC publications. The budget reflects increased revenue from bill drafting services due to an increase in the fee charged for the service. A small portion of the publication sales income is expended as limited Other Funds and used to defray that part of the agency's General Program expenses that are related to *ORS* publication editing. The balance of the publication sales income is expended as Nonlimited within the *ORS* Publications Program. LC has statutory authority to charge state agencies and other entities for drafting legislation, and has been doing so since 2001-03.

### Budget Environment

The number of bills and amendments drafted fluctuates from session to session, but overall the trends are fairly flat. The primary driver of drafting increases in the recent past has been agency requests. When workload increases, it creates additional pressure on LC staff, which ripples throughout the institution as these bills are drafted, introduced, amended, and finalized.

During legislative sessions, the agency hires temporary employees that serve primarily as copy editors for staff attorneys and to assist with workload issues. However, the agency has worked to reduce its reliance on temporary staff over the last several biennia.

Publication sales of *Oregon Revised Statutes* and *Oregon Laws* have declined in recent biennia due, in part, to the availability from free or low-cost Internet sources. Overall, Other Funds receipts have remained stable because of increased efficiencies in operations and increased sales of specialty publications. Specialty publications include the criminal code; family law code; landlord-tenant laws; labor, employment, and workers' compensation laws; and construction and building trade laws. If Other Funds receipts were to decline, additional General Fund support may be needed for *ORS* publication.

### Essential Budget Level

The essential budget level for the Legislative Council Committee is $603,493 General Fund (6.7%) and $27,168 Other Funds (1.8%) more and $160,484 Other Funds Nonlimited (18.1%) less than the 2007-09 legislatively approved budget through December 2008. It includes the standard adjustments for personal services costs, inflation, and state government service charges. The reduction in Other Funds Nonlimited is due to an anticipated reduction in revenues for the printing of *Oregon Revised Statutes*.

## LEG – Legislative Fiscal Office

| | 2005-07 Actual | 2007-09 Legislatively Adopted* | 2007-09 Legislatively Approved* | 2009-11 Essential Budget Level* |
|---|---|---|---|---|
| General Fund | 4,555,885 | 5,766,003 | 5,930,630 | 6,197,674 |
| **Total Funds** | **$4,555,885** | **$5,766,003** | **$5,930,630** | **$6,197,674** |
| Positions | 19 | 22 | 22 | 21 |
| FTE | 18.75 | 21.00 | 21.00 | 20.50 |

** This reflects a position shared with the Legislative Revenue Office. The 0.50 FTE is shown in both agencies and the position is included in the Legislative Fiscal Office position count for 2007-09, but is transferred to the Legislative Revenue Office in 2009-11.*

### Program Description

The Legislative Fiscal Office (LFO) is a non-partisan, legislative service agency created by statute in 1959. The Office researches, analyzes, and makes recommendations concerning state expenditures, financial affairs, program administration, and agency organization. The Office reports to the Joint Committee on Ways and Means during legislative sessions and to the Emergency Board during the interim between sessions. LFO determines the fiscal impact of all legislative measures and, when applicable, publishes fiscal impact statements that accompany bills through the legislative process. The 2007 Legislature approved an information technology analyst for LFO. The Office now provides budget analysis and policy recommendations concerning state agency information systems projects. LFO produces various publications to guide the Joint Committee on Ways and Means processes; address specific budgetary topics; provide legislative members, agencies, and the public with detailed and summary information as each budget is presented and after it is adopted; and annually reports on the status of all liquidated and delinquent accounts, as well as agency efforts to collect on such accounts.

### Revenue Sources and Relationships

The Legislative Fiscal Office is completely supported by General Fund.

### Budget Environment

As with other committee staffs, the work of LFO changes between legislative sessions and the interim. During sessions, budget analysis and the number of bill introductions and amendments is the primary driver of workload for the agency. LFO reviews all measures to determine if they have a fiscal impact and prepares fiscal impact statements.

During the interim, workload is driven by the number, length, and complexity of special sessions necessary to rebalance the statewide budget; the number and complexity of Emergency Board requests; and the number of other program and fiscal issues that require analysis. The Office also spends a significant amount of time educating and providing information to members, legislative staff, and other stakeholders about the budget process and current budget issues.

### Essential Budget Level

The essential budget level for the Legislative Fiscal Office is $267,044 General Fund (4.5%) more than the 2007-09 legislatively approved budget through December 2008. It includes the standard adjustments for personal services costs, inflation, and state government service charges.

## LEG – Legislative Revenue Office

| | 2005-07 Actual | 2007-09 Legislatively Adopted* | 2007-09 Legislatively Approved* | 2009-11 Essential Budget Level* |
|---|---|---|---|---|
| General Fund | 1,585,121 | 1,948,951 | 1,995,615 | 2,211,308 |
| **Total Funds** | **$1,585,121** | **$1,948,951** | **$1,995,615** | **$2,211,308** |
| Positions | 6 | 7 | 7 | 7 |
| FTE | 6.00 | 7.00 | 7.00 | 7.00 |

** This reflects a position shared with the Legislative Fiscal Office. The 0.50 FTE is shown in both agencies and the position is included in the Legislative Fiscal Office position count for 2007-09, but is transferred to the Legislative Revenue Office in 2009-11.*

### Program Description

The Legislative Revenue Office (LRO) provides staff assistance to the House and Senate Revenue Committees during legislative sessions and to interim revenue committees, task forces, and work groups between sessions. The Office was established in 1975 to provide non-partisan analysis of tax and school-finance issues. The Office prepares research reports and writes revenue impact statements on initiatives, proposed legislation affecting state or local public finance, personal and corporate income taxes, property taxes, consumption taxes, school finance, and distribution of the State School Fund.

### Revenue Sources and Relationships

The Legislative Revenue Office is completely supported by General Fund.

### Budget Environment

As with other committee staffs, the number of bill introductions and amendments create the workload for the agency during regular and special sessions. Increases in bills and amendments, along with tax-related voter initiatives and legislative referrals, require the staff to write more revenue impact statements. The number of revenue, school finance committee, task force, and workgroup meetings and related research and analysis projects determines the interim workload.

### Essential Budget Level

The essential budget level for the Legislative Revenue Office is $215,693 General Fund (10.8%) more than the 2007-09 legislatively approved budget through December 2008. It includes the standard adjustments for personal services costs, inflation, and state government service charges.

## LEG – Commission on Indian Services

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 289,848 | 367,815 | 379,753 | 426,916 |
| Other Funds | 321 | 6,109 | 6,109 | 6,280 |
| **Total Funds** | **$290,169** | **$373,924** | **$385,862** | **$433,196** |
| Positions | 2 | 2 | 2 | 2 |
| FTE | 2.00 | 2.00 | 2.00 | 2.00 |

### Program Description

The Commission on Indian Services compiles information on services available to Indians, assesses state programs and services, serves as a forum for considering Indian problems, and advises on matters relating to the preservation and protection of Indian historic and archaeological resources. The Commission, created in 1975, has 13 members appointed by the President of the Senate and Speaker of the House of Representatives for two-year terms. In addition to one senator and one state representative, each of Oregon's nine federally recognized tribal groups is entitled to one member. The remaining two members are from the Portland area and Willamette Valley Indian communities.

Various statutes require that the Commission be consulted on matters related to the preservation and protection of Indian fish, wildlife, historic, and archaeological resources. SB 770 (2001) requires state agencies to take Oregon's nine federally recognized tribal governments into account when developing policies and implementing programs that may affect tribal interests. The law also requires the Governor to annually convene a meeting of agency representatives and the tribes, the Department of Administrative Services to provide annual training to agency managers and employees that have regular contact with tribes, and state agencies to submit annual reports to the Governor and the Commission on their activities with tribes.

### Revenue Sources and Relationships

Other Funds revenue is from registration and other fees derived from sponsorship of special meetings. The funds are used to cover costs associated with the events.

### Budget Environment

Staff salaries and Commission member travel are the primary costs in this budget. The Commission holds regular quarterly meetings, as well as special meetings at the call of the Chair. It advises the legislative and executive branches on ways to improve communication and coordination with tribes in an effort to avoid unnecessary court disputes and highlight shared interests.

The Commission reports that governmental (federal, state, and local) and non-governmental entities are increasingly relying on the Commission for technical and coordination services and the volume of phone and mail transactions is increasing. It is also increasingly being asked to provide trainings for effective government-to-government relationships; conduct meetings with agencies and their tribal counterparts by program and issue area; answer questions from various state agencies on how to establish and maintain effective relationships with tribes; and discuss various points of law and strategies. Tribal initiated activities related to their various programs and significant events have also increased.

### Essential Budget Level

The essential budget level for the Commission on Indian Services is $47,163 General Fund (12.4%) and $171 Other Funds (2.8%) more than the 2007-09 legislatively approved budget through December 2008. It includes the standard adjustments for personal services costs, inflation, and state government service charges.

# JUDICIAL BRANCH

## Judicial Department (OJD) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 282,060,774 | 315,619,416 | 321,426,492 | 348,048,319 |
| Other Funds | 21,671,603 | 32,365,102 | 44,719,467 | 36,072,994 |
| Federal Funds | 1,478,760 | 979,687 | 1,013,463 | 1,047,391 |
| Other Funds (NL) | 9,481,442 | 10,492,966 | 10,492,966 | 10,233,769 |
| **Total Funds** | **$314,692,579** | **$359,457,171** | **$377,652,388** | **$395,402,473** |
| Positions | 2,039 | 2,071 | 2,074 | 2,065 |
| FTE | 1,871.21 | 1,911.47 | 1,912.85 | 1,923.13 |

### Agency Overview

The Oregon Judicial Department's (OJD) current program structure includes:

- ***Appellate Courts***, which are the Supreme Court, Court of Appeals, Tax Court (a circuit-level court), and legal support cost.
- ***Administration and Central Support***, which includes the Office of the State Court Administrator, information systems management, fiscal and human resources management, and centralized state agency assessments.
- ***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. A circuit court is located in each Oregon County.
- ***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.

Other programs include: eCourt; Revenue Management; Capital Improvement; and Governor's Adjustment.

The Department has 173 circuit court judges and 18 appellate court judges. In addition, there are approximately 100 temporary or pro-tem judges, and 50 senior or "Plan B" semi-retired judges, and 24 judicial referees.

