Analysis of the

2011-13

Legislatively Adopted Budget

Legislative
Fiscal
Office

STATE OF OREGON
LEGISLATIVE FISCAL OFFICE

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

KEN ROCCO
LEGISLATIVE FISCAL OFFICER

DARON HILL
DEPUTY LEGISLATIVE FISCAL OFFICER

September 21, 2011

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

Following is the *Analysis of the 2011-13 Legislatively Adopted Budget*, prepared by the Legislative Fiscal Office. This detailed publication provides agency program descriptions; analysis of revenue sources and relationships; discussions of budget environment; and review of budget decisions made by the Legislative Assembly for the 2011-13 biennium. The summary document, *Budget Highlights*, is also available.

Publications are online at www.leg.state.or.us/comm/lfo/publications.htm

Ken Rocco
Legislative Fiscal Officer

Legislative Fiscal Office Staff

Administration

Ken Rocco, Legislative Fiscal Officer – Emergency Board

Daron Hill, Deputy Fiscal Officer – Legislative Branch

Gina Rumbaugh, Committee Manager

Lynn Buchanan, Administrative Associate

Budget Analysts

Linda Ames – Human Services, Health Plan

Sheila Baker – Human Services, Children’s Programs, Senior Programs

Steve Bender – Economic Development, Consumer Services, Secretary of State

John Borden – Judicial Branch

Monica Brown – K-12 Education, Community Colleges

Laurie Byerly – Administrative Services, Revenue, Public Employees

Bob Cummings – Information Management and Technology

Michelle Deister – Housing, Employment

Susie Jordan – Transportation, Natural Resources

Paul Siebert – Higher Education, Natural Resources

Doug Wilson – Public Safety

Fiscal Analysts

Robin LaMonte – Economic Development, Transportation

Matt Stayner – Consumer Services, Administration

John Terpening – Education, Natural Resources

Kim To – Human Services, Legislative Branch

Tim Walker – Judicial Branch, Public Safety

TABLE OF CONTENTS

EDUCATION PROGRAM AREA

HUMAN SERVICES PROGRAM AREA

PUBLIC SAFETY PROGRAM AREA

ECONOMIC AND COMMUNITY DEVELOPMENT PROGRAM AREA

NATURAL RESOURCES PROGRAM AREA

TRANSPORTATION PROGRAM AREA

CONSUMER AND BUSINESS SERVICES PROGRAM AREA

ADMINISTRATION PROGRAM AREA

LEGISLATIVE BRANCH

JUDICIAL BRANCH

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

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	504,017,927	444,669,579	438,058,756	418,390,515
Lottery Funds	0	8,606,535	7,469,632	6,882,643
Other Funds	156,201,246	138,756,942	6,874,666	6,869,643
Federal Funds	120,549,268	163,589,805	116,785,442	117,309,583
Federal Funds (NL)	5,106,785	18,968,832	18,968,832	18,968,832
Total Funds	**$785,875,226**	**$774,591,693**	**$588,157,328**	**$568,421,216**
Positions	57	61	68	62
FTE	56.06	60.00	67.45	60.45

Agency Overview

The Department of Community Colleges and Workforce Development (CCWD) monitors the programs, services, outcomes, and effectiveness of Oregon's 17 local community colleges. Direct state support to community colleges is funded in the Department's budget, primarily through the Community College Support Fund (CCSF). CCWD 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.

CCWD – Administrative and Program Support

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	3,350,044	3,590,913	11,520,365	6,738,733
Other Funds	4,831,896	7,297,750	6,849,358	6,844,335
Federal Funds	120,549,268	163,589,805	116,785,442	117,309,583
Federal Funds (NL)	5,106,0785	18,968,831	18,968,831	18,968,831
Total Funds	**$133,837,993**	**$193,447,299**	**$154,123,996**	**$149,861,482**
Positions	57	61	68	62
FTE	56.06	60.06	67.45	61.45

Program Description

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.

Office Operations 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.

Federal/Other Support primarily includes WIA the Carl D. Perkins Professional/Technical programs. 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.