### Revenue Sources and Relationships

In the 2007-09 biennium, OJD will generate an estimated $272 million in revenue from fines, assessments, forfeitures, filing fees, and individuals' contributions toward their public defense. The Department will retain approximately 8% to fund the actual costs of the Department's collections program, including funds used to reimburse the Department of Revenue and private collection agency charges for collection of delinquent debt. Compensatory fines and restitution, which are expected to total $27.1 million, are also collected by the courts and distributed to individual victims. Because these are trust funds, they are not accounted for in the Department budget nor are they subject to the Department's collection withholding.

Other sources of operating Other Funds revenue include the sale and distribution of court publications; fees charged for public access to the Oregon Judicial Information Network; State Law Library fees; fees charged for the interpreter and shorthand reporter certification programs; fees collected in the public defense Application Contribution Program; grants from the Department of Human Services for the Citizen Review Board; and various grants from other state and federal agencies. Direct Federal Funds is a grant for a Juvenile Court Improvement Project.

### Budget Environment

Workload in the Judicial Department is driven by a number of factors, including: the number and complexity of cases filed; the impact of social issues, such as drug abuse and family dissolution, on workload; and the effect of new laws and regulations. The Judicial Department is attempting to address these issues through a number of initiatives, including the use of specialty courts; improved use of technology; and initiatives such as the Juvenile Court Improvement Project and the Model Criminal Court Project, to streamline and improve court operations, business processes, and the overall delivery of court services.

During the 2007-09 biennium, the Department undertook an estimated 1,400 reclassifications out of a total of 2,073 positions (68%). The Court Operation Specialist three level classification moved to a new four-level series entitled Judicial Services Specialist (JSS). The Department reports that the majority of those 1,400 reclassifications were simply moving a position from one classification name to the other.

### Essential Budget Level

The essential budget level for the Department is $395.4 million, of which $348 million is General Fund, $10.2 million is Other Funds, $36.1 million is Nonlimited Other Funds; and $1.1 million is Federal Funds and 2,065 positions (1,923.13 FTE). The EBL total is $17.6 million, or 4.7%, more than the current biennium's legislatively approved budget (LAB) of $377.7 million.

The Governor's 2009-11 budget includes an unspecified reduction of $61.1 million General Fund to the Chief Justice's recommended budget. This is a $22,939,824, or 6.6%, reduction below the Chief Justice's essential budget level. This reduction reduces the Department's General Fund budget to $325,108,851.

At the EBL, the Department reports an ending balance of $32 million.

### Issues and Options

The 2009-11 biennium will challenge the Judicial Department perhaps more than any biennia since its inception. The state's declining economy, and projected revenue deficits at the state and local level, will adversely impact the courts operations and the support Circuit Courts receive from county government. Depending upon reductions to local law enforcement and District Attorney offices, and the charging practices of District Attorneys, the Department could see either an increase in the number of criminal cases, child support orders, domestic violence, divorce, juvenile dependency, foreclosure, and other civil matters indirectly attributable to a downturn in the economy or a reduction in caseloads stemming from reductions in local law enforcement and prosecution personnel.

The Department has no control over the number of case filings it receives and has very limited ability given existing legal requirements in determining how cases are adjudicated. Any flexibility the Department has resides primarily within its ability to delay adjudication in civil case filings. Yet, if contentious civil issues remain unresolved for extended periods of time, this could also lead to citizen frustration and potential increases in criminal cases.

Many of the cases the Department receives have constitutional or statutorily prescribed timeframes mandating timely resolution. If a case fails to be processed within allowable timeframes, it could be dismissed or could be subject to other prescribed statutory sanctions or relief. Thus, as demonstrated in the budgetary reductions during the 2001-03 biennium, delays in adjudication of criminal matters will result in an increase in case backlogs, and Oregon's justice system will become less of a deterrent to crime as the probability of a swift sanction diminishes.

The General Fund reductions to the Department's EBL will likely mean delays in processing civil matters, including small claims cases and violations, with the potential negative effect on state revenue if delays result in the inability to collect fines, costs, and assessments from violation cases.

Since the duration of the economic downturn is unknown, prioritizing and delaying cases becomes less of an option than during the 2001-03 recession and budget reductions. During that period, the then Chief Justice worked closely with other public safety partners, especially the District Attorneys, to ensure the judiciary functioned as well as could be expected under such difficult budgetary circumstances. The current Chief Justice will undoubtedly be called upon in this same manner to help craft public safety system solutions that, while unpalatable to many, especially those in the legal profession, will be necessary given the lack of other viable alternatives.

Within the Judicial Department, the Chief Justice will need to make difficult decisions and develop innovative and resourceful solutions within a declining budget.

Reductions for the Department fall disproportionately on administrative and support staff for two reasons. The first is that Article VII, Section 1, of the Oregon Constitution prohibits any reduction in the compensation of judges during the term for which they are elected. The second reason is that eCourt Debt Service is a contractual obligation that must be met. The Department has reported having position vacancy savings of at least $2.5 million for the current biennium.

The uncertainty of adequate EBL funding means that insufficient revenues may exist for policy enhancements. The most notable effect may be the availability of funding to continue the eCourt Program.

Of note is that the documentation that the Department provided for its 2009-11 budget has made an analysis difficult. As Legislative Fiscal Office (LFO) continues to work with the Department to document the EBL, LFO will provide the Legislature with that documentation so that it can make informed decisions about a more precise calculation of the Department's EBL. LFO has provided an alternative EBL calculation for the Legislature's consideration in the following table:

**Table-A: Adjusted Essential Budget Level Calculation**

| Adjusted EBL Calculation (millions $) | General Fund | Other Funds | Other Funds N/L | Federal Funds | Total Funds | Pos. | FTE |
|---|---|---|---|---|---|---|---|
| Chief Justice EBL | $348.1 | $36.6 | $9.8 | $1.1 | $395.4 | 2,065 | 1,923.13 |
| Governor's Adjust. to EBL | (23.0) | -- | -- | -- | (23.0) | TBD | TBD |
| **Governor's Rec. Budget** | **$325.1** | **$36.6** | **$9.8** | **$1.1** | **$372.4** | **2,065** | **1,923.13** |
| | | | | | | | |
| LFO Adjust. to GRB @ EBL | | | | | | | |
| Mandated Caseload | $2.2 | -- | -- | -- | $2.2 | 20 | 18.71 |
| Legal Aid Phase-Out | (0.7) | -- | -- | -- | (0.7) | -- | -- |
| Debt Service Reduction | (7.4) | -- | -- | -- | (7.4) | -- | -- |
| eCourt Base Phase-Out | (20.0) | -- | -- | -- | (20.0) | -- | -- |
| eCourt Strategic Plan Positions Phase-out | (1.0) | -- | -- | -- | (1.0) | -3 | -3.00 |
| Appellate Mediation Shortfall | -- | (0.2) | -- | -- | (0.2) | -1 | -0.60 |
| Publications Shortfall | -- | (0.4) | -- | -- | (0.7) | -2 | -3.10 |
| **Total Adjustments** | **($26.9)** | **($0.6)** | **--** | **--** | **($27.5)** | **17** | **15.01** |
| | | | | | | | |
| **Adjusted EBL** | **$298.2** | **$36.0** | **$9.8** | **$1.1** | **$345.0** | **2,079** | **1,935.14** |

The above table shows that after the various EBL adjustments, the Department's *adjusted* EBL totals $298.2 General Fund. Since the Governor's EBL adjustment does not include position or FTE reductions, nor the eCourt Base Phase-Out, the positions and FTE listed in the above Table-A are overstated by an estimated several hundred permanent full-time.

## OJD – Appellate and Tax Courts

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 16,170,905 | 18,842,376 | 19,176,147 | 18,657,831 |
| Other Funds | 191,774 | 250,095 | 261,267 | 271,747 |
| **Total Funds** | **$16,362,679** | **$19,092,471** | **$19,437,414** | **$18,929,578** |
| Positions | 89 | 91 | 91 | 84 |
| FTE | 85.56 | 87.56 | 87.56 | 81.20 |

### Program Description

The Appellate and Tax Courts program includes the Oregon Supreme Court and the Court of Appeals. The Chief Justice of the Supreme Court is responsible for the administration of the Judicial Department within the Judicial Branch of state government. The Supreme Court consists of seven justices elected to serve 6-year terms. The Court of Appeals consists of ten judges who hear appeals from trial courts, agencies, and boards.

In 2008, the Department reorganized the Office of Appellate Legal Counsel into an Appellate Commissioner's Office. The purpose of this reorganization was to "…reduce substantially the amount of time it historically has taken for substantive motions in the Court of Appeals to be decided." The Commissioner's decisions are subject to review by either the Motions Department of the Court of Appeals or the Chief Justice.

The Court of Appeals, Appellate Settlement Conference Program, mediates some civil, domestic relations, and workers' compensation cases. The Program currently has a staff of three positions (1.60 FTE).

The overall program also includes the Tax Court, which is a circuit level court that is located in Salem. 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. The Tax Magistrate Division had four magistrates.

### Revenue Sources and Relationship

The Appellate and Tax Court program is predominately funded with General Fund, but includes a relatively nominal amount of Other Funds revenue (1.4%) from an appellate filing fee designated to fund the Appellate Settlement Conference Program.

### Budget Environment

In 2007, the Supreme Court received 1,314 filings and issued 73 opinions. For this same period, the Court of Appeals received 3,312 filings and issued 401 opinions. The Appellate Settlement Conference Program mediated approximately 150 cases, with a settlement of approximately 105 cases (70%). The Tax Court received 941 filings, of which the majority were property rather than personal income tax related, and closed 1,076 cases. Tax Magistrates issue a written decision in each case. The Tax Court Judge reviewed 49 cases on appeal. As of June 30, 2008, there were 776 active cases and 14 tax cases on appeal.

Appellate eCourt, which is essentially two projects – one for the Supreme Court and one for the Court of Appeals, is an effort to automate and reengineer the processes and procedures of these courts through electronic filing, document management, and electronic payment of filing, transaction, and copy fees. This effort has been underway since 2004 and may be fully implemented by the fall of 2009. A more complete discussion of the eCourt Program can be found under the "eCourt Program" in the following analysis.

### Essential Budget Level

The essential budget level for the program is $18.9 million, of which $18.7 million is General Fund and $.03 million is Other Funds. The EBL total is $507,836, or 2.6%, less than the current biennium's legislatively approved budget (LAB) of $19.4 million. This reduction is attributable a personal services technical adjustment that eliminated a one-time $857,555 General Fund adjustment for 2007 biennium judicial salary and benefit changes. The EBL also includes standard adjustments for personal service costs and inflation.

### Issues and Options

The Department has identified a revenue shortfall in the Appellate Court budget at the EBL in the amount of $193,626 Other Funds (1 position/0.60 FTE). A reduction is necessary for the Appellate Mediation Program to remain within available revenue. The Department considered, but rejected, a filing fee increase to pay for this shortfall based on its concern that a higher filing fee would discourage participation in this program. The Appellate Court has a policy package that seeks to restore this shortfall with General Fund. (Please refer to Table-A: Adjusted Essential Budget Level Calculation, which eliminates the Other Funds.)

The Public Officials Compensation Commission has made a recommendation for increasing judge salaries by approximately 13%, which is not included in the EBL. A change in judicial salaries requires a statutory change, and would cost approximately $700,000 General Fund to implement for Appellate/Tax judges. This increase would be in addition to a 19% judicial compensation increase funded by the 2007 Legislature ($876,000).

The Appellate Courts will be challenged to no less, if not more, of an extent than Circuit Courts by budget reductions. Reduced caseloads in the Circuit Courts, if they materialize, could translate to reduced caseloads for the Appellate Courts. With practically no constitutional or statutory flexibility to postpone or defer cases, the Appellate Courts will be forced to evaluate and economize on every aspect of their administrative functions.

An internally financed expansion of the Appellate Mediation Program may become necessary as part of this effort.

## OJD – Trial Court Operations

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 200,972,125 | 226,519,155 | 231,073,681 | 241,949,012 |
| Other Funds | 12,509,939 | 17,120,001 | 17,864,621 | 20,243,858 |
| Federal Funds | 910,164 | 58,000 | 60,468 | 0 |
| Other Funds (NL) | 169,159 | 779,378 | 779,378 | 801,201 |
| **Total Funds** | **$214,561,387** | **$244,476,534** | **$249,778,148** | **$262,994,071** |
| Positions | 1,710 | 1,729 | 1,729 | 1,733 |
| FTE | 1,558.63 | 1,583.08 | 1,583.08 | 1,601.01 |

### 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 (Application Contribution Program).

There are circuit courts in each of the 36 counties, which are consolidated administratively into 27 judicial districts. These courts adjudicate matters and disputes in criminal, civil, domestic relations, traffic, juvenile, small claims, violations, abuse prevention act, probate, mental commitment, adoption, and guardianship cases. There 173 circuit court judges, approximately 100 temporary or pro-tem judges, and approximately 50 senior or "Plan B" semi-retired judges, as well as approximately 24 judicial referees that serve these courts.

### Revenue Sources and Relationships

The circuit courts are primarily funded with General Fund. Other Funds revenue includes transfers from the Public Defense Services Commission for a portion of the Application Contribution Program ($2.9 million), which is used for verification of eligibility for public defense representation, and a portion of revenue administration and collection costs ($18.3 million) that are retained from court revenue collections.

The Department has conducted a study of its positions working on revenue collection. This study has yet to be made public, but is assumed to include all positions, including those currently funded with General Fund, which could be eligible, by statute, to be funded with Other Funds that the Department generates as part of its revenue administration program. A more complete discussion of the Revenue Management Program can be found under the "Revenue Management" in the following analysis.

### Budget Environment

On an annual basis, Circuit Courts have approximately 600,000 case filings across all case-types, including civil and criminal.[i] For 2007, the most recent year complete data is available, case filings totaled 605,753, which is a negligible change from the prior year and a 3% reduction from the 623,593 cases filed in 1998. For 2007, the top five case-types in the table below comprised 82% of the cases filed, with the remaining cases grouped under "All Other" case-types:

| Case-Type 2007 | # of Cases | % of Total | % Chg from 2006 | % Chg from 1998 |
|---|---|---|---|---|
| Violations | 257,839 | 42.6% | +24% | +34.7% |
| Small Claims | 75,282 | 12.4% | -.06% | +27.2% |
| Civil | 65,220 | 10.8% | +24% | +34.7% |
| Misdemeanors | 63,497 | 10.5% | -1% | -1.8% |
| Felony | 34,630 | 5.8% | -8.4% | -12.5% |
| All Others* | 109,285 | 18.04% | | |
| Total | 605,753 | | | |

*All Others include: Forcible entry/small claims eviction; Juvenile; Domestic Relations; Dissolution; Family Abuse Prevention Action; Probate; and Mental Health.

[i] These figures do not include parking violation cases in Multnomah Circuit Court.

Violation caseload, as both a percentage of cases and overall growth, continues to be high. These cases, however, have the lowest workload impact on judicial and staff resources. Civil filings also have experienced a significant growth over the prior year and the last ten year period. Misdemeanor case filings have been relatively stable over the last ten years. The number of felony case filings, however, has actually fallen from the prior year and over the last ten years. Criminal felony, Misdemeanor, and complex civil case types have the greatest workload impact on the judicial and staff resources. Juvenile cases, comprising approximately 3% of the total number of case filings, experienced a marginal decline from the prior year and a 17.2% decline from ten years ago. Juvenile cases have increased in complexity over time.

The Department has been developing new methodologies for resolving disputes, including appropriate dispute resolution programs, specialty courts (e.g., drug, family, etc.) and improvements in the jury system and use of interpreters.

Most, if not all, of the Circuit Courts are involved with the Department's eCourt Program. A more complete discussion of the eCourt Program can be found under the "eCourt Program" in the following analysis.

The 2007 Legislature established an Interim Committee on Court Facilities to evaluate the state's court facilities and to make recommendations to the upcoming 75th Legislature. Under current law, court facilities are the responsibility of county government. The Legislature appropriated $1.2 million General Fund for the assessment. A 48 facility assessment was completed along with a follow-up report on a subset of critically needed projects. The report details $843.5 million in cost for upgrades across all of the facilities.

### Essential Budget Level

The essential budget level for the program is $263 million, of which $242 million is General Fund, $20 million is Other Funds, and $.8 million is NonLimited Other Funds. The EBL total is $13.2 million, or 5.3%, more than the current biennium's legislatively approved budget (LAB) of $250 million. This includes a personal services technical adjustment that eliminated a one-time $7.6 million General Fund adjustment for 2007 biennium judicial salary and benefit changes. The EBL also includes standard adjustments for personal service costs and standard inflation.

### Issues and Options

The EBL does not include a mandated caseload adjustment. The Department has, however, a policy package, a portion of which can be considered equivalent to a mandated caseload adjustment. The total for this adjustment is $4 million General Fund (33 positions; 30.36 FTE). This amount was calculated based on a circuit court staff workload model, or weighted caseload study. The Legislative Fiscal Office (LFO) notes that the Department's methodology includes all case-types, including civil matters where the Department has flexibility in components of case processing. LFO does not believe that these case types are appropriate given what is typically considered as a mandated caseload. If these were to be eliminated from the calculation, as LFO recommends, then the amount becomes $2.3 million (20 positions; 18.71 FTE). LFO recommends that this amount should be added to the Department's current EBL to achieve a more realistic cost estimate of current law activities and requirements. (Please refer to Table-A: Adjusted Essential Budget Level Calculation.)

The Public Officials Compensation Commission has made recommendation for increasing judge salaries by approximately 15%, which is not included in the EBL. A change in judicial salaries requires a statutory change, and would cost approximately $7.6 million General Fund to implement. This increase would be in addition to a 19% judicial compensation increase funded by the 2007 Legislature ($7.6 million).

A Joint Committee on Oregon Trial Court Judicial Resources that was established by the Department reviewed requests from Circuit Courts for the establishment of 15 new judgeships and pro tem judges. The Committee's recommendation, based on a weighted caseload study, was for 13 new judgeships across six judicial districts. The Committee also recommended the continuation of pro tem judge funding at "current levels," which would cost approximately $4.5 million General Fund and include 39 Judicial Service Support Specialist 3s.

## OJD – Administration and Central Support

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 50,610,818 | 54,888,693 | 55,731,534 | 59,246,109 |
| Other Funds | 8,969,890 | 14,995,006 | 26,593,579 | 15,557,389 |
| Federal Funds | 568,596 | 921,687 | 952,995 | 1,047,391 |
| Other Funds (NL) | 9,047,481 | 8,713,588 | 8,713,588 | 8,957,568 |
| **Total Funds** | **$69,196,785** | **$79,518,974** | **$91,991,696** | **$84,808,457** |
| Positions | 220 | 231 | 234 | 228 |
| FTE | 207.41 | 221.33 | 222.71 | 221.27 |

### Program Description

The State Court Administrator serves under the direction of the Chief Justice of the Supreme Court. The State Court Administrator is responsible for centralized functions of the Oregon courts system and is assisted by two Deputy State Court Administrator positions, one for Program Operations and one for Business Operations. The Office of the State Court Administrator is divided into the following eight divisions:

- Court Programs and Services Division
- Legal Counsel Division
- Human Resource Services Division
- Office of Education and Training, and Outreach Division
- Executive Services Division
- Enterprise Technology Services Division
- Appellate Court Services Division
- Business and Fiscal Services Division

The State Court Administrator also provides management and oversight of: the Court Security Program; the Citizens Review Board; the Interpreter Certification program; revenue management; the Supreme Court building; internal auditing; the administration of the Appellate Court Records Office; and the Supreme Court library. Centralized assessments and costs are also managed and paid by this office.

### Revenue Sources and Relationship

The program is predominately funded with General Fund, but includes the following Other and Federal Fund revenue sources:

- Reimbursement of costs for administration of the court revenue administration and collection activity, including payments to the Department of Revenue and private collection firms ($11.8 million)
- Department of Human Services for the Citizen Review Board ($1.2 million)
- revenue from the sale and distribution of court publications ($1 million)
- fees charged for public access to the Oregon Judicial Information Network ($3.2 million)
- Court Security Account ($2.5 million)
- Law Library Assessments ($1.7 million)
- Transfers from the Public Defense Services Commission to pay for the Application Contribution Program ($2.9 million)
- Federal Funds from grants that are used for assessments of state foster care and adoption laws and judicial processes, juvenile case data management, and training specific to juvenile case process improvements ($1.1 million)

### Budget Environment

The State Court Administrator and support staff continue with efforts to streamline and modernize court operations through ongoing implementation of improvements in automation and processes. Efforts include implementation of technology to facilitate the use of uniform documents and statewide case management systems.

The Judicial Department has contracted with the National Center for State Courts to conduct a detailed security assessment of 12 court facilities. These include: the Supreme Court building; Justice building; Robertson Building; Court Program and Services building; Vic Building; the Circuit Court buildings in Multnomah, Tillamook, Linn, Josephine, Jefferson, and Lane Counties; the Municipal Court in The Dalles; and the Justice building in Tillamook. The study was to be completed by the fall of 2008 and will outline a five year action plan for staffing and capital expenditures. Another study that is being undertaken by the interim Committee on Court Facilities is, in part, examining the issue of circuit courthouse security.