Oregon Youth Conservation Corps (OYCC) provides education, training, and employment opportunities based on conservation efforts to disadvantaged and at-risk youth ages 14 to 25. The OYCC created a private, non-profit foundation which allows private fundraising in support of its activities.

Revenue Sources and Relationships

Other Funds 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. OYCC also receives funding from the Amusement Device Tax levied on the state's video lottery terminals (ORS 320.013), donations, and fees for contract services.

Federal Funds include WIA Title IB, WIA Title II, National Emergency Grants (NEG), State Energy Sector Partnership and Training (SESP), and United States Forest Service funding for Oregon Youth Employment Initiatives (OYEI). CCWD must apply to the federal government for any NEG funds, and expenditures of these funds are Nonlimited in the state budget. During the 2009-11 biennium, CCWD received one-time Federal Funds under the American Recovery and Reinvestment Act of 2009 (ARRA) including $36.6 million under WIA Title IB and $8.7 million under OYEI.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $149.9 million total funds is 22.5% lower than the 2009-11 legislatively approved budget, and 2.8% lower than the Governor's recommended budget. Approximately $46.6 million in Federal Funds expenditure limitation is reduced to reflect the elimination of one-time ARRA revenues, a Disability Program Navigators grant, and a Labor Market Information Improvement grant. The 2011-13 legislatively adopted budget does include General Fund enhancements including $3.4 million for the Governor's Getting Oregon Back to Work initiative, which is expected to generate 662 jobs in the first year; and $500,000 for the Oregon Trucking Solutions Consortium for administration and establishing a loan program for students participating in commercial driver license training.

The budget also includes establishing one permanent and three limited duration positions supported by Federal and Other Funds for the Workforce Investment Act program, National Career Readiness Certificate, and grants for the State Energy Sector Partner and Project ALDER (Advancing Longitudinal Data for Educational Reform); increasing Other Funds expenditure limitation by $200,000 for capital construction monitoring; increasing Federal Funds expenditure limitation by $1 million for grant funding from the Bureau of Land Management for youth employment programs and ARRA funds to support the Oregon Youth Employment Initiative; and eliminating one long-term research analyst vacancy.

CCWD – State Support to Community Colleges

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	497,505,677	432,840,591	410,000,000	396,310,700
Other Funds	18,000	25,308	25,308	25,308
Total Funds	**$497,523,677**	**$432,865,899**	**$410,025,308**	**$396,336,008**

Program Description

All funds in the State Support to Community Colleges program are transferred to the 17 community colleges, except for a small portion allocated 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 CCSF 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

Other Funds reflect receipts from the state timber tax.

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 $277.4 million of property tax collections are projected for community colleges for operations in the 2011-13 biennium, up from an estimated $264.3 million in the 2009-11 biennium. Tuition and fee revenues, which are also not included in the state agency budget, provide approximately one-third of the total operation revenues to the community colleges.

Budget Environment

Between the 2007-08 and 2009-10 academic years, full-time equivalent attendance at the community colleges has increased by almost 29% primarily due to students taking additional courses as the unduplicated head count grew by only 1%. In that same time period, the average, annual in-district tuition and fees grew by 13.2%, and increased by an additional 5.2% for Fall term 2010 for an annualized amount of $3,720.

Legislatively Adopted Budget

The legislatively adopted budget of $396.3 million total funds is 8.4% lower than the 2009-11 legislatively adopted budget, and 3.3% lower than the Governor's recommended budget. The Governor's budget eliminated funding for the Skills Centers, but funding was restored to $550,000 General Fund. The balance of the adopted budget is for the Community College Support Fund. At this level of funding, some program eliminations/ reductions are expected at community colleges, but tuition rate increases averaging approximately $7 per credit hour (approximately $315 per year for a full-time student) are expected to keep these reductions relatively small. If the statewide supplemental ending balance reduction is restored in February 2012, the CCSF could receive an additional $14.2 million General Fund.