### Essential Budget Level

The essential budget level for the program is $84.8 million, of which $59.3 million is General Fund, $15.6 million is Other Funds, $9 million is NonLimited Other Funds, and $1 million is Federal Funds. The EBL total is $7.2 million, or 7.8%, less than the current biennium's legislatively approved budget (LAB) of $92 million. This includes the phase-out of $11.4 million total funds for the eCourt Program, which includes the elimination of a one-time strategic plan General Fund appropriation ($1.4 million) and Other Funds certificate of participation proceeds ($10 million). The EBL also includes standard adjustments for personal service costs, standard inflation and above standard inflation (non-Department of Administrative Services building rental charges), and state government service charges.

### Issues and Options

The EBL is overstated by $700,000 General Fund (plus a $19,600 inflation adjustment) due to the fact the Department failed to phase-out a one-time Special Payment approved by the 2007 Legislature for Legal Aid Services.[ii] (Please refer to Table-A: Adjusted Essential Budget Level Calculation, which eliminates this General Fund.)

The Department has identified a revenue shortfall in the amount of $390,075 Other Funds (2 position/3.10 FTE) in its publication and document distribution program. This reduction is necessary for the program within available revenue. The Department is faced with rising personal service costs. The Department considered, but rejected, a fee increase to pay for these costs because the movement of customers to online publication services is already applying downward pressure on hardcopy publication and documentation costs and fees. The program has a policy package to fund this shortfall with General Fund. (Please refer to Table-A: Adjusted Essential Budget Level Calculation, which eliminates these Other Funds.)

The three limited duration positions (3.00 FTE) approved by the Legislature for the strategic plan were not phased-out of the Department's 2009-11 budget, as was the legislative intent of this one-time funding. (Please refer to Table-A: Adjusted Essential Budget Level Calculation, which eliminates this General Fund.)

The Department has reportedly been considering entering into a lease agreement for 14,000 of new/additional administrative office space across from its Justice Building location. The Department has stated it will provide cost and other information on this lease arrangement during the 2009 session.

## OJD – Mandated Payments

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 14,306,926 | 15,369,192 | 15,445,130 | 16,356,023 |
| Other Funds (NL) | 264,802 | 1,000,000 | 1,000,000 | 475,000 |
| **Total Funds** | **$14,571,728** | **$16,369,192** | **$16,445,130** | **$16,831,023** |
| Positions | 20 | 20 | 20 | 20 |
| FTE | 19.61 | 19.50 | 19.50 | 19.65 |

### Program Description

The Mandated Payments program provides for trial and grand jurors, court interpreters, civil appellate transcript costs for indigent persons, and Americans with Disabilities Act accommodation services.

### Revenue Sources and Relationship

The Mandated Payments program is predominately funded with General Fund, but includes a relatively

[ii] The Governor's recommended budget, under the Department of Administrative Services, includes a $1 million General Fund appropriation for Legal Aid.

nominal amount of NonLimited Other Funds revenue (2.8%) generated from jurors fees and mileage donated back to the Department.

### 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 cost for this activity is paid through the Administration and Central Support Program, Court Program and Services Division.

### Essential Budget Level

The essential budget level for the program is $16.8 million, of which $16.4 million is General Fund and $.5 million is NonLimited Other Funds. The EBL total is $385,893, or 2.4%, more than the current biennium's legislatively approved budget (LAB) of $16.5 million. The EBL includes standard adjustments for personal service costs, inflation, and state government service charges.

The EBL includes two other adjustments. The EBL includes a mandated caseload adjustment of $500,000 General Fund for increased demand for the payment of interpreter services as a contracted professional service and the phase-out of $525,000 NonLimited Other Funds expenditure limitation that the Department utilized to reduce an accumulating ending balance in the donated juror fees and mileage account.

### Issues and Options

The Department has a policy package, part of which seeks an increase in interpreter hourly rates ($1 million General Fund). The Department believes an hourly rate increase will help retain (and perhaps attract) experienced interpreters that the Department is unable to retain at current payment levels because their services are in demand by neighboring states and federal courts.

Demand for mandated services is a function of the volume of cases heard by the courts and therefore any reduction in proceedings could translate to fewer services and costs.

## OJD – Revenue Management

### Program Description

The purpose of the program is the collection of amounts owed to the state that are subject to collection by the Judicial Branch of government. In general, collections are for past-due crime victim restitution payments, compensatory fines, and other fines, costs, and assessments. The Department has recently begun intercepting state tax refunds to pay these obligations and is seeking federal legislation for the interception of federal tax refunds.

Oregon Revised Statute (ORS 1.204) establishes a Judicial Department collections and revenue management program including a Judicial Department Collections Account. Expenses related to the administration of the revenue management program are reimbursable on an actual cost basis, which is based on a flat percentage of collected revenue. By statute, this percentage must be adjusted periodically by the Department to reflect actual program costs. The current administrative percentage is generally 8%, but the rate can be higher for outside collections (15%) and Multnomah Parking violations (10%). The account receives approximately $34.7 million in revenue each biennium and currently has a cash balance of approximately $9.1 million as of September 2008 ($2 million of which was set aside during the 2008 February special session to partially fund the financial component of the eCourt Program at the Trial level and $734,000 for the Multnomah County parking subaccount).

After accounting for the program's administrative expenses, the remaining collections revenue is distributed by case type (i.e., criminal, civil, etc.) according to statute. Depending on the case type and obligation type (i.e., fines or restitution), balances remaining after statutory obligations and administrative costs are deducted are distributed to the state or local governments.

Delinquent accounts move through a progressive series of collection efforts as defined by each Circuit Court. In general, these steps include: Circuit Court late payments notices (up to one year); referral of an account by the

Circuit Court to the Department of Revenue (DOR) for collection (up to one year); referral to a private collections firm (up to two years); and finally, a Circuit Court may refer an uncollected item to the Judicial Department's central staff for their attempt at collection. The Department may seek legislative approval to pilot three efforts to improve collections: a) at the Circuit Court level, there is an effort to establish restitution courts, similar in nature to other specialty courts (e.g., drug courts, driving under the influence courts, etc.); b) regionally, the Department would like to coordinate smaller jurisdiction resources to gain economies of scale and improve collections; and c) statewide (or centrally), the Department has a "restitution" team in place working on difficult collection cases, but also focusing on broader collections using revenue from intercepted state tax refunds, including intercepting "kicker" checks.

The 2007 Legislature increased the program by $2 million Other Funds (15.00 FTE).

### Revenue Sources and Relationships

In the 2007-09 biennium, OJD will generate an estimated $272 million in revenue from fines, assessments, forfeitures, filing fees, and individual's contribution toward their public defense. The Department will retain approximately 8% to fund the actual costs of the collections program and pay the Department of Revenue and private collection agency charges for collection of delinquent debt.

The program also receives approximately $2.9 million Other Funds in the 2005-07 biennium from an application fee ($20) and a contribution amount that is paid by persons seeking representation at state expense. The fees are used to offset the General Fund cost of public defense eligibility verification staff in the Judicial Department (22.70 FTE) and for operating expenses for public defense administration in the Public Defense Services Commission (2.30 FTE).

Major program revenue transfers out are detailed below and total $262.5 million:
- Reimbursement of actual program costs ($34.7 million)
- Transfers to the Criminal Fines and Assessment Account ($95.7 million)
- Transfers to the State General Fund ($61.1 million)
- Transfer to Counties ($33.8 million)
- Transfers to Cities($18.5 million)
- Transfers to Other (e.g., State Bar Legal Aid; Portland Metro; etc.)($10.6 million)
- Transfers to Public Defense Services Commission ($5.7 million)
- Transfers to all other state agencies ($2.4 million)

### Essential Budget Level

The EBL budget expenditures for the revenue management program is approximately $18 million Other Funds (120.00 FTE) plus an additional $9 million Other Funds Nonlimited for the payment of collection fees.[iii] The revenue management program also includes some Circuit Court positions partially funded with General Fund; as noted however, the number and FTE for these positions are not differentiated in the budget.

### Issues and Options

The Other Fund Revenue Management Program is actually a General Fund Program due to the fact that funds not retained by the Department for the actual cost of the program or distributed to local government must be transferred to the state's General Fund. The actual cost of the program is not clear since revenue management activities within the program are currently funded both with General Fund and Other Funds. Because the Other Funds are a diversion from General Fund revenue, the rationale for having this program funded with Other Funds is not clear, and this funding mechanism unnecessarily adds to the complexity of the Department's budget and operations.

The statute directs that the Judicial Collections Account be operated on an actual cost basis. The mechanism to do this is through an administrative percentage set by the State Court Administrator. Since the Account's creation, this percentage has been unchanged at 8%. This has resulted in an accumulation of an Other Funds ending balance of a reported $9.1 million as of September 2008, of which $1.3 million is related to Multnomah

[iii] The Revenue Management Program is not tracked discretely in the state's budget system.

County parking violations.  The retention of these funds raises questions about why ending balance transfers to the state's General Fund have not occurred.

The Department has conducted a study of its positions working on revenue collection.  This study has yet to be made public, but is assumed to include all positions, including those currently funded with the General Fund, which could be eligible, by statute, to be funded with Other Funds that the Department generates as part of its revenue administration program.

During the 2007-09 interim the Department sought additional expenditure limitation for its Revenue Management Program from the Emergency Board.[iv]   The Emergency Board deferred the request based on the lack of a business case and measureable outcomes.

## OJD – eCourt

### Program Description

The Oregon eCourt is the projected seven year Program to modernize Oregon court business practices.  The Oregon Judicial Information Network (OJIN), which is the Department's current electronic case management system, has been in operation for the past 25 years.  OJIN contains all of the records of circuit courts, including financial information.  The records are an integral part of Oregon's civil, business, and public safety systems and provide various jurisdictions and agencies with data relevant to judicial determinations. However, maintaining these records in such an antiquated system is risky, and OJIN does not provide courts with any flexibility in accessing and using these records, including compiling outcome or other essential decision support data.

Implementation of the Oregon eCourt Program involves far more than information technology, and will require major reengineering of the Judicial Department's business practices across the Department's 36 circuit courts that are consolidated administratively in 27 judicial districts statewide, as well as the Oregon Supreme Court, Court of Appeals, and the Tax Court.  The complexity of the revising (and gaining acceptance) of business practices equals, if not exceeds, its high technical complexity. In addition, the implementation plan is highly complex and assumes that its nine separate Projects will be designed and implemented independently, but simultaneously.

The Legislature considers the eCourt Program a key component in increasing data sharing across all of the state's public safety entities.

### Revenue Sources and Relationships

The eCourt Program is funded with a combination of base budget General Fund, certificate of participation proceeds, General Fund Debt Service, and Other Funds (Collections revenue).

The eCourt Program has an ability to generate Other Funds revenue, similar to the current OJIN user access fee. The Department is planning to charge users a "transaction" or "convenience" charge.  The Department would also like to institute a copy fee ("document production recoupment charge").  Transaction fee revenue could be used to pay for system maintenance, upgrades, development, and replacement. It could also be used to pay for Debt Service.

### Budget Environment

The 2008 special session approved the Department's initial plan to proceed with implementation of its Oregon eCourt Program, and increased Other Funds expenditure limitation for the Department by $10 million, including certificate of participation (COP) proceeds, and $2 million Other Funds from improved collections to purchase the financial system outright.  The total COP authority was $24.4 million, with $8 million in the spring 2008 COP sale, and $15.8 million in the spring 2009 COP sale.  These amounts include the costs of issuance and capitalized debt service for 2007-09.  The Department also identified $1 million in savings from changes in the project procurement strategy that would be used for the first phase of the Program.  The Department reported to the September meeting of the Emergency Board that it had base budget General Fund resources available for the Program in the amount of $20 million.

[iv] One of two such requests was withdrawn by the Department prior to the meeting of the Emergency Board.

### Essential Budget Level

The essential budget level for the program is estimated to exceed $20 million General Fund. This figure, however, is unable to be substantiated by the Legislative Fiscal Office.

### Issues and Options

The eCourt Program is critical for Oregon. During the 2007-09 interim, however, the Emergency Board found numerous deficiencies in the planning and execution of the program. A Quality Assurance (QA) firm was eventually hired in October 2008. The QA firm's first major assessment and risk report of eCourt corroborated the concerns identified by the Emergency Board. After years of planning, and almost one year of funding, the risks of the program, as noted by the QA vendor, are increasing rather than decreasing.

In addition, the Legislative Fiscal Office is unable to make any recommendation regarding the continued funding of the program given the absence of comprehensive budget and expenditure information being provided by the Department. This includes recommendation for current biennium Other Funds expenditure limitation or the appropriate level of funding for the 2009-11 Chief Justices' recommended budget, which includes a policy package for eCourt totaling $55.2 million, of which $3 million is General Fund, $6.5 million is General Fund Debt Service, and $40.4 million is new certificates of participation proceeds.

In early January 2009, the Chief Justice announced that the eCourt Program was going to be scaled back due to the declining state's economy and revenue picture. The details of the Chief Justices' proposal have yet to be received by the Legislative Fiscal Office, but may result in a reduction to the Department's Debt Service for the 2009-11 biennium.

EBL reductions for the Department, and in particular Circuit Courts and the Administrative and Central Support Program, will negatively impact eCourt development.

A legal question exists as to whether the Chief Justice has the statutory authority to impose charges for eCourt and how "charges" differ from "fees." The Department has yet to reply to a request for its legal opinion on this matter. A preliminary review of this matter by Legislative Counsel concluded that the Department requires statutory authority to institute an eCourt transaction fee. This is supported by the fact that court filing fees are in statute and that adjustments to existing fees or the establishment of new fees or surcharges must be approved by the Legislature.

The imposition of any eCourt "transaction" or "convenience" charge or fee has budgetary ramification for other state agencies who utilize the services of the Department. At the appellate level, these include the Public Defense Services Commission and the Department of Justice, both of which are file documents with the Appellate Court. PDSC estimates that its biennial cost to eFile all its documents based on the Supreme Court Order would be $60,000 General Fund. PDSC has not budgeted for this charge/fee nor has it developed a policy package requesting this increase.

## OJD – Debt Service

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 0 | 0 | 0 | 11,839,344 |
| **Total Funds** | **$0** | **$0** | **$0** | **$11,839,344** |

### Program Description

The Debt Service Program provides the funding to make payments on principal, and interest, and financing costs associated with the issuance of certificates of participation (COPs). COPs are tax exempt government securities. The Department's Debt Service is related exclusively to the eCourt Program.

### Revenue Sources and Relationships

The Department's Debt Service is currently funded with General Fund.

### Essential Budget Level

The essential budget level for the program is $11.8 million General Fund. The 2007-09 biennium does not have any Debt Service due to the fact that it was capitalized into the original COP sale.

The 2009-11 Debt Service calculation is based on the 2008 special session approved COP sales of $24.4 million.

### Issues and Options

Based on the findings of the Emergency Board and the Department's Quality Assurance vendor, the Department may not be ready for the additional $15.8 million in COP proceeds scheduled for sale in the spring of 2009. The portion of the COP sale related to eCourt could be delayed or eliminated if the program is unprepared to move forward. This would result in a Debt Service savings of $7.4 million in General Fund savings. Ongoing Debt Service on issued COPs would be $4.5 million. (Please refer to Table-A: Adjusted Essential Budget Level Calculation, which eliminates this General Fund.)

## OJD – Capital Improvement

### Program Description

This program provides for capital improvements to existing facilities. Capital Improvement projects are those with a total cost of $500,000 or less. Major Construction projects total more the $500,000.

The Department owns a single building and that is the Supreme Court Building that was constructed in 1914. All other buildings used by the Judicial Department are either leased from private parties or are owned and maintained by the county.

In 2008, the Department contracted with a private firm that was undertaking the State Court Facilities Assessment of 48 county-owned Circuit Court buildings to perform a similar assessment of the Supreme Court Building. This assessment reported an estimated total cost of $19.2 million (excluding some additional items that the Department would likely add), for renovation of the Supreme Court Building. According to the Department, this estimate does not include the cost of moving and relocating Supreme Court functions while renovations are untaken. A preliminary estimate of this cost is $50,000 for moving related expenses plus an additional facility rental cost of $20,000 per month.

The most costly of these being: improvements to the building shell ($3.5 million); heating and ventilation ($3 million); seismic safety ($2.2 million); power systems ($1.4 million); provisions for persons with disabilities ($1.2 million); the lighting system ($1.2 million); plumbing ($1 million); and air conditioning ($1 million). The combined total of these categories is $14.5 million.

### Revenue Sources and Relationships

The Department's Capital Improvement or deferred maintenance budget is funded with General Fund.

### Essential Budget Level

The Department dedicates essential budget level General Fund resources, including position authority, to the ongoing maintenance of the Supreme Court Building, however, the EBL amount for 2009-11 is unknown as it is not tracked discreetly in the state's budgeting system.

The Appellate Court Services Division, under the Administration and Central Support Program Areas, is responsible for the Supreme Court Building Service Section.

### Issues and Options

The Department has a "placeholder" policy package in the amount of $1.9 million General Fund for deferred maintenance.

A major deferred maintenance bill providing certificate of participation funding for select agency projects is anticipated early in the 2009 session and may include a Supreme Court Building project.

## OJD – Governor's Adjustment

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 0 | 0 | 0 | -22,939,824 |
| **Total Funds** | **$0** | **$0** | **$0** | **-$22,939,824** |

**Program Description**

The Governor's recommended budget, while making no specific recommendation as to the budget of the Judicial Department, recommends a level of funding to ensure that statewide expenditures balance to projected revenues across all three branches of government. The adjustment made by the Governor to the Department's budget is similar to those, on a percentage basis, with reductions taken by other Judicial Branch, Executive Branch, and Legislative Branch agencies.

The Chief Justices' recommended budget (CJRB) was $485.6 million (2,255 positions/2,056.95 FTE). The Governor's budget is a reduction from the CJRB by $61.4 million General Fund. This translates into a $23 million, or 6.6%, General Fund reduction to the essential budget level, and if approved, the Legislature will need to determine how the EBL reduction will be allocated among the Department's various programs and divisions.

To illustrate the magnitude of the Governor's reductions, if they were to be prorated, based on the EBL General Fund budget, across the Department's programs, the following would be the result:

- Trial Courts Program would take $16.5 million, or 72%, of the reduction (171 positions)
- Appellate/Tax Court Program would take $1.3 million, or 6%, of the reduction (14 positions)
- Administration/Central Support Program would take $4 million, or 17%, of the reduction (25 positions)
- Mandated Payments Program would take $1.1 million, or 5%, of the reduction (2 positions)

Since the Department's EBL General Fund budget is 85% personal services, an estimated 212 positions would be eliminated by the Governor's reduction.

## Commission on Judicial Fitness and Disability – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 220,903 | 181,110 | 184,806 | 190,577 |
| **Total Funds** | **$220,903** | **$181,110** | **$184,806** | **$190,577** |
| Positions | 1 | 1 | 1 | 1 |
| FTE | 0.50 | 0.50 | 0.50 | 0.50 |

### Agency Overview

The Commission on Judicial Fitness and Disability investigates and acts upon complaints of judicial misconduct or disability. The basis for a finding of misconduct is a violation of the Oregon Code of Judicial Conduct.[v] The Commission does not have formally approved administrative rules, but has rules of procedure.

The Commission has jurisdiction over the following categories of judges: justices of the peace (30), circuit court judges (173), appellate court judges (18), temporary or pro-tem judges (approximately 100), senior or "Plan B" semi-retired judges (approximately 50), and judicial referees (24). In total, the Commission's jurisdiction extends to approximately 395 of Oregon's state judges. A 2003 Supreme Court decision determined that the Oregon Constitution does not give the Commission jurisdiction over local municipal court judges.

The nine-member Commission is comprised of three judges, three lawyers, and three members of the public. The executive director of the Commission is also an attorney in private (juvenile law) practice. The Commission is co-located within the executive director's private law office. Commission members, as well as the executive director recuse themselves when they have personal involvement or prejudice regarding a complaint or complainant. By statute, the Commission's initial complaint proceeding and records are confidential until such time as a public hearing is held on a formal charge. However, the Commission considers all its proceedings, including those pertaining to administrative matters, non-public.

The Commission receives approximately 250 written complaints each biennium. Few of these complaints pertain to judicial misconduct or disability. The majority are complaints involving the legal determination of a judge, and after initial review by the Commission, are dismissed because they fall outside the Commission's statutory authority. Those complaints that are within its statutory authority are initially investigated. If there is sufficient evidence in support of a complaint, a formal investigation is conducted by outside counsel hired by the Commission. The outcome of the investigation could lead to the dismissal of a complaint, an informal disposition by the Commission, or a formal charge leading to prosecution. For a formal charge, a public hearing is held, the outcome of which is either the judge's exoneration or a recommendation by the Commission to the state's Supreme Court to censure, suspend, or remove the subject judge. The Supreme Court's determination on the Commission's recommendation is a final decision, but may be appealed to the U.S. Supreme Court. At any point in the process, a judge may resign, retire, or enter into a stipulated agreement with the Commission by agreeing to the recommended sanction. All stipulated agreements must be approved by the Supreme Court. A case determined by the Supreme Court typically takes two years to prosecute at an estimated cost to the state of over $50,000 General Fund.

In a matter where a judge's conduct is determined to be the result of a physical or mental disability, the Commission refers the matter directly to the Chief Justice for disposition.

### Revenue Sources and Relationships

General Fund supports the Commission. The Commission's statutory authority does not allow for the imposition of civil penalties or the recovery of Commission extraordinary costs from judges sanctioned by the Supreme Court.

[v] The Chief Justice has convened a committee to update the Oregon Code of Judicial Conduct based on the American Bar Association's model code. The last extensive update of Oregon's Code of Judicial Conduct occurred in 1996. After review by the Judicial Conference and final approval of the Oregon Supreme Court, the updated code is expected to take effect early in the fall of 2009.

The Commission relies upon in-kind support from the Oregon Judicial Department for financial and limited support services as discussed below.

### Budget Environment

The Commission budgets for normal and extraordinary expenditures. The normal operating budget pays for a half-time executive director, office rental, office supplies, meeting accommodations, travel reimbursements, and initial investigations.

Formal investigations and prosecutions are classified as an extraordinary expense of the Commission since it has no control over the number of valid complaints or their cost. Extraordinary expenses may include: private attorney fees ($100/hour flat rate plus expenses) for investigations and trial, court reporter services, meeting space rental, executive director and board member travel expense for formal hearings, and miscellaneous expenses. The Legislature historically has provided the Commission with an approved budget for extraordinary expense with the understanding that the Commission may return to the Emergency Board or the Legislature if extraordinary expenses exceed the available budget. The Commission's legislatively adopted extraordinary budget has been sufficient to cover investigation and prosecution expenses in only four of the last eight biennia. The Commission's prior four Emergency Board appearances for extraordinary expenses occurred in 1995, 1996, 1998, and 2006 with allocations of $20,000, $50,000, $43,000, and $61,944, respectively. Of note is that during the current biennium, the Commission has yet to expend any of its $28,850 extraordinary budget.

The Commission does not have budgeted resources for budget, accounting, and website services. These activities are undertaken for the Commission by the Oregon Judicial Department (OJD). OJD assists the Commission in the technical development of its budget, Emergency Board actions, and related accounting transactions. The services provided by OJD are done without financial remuneration. An alternative to this arrangement, which could be seen as a potential conflict of interest, would be to have the Commission require independent services from the Department of Administrative Services, Shared Client Services. This would cost approximately less than $12,000 per biennium.

The Commission, as an independent agency with the Judicial Branch of government, enjoys unusual autonomy in establishing and executing its budget. The Executive Branch makes no recommendation and exercises no budgetary control over the Commission's budget since the Commission resides in a separate branch of government. The Chief Justice also makes no recommendation and takes no formal budgetary control over the Commission because the Judicial Branch does not have a unified budget similar to the Executive Branch. In other words, neither the Chief Justice nor the Governor reviews or approves the Commission's recommended budget or monitors its expenditures. That responsibility falls solely to the Legislature.

### Essential Budget Level

The essential budget level for the Commission is $190,577 General Fund compared to the current biennium's legislatively approved budget (LAB) of $184,806. The EBL is $5,771, or 3.1%, more than the LAB. The EBL is comprised of $114,534 Personal Services (1 position/0.50 FTE) and $76,043 Services and Supplies. Of the EBL, the normal operating budget is $160,107 (84%) and the extraordinary budget is $30,470 (16%).

The EBL includes standard adjustments for personal services costs, inflation, and state government service charges. The Governor's recommended budget did not reduce the Commission's EBL as was done for other non-Executive Branch agencies.

### Issues and Options

General Fund reduction options for the Commission consist of reductions to its extraordinary budget. This could hinder the number of formal investigations and prosecutions. If the Commission then required funding for extraordinary costs, the Commission would need to make a formal request to the Emergency Board or to the Legislature during a special session prior to any expenditure of funds or not pursue the case.

Reduction options aimed at achieving administrative savings are far more limited given the size of the Commission.

## Public Defense Services Commission (PDSC) – Agency Totals

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 183,534,420 | 214,885,309 | 215,263,430 | 235,774,872 |
| Other Funds | 316,795 | 604,619 | 631,568 | 676,845 |
| **Total Funds** | **$183,851,215** | **$215,489,928** | **$215,894,998** | **$236,451,717** |
| Positions | 56 | 64 | 68 | 78 |
| FTE | 55.05 | 63.25 | 65.85 | 77.07 |

### Agency Overview

The Public Defense Services Commission (PDSC) was established as an independent state agency in 2001. The agency combined the state Public Defender, which provided appellate representation, with the trial court representation function, which had been a division with in Oregon Judicial Department since the early 1980s. Prior to the early 1980s, trial level public defense (and Oregon trial courts) was a local government responsibility.

The Commission is comprised of seven members appointed by the Chief Justice of the Oregon Supreme Court, who also serves on the Commission as an ex-officio member. The Commission holds public meetings approximately every quarter. The agency itself is overseen by an executive director, appointed by the Commission. By statute, the Commission is to "establish and maintain a public defense system that ensures the provision of public defense services in the most cost-efficient manner consistent with the Oregon Constitution, the United States Constitution, and Oregon and national standards of justice."

Eligible persons are entitled to adequate legal representation in court, at state expense, under provisions of the Oregon and federal constitutions and Oregon statutes. Public defense representation is not limited to criminal cases. Other statutory and constitutional provisions include: the right to appointed counsel in court proceedings involving life, liberty, and property, including habeas corpus; post-conviction relief; contempt; juvenile dependency, delinquency, and termination of parental rights; civil commitments for the mentally ill or developmentally disabled; and parole and probation violation proceedings. The U.S. Supreme Court has also held that the right to appointed counsel includes related costs such as expert witnesses and investigation expense.

Public defense at the trial court level is accomplished primarily by contracts between the Commission and nonprofit public defenders, law firms, consortia of attorneys, or individual attorneys. Legal representation on criminal matters for eligible persons at the appellate court level is primarily handled by attorneys who are employees of the Commission.

The Commission is organized into three divisions: (1) the Appellate Division consists of public defense attorneys who represent eligible persons at the appellate court level; (2) the Public Defense Services Account consists of the funding, primarily at the trial court level, for contract defense services, including attorneys, investigators, and expert witnesses; and (c) the Contract and Business Services Division, which is responsible for administering the public defense contracts that provide legal representation for eligible persons, processing requests and payments for non-contract fees and expenses, and the budget and other financial activities of the Commission.

### Budget Environment

The quality of legal representation for eligible persons is dependant upon many factors, including the experience of the public defender. Other important factors to be considered are the hourly rate paid and the number of cases assigned to a public defender, which are not mutually exclusive because public defenders may compensate for lower than market hourly rate payments by assuming more cases.

Hourly Rates for Contractors

The Commission sets guideline rates administratively, based upon available resources, to pay nonprofit public defenders, law firms, consortia of attorneys, or individual attorneys for their services. The Commission's ability to acquire quality representation services for eligible persons at established guidelines rates, and the ability of their contractors to retain qualified attorneys, continues to be hampered by inequities between its rates compared to those of district attorneys and private law firms. This inequity also exists in regard to the comparatively low hourly rates paid for investigators and expert witnesses.

The 2007 Legislature provided funding to reduce the parity or salary discrepancy between local defense attorneys and their district attorney counterparts, and to increase the hourly rate for investigators and hourly paid attorneys. The following table details theses changes.

| Category | 1991 to July 2007 Guidelines/Budget | | Current PDSC Guidelines/Budget | | Difference/(percent) | |
|---|---|---|---|---|---|---|
| Hourly Rates | Non-Death Penalty | Death penalty | Non-Death Penalty | Death Penalty | Non-Death Penalty | Death Penalty |
| Attorney | $40 | $55 | $45 | $60 | $5 (+13%) | $5 (+9%) |
| Investigator | $25 | $35 | $28 | $39 | $3 (+12%) | $4 (+11%) |

In order to achieve ultimate parity with other public and private attorneys, a summary of what the Commission estimates the rates would need to be increased to is detailed below. For attorneys, parity would mean over a 50% increase in current guideline rates. Investigators would require a 15% to 25% rate increase for parity.

| Category | Current PDSC Guidelines/Budget | | Estimate of Parity Rates | | Difference/(percent) (above current rates) | |
|---|---|---|---|---|---|---|
| Hourly Rates | Non-Death Penalty | Death Penalty | Non-Death Penalty | Death Penalty | Non-Death Penalty | Death Penalty |
| Attorney | $45 | $60 | $70 | $95 | +$25 (+56%) | +$35 (+58%) |
| Investigator | $28 | $39 | $35 | $45 | +$7 (+25%) | $6 (+15%) |

*Guideline hourly rates for medical and forensic experts are $90 to $110 with parity estimated at $125 to $150 for forensics experts and $150 to $300 for medical experts.

According to the Commission, staffs in public defense organizations are paid approximately 57% below their district attorney counterparts. Organizations have had to accept more cases in order to maintain funding levels necessary for operations. This has led to attorney caseloads that exceed national standards.

The Commission has also endeavored to control costs, particularly through contract negotiations and maintaining a $45 per hour rate for hourly attorney services. The issue of parity also applies to the Commission's appellate attorneys who are compensated less than other state attorneys, for example those in the Department of Justice.

Trial Level Caseload Issues

Public defender organizations have difficulty attracting new attorneys and retaining experienced attorneys when their payment rates are low and caseloads are high. Per-attorney caseload is 30% above national caseload standards.

2009-11 Budget Issues

The Governor's recommended budget included an unspecified reduction of $54.7 million General Fund to the Commission's recommended budget, a funding level that is $15.6 million, or 6.6%, below what was needed to maintain essential services. Almost $14.6 million, or 94%, of this reduction would fall to the Public Defense Services Account, if the reduction were to be prorated across the Commission's entire budget.

As an independent agency within the Judicial Branch of government, the Commission enjoys unusual autonomy in establishing and executing its budget. The Executive Branch makes no recommendation and exercises no budgetary control over the Commission's budget since the Commission resides in a separate branch of government. The Chief Justice also makes no recommendation and takes no formal budgetary control over the Commission because the Judicial Branch does not have a unified budget similar to the Executive Branch.[vi] In other words, neither the Chief Justice nor the Governor reviews or approves the Commission's

[vi] By statute, the Chief Justice, along with the Chairperson of the Commission, presents the Commission's budget to the Legislature.

recommended budget or monitors its expenditures. That responsibility falls to the Legislature and is similar to all other Judicial Branch agencies.

#### Essential Budget Level

The essential budget level (EBL) for the Commission is $236.5 million, of which $235.8 million is General Fund and $.7 million is Other Funds. The EBL total is $20.6 million, or 9.5%, more than the current biennium's legislatively approved budget (LAB) of $215.9 million. It includes standard adjustments for personal services costs, inflation, and state government service charges.

The EBL includes a mandated caseload adjustment totaling $19.4 million General Fund.

At the EBL, the Commission reports an Other Funds ending balance of $3.2 million.

#### Issues and Options

The Commission has no legal authority to control the number of public defense cases it receives nor does it have the authority to prioritize cases-types.

The state's declining economy, and projected revenue deficits at the state and local level, could adversely impact the public safety system as declining resources impact local law enforcement, prosecutions, public defense, the courts, and corrections. There could be three types of reductions to the Public Defense Services Account:

1. ***Enforcement/Prosecution/Court Effects***: There could be potentially be a reduction in demand for public defense if local law enforcement is reduced, resulting in fewer arrests, and if local district attorney staff are reduced, resulting in fewer prosecutions;
2. ***Economic Effect***: There could be an increase in the demand for public defense if a larger percentage of the population become financially eligible for services; and
3. ***Court Effect***: Courts will also be faced with reduced resources and may have to prioritize cases. This could reduce the demand for public defense. In the absence of any prioritization and adequate public defense funding, the courts would need to dismiss cases.

Any reduction to the Public Defense Services Account means less payments for trial court level representation and contract payments to nonprofit public defenders, law firms, consortia, and individual attorneys. If courts are required to postpone cases due to a lack of funding for public defense representation, pending case backlogs will increase and offenders may fail to appear on deferred cases. This effect occurred during the 2001-03 biennium when statewide budget reductions resulted in a reduction in trials.

### PDSC – Appellate Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 6,267,406 | 9,648,117 | 9,944,934 | 11,873,544 |
| **Total Funds** | **$6,267,406** | **$9,648,117** | **$9,944,934** | **$11,873,544** |
| Positions | 37 | 44 | 48 | 59 |
| FTE | 36.80 | 44.00 | 46.60 | 58.52 |

#### Program Description

The Appellate Division is responsible for providing legal representation on criminal matters for eligible persons at the appellate court level and for juvenile dependency and termination of parental rights cases. This is accomplished primarily through the use of staff attorneys. The division is the counterpart to Oregon's Attorney General's appellate division.

#### Revenue Sources and Relationships

The General Fund supports the program.

#### Budget Environment

The workload is driven by the number of criminal and parole appeals, and the legal complexity of the appealed cases. Statutory changes, ballot initiatives, and United States and Oregon appellate court decisions also affect the number of appeals that are filed.

The Appellate Division estimates it will assign 3,586 cases to its attorneys this biennium. The current caseload level for the Commission's appellate attorneys is 54 case assignments per year, compared to 25 case assignments per year in states such as Arizona and Florida. The State of Louisiana has a caseload standard of 50 cases per attorney.

The agency continues to work towards reducing its backlog of cases that are pending more than 210 days. The current backlog as of June 2008 is 49 cases, which is the lowest point in the last eight years. This is due primarily to the Legislature adding eight new attorneys and improved case management practices.

Federal courts require that states provide adequate and timely representation. The state's Court of Appeals determines the maximum amount of time for an appellate brief to be filed in a criminal case. Failure to meet timeliness requirements could result in dismissal of a case. Over the past two years this maximum amount of time has been reduced from 350 days to 250 days, and is now at 180 days. Thus, there is an increase in cost for the Commission to meet this new standard.

Appellate attorneys are paid 21% to 34% less than their Department of Justice counterparts. This disparity affects attorney recruitment and retention and can affect timeliness and effectiveness of services.

### Essential Budget Level

The essential budget level for the program is $11.9 million General Fund (59 positions/58.52 FTE), which is $1.9 million, or 19%, higher than the current biennium's legislatively approved budget (LAB) of $9.9 million.

In order to meet the Appellate Court standard of 180 days for the filing of an initial criminal case brief, the Commission's EBL includes a mandated caseload adjustment of three attorneys. An additional two attorneys are also being added to address the current backlog of cases. This adjustment totals $910,297 General Fund (6 positons/5.52 FTE) and also includes one legal secretary.

The Governor's recommended budget includes a reduction of $15.6 million to the Commission's EBL. Approximately $783,654, or 5%, of this reduction would fall to the Appellate Division, if the reduction were to be prorated across the Commission's entire budget.

### Issues and Options

The reductions in the Governor's budget could require the elimination of appellate staff attorneys and support staff positions within the division. This would increase the current backlog of appellate cases and the average length of time to appeal. Oregon's Court of Appeals could potentially order the dismissal of any pending case that exceeds its 180 day standard from the date the record settles to the filing of the opening brief.

## PDSC – Public Defense Services Account

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 174,472,431 | 202,176,836 | 202,176,836 | 220,648,969 |
| **Total Funds** | **$174,472,431** | **$202,176,836** | **$202,176,836** | **$220,648,969** |

### Program Description

The Public Defense Services Account pays the cost of legal representation for eligible defendants in criminal matters, and for persons who are entitled to state paid legal representation if they are financially eligible and are facing involuntary civil commitment proceedings; contempt; probation violation; juvenile court matters involving allegations of delinquency and child abuse or neglect (including termination of parental rights cases); and other limited civil proceedings. Both the U.S. and Oregon Constitutions guarantee the right to legal representation, at state expense, to financially eligible persons facing criminal prosecutions. This program is also responsible for the cost of all transcripts and the cost of appellate legal representation for cases not represented by the Appellate Division.

The Public Defense Services Account funds public defense at predominately the trial court level for eligible defendants. The following table details the types and percent of cases. The top three categories (criminal, child abuse/neglect, and probation violation/extradition) comprise 90% of the public defense cases.

| # | Public Defense Services Account – Case Types – Trial Level | % |
|---|---|---|
| 1 | Criminal | 46% |
| 2 | Child Abuse/Neglect | 31% |
| 3 | Probation Violation/Extradition | 13% |
| 4 | Juvenile Delinquency/Probation Violations | 6% |
| 5 | Contempt/Non-payment of Child Support/Other | 2% |
| 6 | Civil Commitment/Psychiatric Security Review Board | 1% |
| 7 | Post-Conviction Relief/Habeas Corpus | 1% |
| 8 | Total | 100% |

For the 2005-07 biennium, there were 356,900 public defense trial level cases (non-death penalty) that averaged $471 each in Public Defense Services Account expenses.

### Revenue Sources and Relationships

The General Fund supports the program.

### Budget Environment

The public defense cost increases are primarily due to caseload increases. 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 are primary factors in caseload growth.

### Essential Budget Level

The essential budget level for the Account is $220.7 million General Fund, which is $18.5 million, or 9%, higher than the current biennium's legislatively approved budget (LAB) of $202.2 million. The Commission's EBL includes the following six mandated caseload adjustments:

| # | Mandated Caseload Adjustment | Amount |
|---|---|---|
| 1 | Personal Services Adjustment (7.9%) | $9,867,772 |
| 2 | Standard Inflation (2.8%) | $5,608,190 |
| 3 | Death Penalty Caseload from Prior Biennia | $4,122,148 |
| 4 | Non-Attorney Provider Cost Increase | $583,134 |
| 5 | Mileage Reimbursement | $175,210 |
| 6 | Trial-Level Non-Death Penalty Caseload Reduction | <$1,884,321> |
| 7 | Total | $18,472,133 |

The Governor's recommended budget includes a reduction of $15.6 million to the Commission's EBL. Almost $14.6 million, or 94%, of this reduction would fall to the Public Defense Services Account, if the reduction were to be prorated across the Commission's entire budget.

### Issues and Options

The state has had recent experience with the effect of reduced funding on the delivery of public defense services. During the 2001-03 biennium, in the several special legislative sessions, the budget for the Public Defense Services Account was reduced by $27.5 million (17%) from the legislatively adopted budget. Although $5 million of that cut was subsequently restored, these cuts occurred so late in the biennium that public defense funding was virtually eliminated during the last quarter. This resulted in two problems in the public safety system. First, District Attorneys were required to prioritize the cases that were filed, resulting in many offenders avoiding prosecution. Second, existing cases were postponed, resulting in a sharp increase in the number of offenders who failed to appear once the cases were rescheduled. The effect on community safety was noted by law enforcement, businesses, and citizens, as offenders became aware that they could avoid swift prosecution.

Any reduction to the Public Defense Services Account means less payments for trial court level representation and contract payments to nonprofit public defenders, law firms, consortia, and individual attorneys. Case backlogs will increase.

### PDSC – Contract and Business Services Division

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 2,794,583 | 3,060,356 | 3,141,660 | 3,252,359 |
| Other Funds | 316,795 | 604,619 | 631,568 | 676,845 |
| **Total Funds** | **$3,111,378** | **$3,664,975** | **$3,773,228** | **$3,929,204** |
| Positions | 19 | 20 | 20 | 19 |
| FTE | 18.25 | 19.25 | 19.25 | 18.55 |

#### Program Description

The Contract and Business Services Division is responsible for administering the public defense contracts that provide legal representation for financially eligible persons, and for processing requests and payments for non-contract fees and expenses.

#### Revenue Sources and Relationships

The General Fund supports the majority of the program. The program also received approximately $2.9 million Other Funds in the 2005-07 biennium from an application fee ($20) and a contribution amount that is paid by persons seeking representation at state expense. The fees are used to offset the General Fund cost of public defense eligibility verification staff in the Judicial Department (22.70 FTE) and for operating expenses for public defense administration (2.30 FTE). The Commission entered into an intergovernmental agreement with the Judicial Department regarding use of these fees for public defense verification staffing.

#### Budget Environment

This program administers over 100 contracts in all 36 counties, receives and verifies invoices for payment on contractual services, and issues over 20,000 payments per year. The program also pre-approves over 10,000 requests for non-routine expenses such as investigations.

The program works with public defense contractors on the development and use of best management and business practices and also receives and investigates complaints regarding concerns over the quality of legal representation and the appropriate expenditure of funds by contractors.

#### Essential Budget Level

The essential budget level for the program is $3.9 million, of which $3.3 million is General Fund and $.7 million is Other Funds. The EBL total is $155,976, or 4%, more than the current biennium's legislatively approved budget (LAB) of $3.8 million. It includes standard adjustments for personal services costs, inflation, and state government service charges.

The Governor's recommended budget includes a reduction of $15.6 million to the Commission's EBL. Approximately $214,656, or 1.4%, of this reduction would fall to the Contract and Business Service Division, if the reduction were to be prorated across the Commission's budget.

#### Issues and Options

The fiscal administration and oversight of the Public Defense Services Account is an essential function of this program as is the role of the program to minimize administrative costs of public defender organizations through review of management and operational processes and procedures. Administrative funding, however, is a function of the General Fund appropriated to the Public Defense Services Account. A decline in this fund's balance translates into few contractor payments and the possibility of administrative reductions. However, less fiduciary oversight of the Account could translate into added and inappropriate expenses charged to the Account.

There also exists the opportunity to utilize Application Contribution Account revenue to fund shift General Fund positions, or portions of positions, to Other Funds thereby achieving General Fund savings. A portion of the $3.2 million Other Funds ending balance could potentially be moved into either the State's General Fund or the Public Defense Services Account in lieu of a General Fund appropriation.

The Judicial Department's eCourt Program is planning to charge users a "transaction" or "convenience" charge. The Department would also like to institute a copy fee ("document production recoupment charge"). The imposition of any eCourt "transaction" or "convenience" charge or fee has a budgetary ramification for other state agencies who utilize the services of the Department. At the appellate level, these include the Public Defense Services Commission and the Department of Justice, both of which file documents with the Appellate Court. PDSC estimates that its biennial cost to eFile all its documents based on the Supreme Court Order would be $60,000 General Fund. PDSC has not budgeted for this charge/fee nor has it developed a policy package requesting this increase.

## PDSC – Governor's Adjustment

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 0 | 0 | 0 | -$15,561,142 |
| **Total Funds** | **0** | **0** | **0** | **-$15,561,142** |

The Governor's recommended budget, while making no specific recommendation as to the budget of the Commission, recommends a level of funding to ensure that statewide expenditures balance to projected revenues across all three branches of government. The adjustments made by the Governor to the Commission's budget are similar to these, on a percentage basis, reductions taken by the Executive and Legislative Branch agencies.

The Public Defense Services Commission recommended budget was $275.6 million (83 positoins/81.67 FTE). The Governor's budget is a reduction from the Commission's recommended budget of $54.8 million General Fund. This translates into a $15.6 million, or 6.6%, General Fund reduction to the Commission's essential budget level. If approved, the Legislature will need to determine how the EBL reduction will be allocated among the Commission's three divisions and the program and staffing reductions that will result.

# EMERGENCY FUND

### Emergency Board – Totals*

| | 2005-07 Actual | 2007-09 Legislatively Adopted | 2007-09 Legislatively Approved | 2009-11 Essential Budget Level |
|---|---|---|---|---|
| General Fund | 0 | $200,514,219 | $53,240,791 | $40,219,084 |
| **Total Funds** | **$0** | **$200,514,219** | **$53,240,791** | **$40,219,084** |

** The 2007-09 legislatively approved total represents the amount remaining in the Emergency Fund after all 2007 and 2008 actions; the total amount appropriated to the Emergency Board for the 2007-09 biennium included the amount shown for the legislatively adopted budget, plus an additional $23,370,348 during the February 2008 special session, for a total of $223,884,567.*

#### Overview

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:

| | 2001-03 Adopted | 2003-05 Adopted | 2005-07 Approved | 2007-09 Adopted |
|---|---|---|---|---|
| General Purpose Emergency Fund | 40,000,000 | 40,000,000 | 30,000,000 | 30,000,000 |
| Salary & Benefit Adjustment | 100,000,000 | 9,000,000 | 131,000,000 | 125,000,000 |
| Special Purpose Appropriations | 85,860,033 | 47,442,994 | 107,100,764 | 45,514,219 |
| Total | $225,860,033 | $96,442,994 | $268,100,764 | $200,514,219 |

The 2001 Legislature approved a general purpose Emergency Fund of $40 million and a total of $100 million for state employee salary and benefit adjustments. 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. The 2003 Legislature appropriated $40 million for general purposes and established a special purpose appropriation of $9 million for state employee health benefit plan changes. Additional agency specific special purpose appropriations of $47.4 million were also established. Of the total $96.4 million appropriated to the Emergency Board, $9.6 million was not allocated and reverted to the General Fund ending balance as of June 30, 2005.

The 2005 Legislature approved a general purpose Emergency Fund of $30 million, the smallest amount for general uses since 1993-95. In addition, the Legislature approved $130 million for state employee salary and benefit adjustments and $10 million for home care worker salary and benefit adjustments. Other special purpose appropriations totaled $23.8 million. In the April 2006 special session, held primarily as a result of increased caseload costs in the Department of Human Services, the Legislature disappropriated $9 million from the state employee salary and benefit special purpose appropriation due to refined information on projected costs of the salary and benefit package and established a special purpose appropriation for the Department of Human Services in the amount of $83.3 million for caseload costs, cost-per-case increases, and other departmental needs. Through the December 2006 meeting of the Emergency Board, the last scheduled meeting of the interim, the remaining balance in the general purpose Emergency Fund was $1.7 million with an additional $9.9 million remaining in the special purpose appropriation made to the Emergency Board for the Department of Human Services; $9.5 million of this amount was allocated to the Department as part of the agency's final 2005-07 rebalance approved in April 2007 in SB 5547. A total of $2.1 million of remaining unspent Emergency Fund resources were disappropriated and returned to the General Fund in SB 5547 and SB 5549.

The 2007 Legislature approved a general purpose Emergency Fund of $30 million and approved a special purpose appropriation for state employee salary and benefit adjustments of $125 million. In addition, other special purpose appropriations for specific agency uses were made to the Emergency Board in the amount of $45.5 million. During the February 2008 special session, the Legislature established three new special purpose appropriations in the amount of $24.4 million (two for the Department of Human Services totaling $23.4 million and one for costs associated with potential passage of one of the property crime ballot initiatives totaling $1.0 million). At the June 2008 meeting of the Emergency Board, the Department of Administrative Services brought forward a request on behalf of all state agencies for the allocation of the $125 million special purpose appropriation for state employee salary and benefit changes. At that time, there was already evidence that the state's economy was faltering and that projected revenues for both the 2007-09 and 2009-11 biennia might not reach previously forecasted levels. As a result, the Emergency Board decided to only allocate $100 million of the $125 million special purpose appropriation, retaining the remaining $25 million for either later adjustments or toward any possible current biennium revenue shortfall. When combined with the unallocated general purpose Emergency Fund and the other unallocated special purpose appropriations, the Emergency Fund's balance at the conclusion of the Emergency Board's last meeting of the interim (December 2008) was $53.2 million. This amount will either revert to the state's General Fund ending balance at the conclusion of the 2007-09 biennium or is available for the Legislature to use by disappropriating the amount from the Emergency Board and using it during the 2009 session for 2007-09 biennium rebalance actions.

### 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 had significantly exceeded the amounts appropriated to the Emergency Board in each of the five biennia prior to 2005-07. Appropriations in 1995-97 and 1997-99 financed approximately 70% of the actual increases. The $40 million appropriated in 1999-2001 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 reflected approximately 35% of the estimated General Fund cost to state agencies of negotiated health benefits (in addition to the $9 million General Fund, $15 million Other Funds from the Public Employees Benefit Board was distributed, leaving approximately $1.9 million of the higher costs unfunded). Actual costs above the amounts appropriated were absorbed within agency budgets, primarily through forced position vacancies and under-realized caseload growth. The amount appropriated for the 2005-07 salary and benefit package fully funded agency General Fund costs. The allocation of $100 million of the $125 million 2007-09 salary and benefit special purpose appropriation covered 100% of the redistributed costs for Pension Obligation Bonds, 100% of the costs for a temporary change to the Public Employees Retirement System rates, and slightly more than 75% of the General Fund costs of the regular compensation increases awarded to all employees. In keeping with the Governor's intention, there was no attempt to pay for increases provided by the Governor to management employees in a supplemental salary and benefit package, which cost approximately $15.8 million in the 2007-09 biennium.

### Essential Budget Level

Unlike the process used to determine agency essential budget levels, the Emergency Board's essential budget level was dictated by the development of the Governor's recommended budget. The Governor included $30 million for the general purpose Emergency Fund and included one agency-specific special purpose appropriation for the Department of Forestry in the amount of $5.1 million for fire insurance premium costs and severity resources. Both of these actions would be considered to be normal for the determination of the essential budget level.

The Governor's budget, however, also includes an unorthodox calculation of the special purpose appropriation for state employee salary and benefit changes in the 2009-11 biennium. The Governor's proposed budget assumes that state employees will not receive any cost-of-living adjustment in salaries during the 2009-11 biennium. An estimated $30.2 million is assumed in the budget, however, to help cover the increasing costs for health and benefit plans for state employees. In addition, the Governor was required by law to include in the 2009-11 recommended budget the amount of $9.8 million for funding salary increases for the state's elected officials, as recommended by the Public Officials Compensation Commission. Instead of including a special purpose appropriation to the Emergency Board to cover these identified costs to the 2009-11 budget, the

Governor's budget instead only includes a special purpose appropriation of $5.1 million to the Emergency Board for salary and benefit costs. The apparent reason is that the proposed budget also assumes a statewide reduction of $34.9 million General Fund related to "temporary closures" due to a plan to furlough all state employees (both represented and management) one day per quarter for the eight quarters of the biennium. The assumed $34.9 million in "savings" from this furlough action, however, were not removed from individual agency budgets in the Governor's proposed budget.

### Issues and Options

If the Legislature decides to capture the proposed savings from furloughs during 2009-11, two separate processes will need to be completed. The Executive Branch will need to negotiate the concept of furloughs for all represented employees with the collective bargaining units and will need to answer questions about the legality of furloughing management service employees. If these issues are addressed, then the Legislature will need to reduce agency budgets by the amounts identified from the furloughs in order to collect sufficient funding for any statewide salary and benefit changes proposed for the 2009-11 biennium. The Legislature will also need to decide whether or not to include the recommended salary increases for the state's elected officials.

# INDEX