CCWD – Community College Capital Construction and Debt Service

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	3,162,206	8,238,075	16,538,391	15,341,082
Lottery Funds	0	8,606,535	7,469,632	6,882,643
Other Funds	151,351,350	131,433,884	0	0
Federal Funds (NL)	0	1	1	1
Total Funds	**$154,513,556**	**$148,278,495**	**$24,008,024**	**$22,223,726**

Program Description

This program finances state support for the construction, acquisition, and major renovations of community college properties. 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 projects were financed by Article XI-G bonds which 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 community colleges were required to transfer local matching funds to the state. These matching funds are designated as the

General Fund match, and the matching funds are then returned to the community colleges, with the Article XI-G bond proceeds, as Other Funds expenditures in the state budget.

Budget Environment

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 to include on-going Article XI-G bond support of $40 million per biennium for community college capital construction projects and to give priority for projects at community colleges that have not recently received Article XI-G bond proceeds from the state.

During the 2009 session, the Legislature overrode this policy and funded $57.5 million of Article XI-G bonds; $53.6 million of shovel-ready deferred maintenance projects at Oregon community colleges, as part of the state's *Go Oregon!* economic stimulus package (SB 338); and $13.7 million of lottery revenue bonds.

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

Community College	Session					Total
	2005 Session	2007 Session	2008 Session	2009 SB 338	2009 Session	
Blue Mountain				$ 2,055,500	$ 7,400,000	$ 9,455,500
Central		$ 5,778,000		$ 2,822,250	$ 6,900,000	$ 15,500,250
Chemeketa		$ 5,625,000		$ 8,065,000	$ 6,255,000	$ 19,945,000
Clackamas		$ 5,156,250		$ 1,355,750	$ 9,000,000	$ 15,512,000
Clatsop	$ 7,500,000		$ 4,000,000	$ 1,875,000	$ 1,900,000	$ 15,275,000
Columbia Gorge	$ 7,500,000			$ 1,595,000	$ 8,000,000	$ 17,095,000
Klamath	$ 7,700,000			$ 1,600,000		$ 9,300,000
Lane		$ 6,750,000		$ 8,000,000	$ 8,000,000	$ 22,750,000
Linn-Benton		$ 3,731,250		$ 1,844,750		$ 5,576,000
Mt. Hood		$ 2,500,000		$ 3,850,000	$ 950,000	$ 7,300,000
Oregon Coast	$ 4,500,000	$ 3,000,000		$ 500,000	$ 2,000,000	$ 10,000,000
Portland		$ 7,500,000		$ 6,415,000	$ 8,000,000	$ 21,915,000
Rogue	$ 4,100,000			$ 4,000,000	$ 1,250,000	$ 9,350,000
Southwestern	$ 2,300,000			$ 4,000,000		$ 6,300,000
Tillamook Bay	$ 4,900,000			$ 175,000		$ 5,075,000
Treasure Valley				$ 1,413,350	$ 3,000,000	$ 4,413,350
Umpqua				$ 4,000,000	$ 8,500,000	$ 12,500,000
TOTAL	**$ 38,500,000**	**$ 40,040,500**	**$ 4,000,000**	**$ 53,566,600**	**$ 71,155,000**	**$ 207,262,100**

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $22.2 million total funds does not include funding for any new projects. However, three projects were reauthorized as they failed to generate their matching funds during the 2009-11 biennium. Clackamas and Umpqua will require future voter approval of local bond levies to provide the necessary matching funds, and one project (Columbia Gorge) did not receive voter approval for its bond levy in November 2010. The legislatively adopted budget does not include any funding for debt service on these projects.

Department of Education (ODE) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended(1)	2011-13 Legislatively Adopted(2)
General Fund	5,272,290,511	5,115,903,082	5,518,628,667	5,498,242,728
Lottery Funds	1,117,673,277	664,354,241	427,416,330	609,291,917
Other Funds	60,883,458	67,927,827	47,680,201	57,609,397
Federal Funds	875,676,402	1,363,706,366	767,166,197	892,354,523
Other Funds (NL)	140,351,340	106,039,122	84,024,055	107,024,055
Federal Funds (NL)	283,428,367	327,692,417	285,380,254	285,380,254
Total Funds	**$7,750,303,355**	**$7,645,623,055**	**$7,130,295,704**	**$7,449,902,874**
Positions	481	393	395	377
FTE	443.51	375.22	375.40	358.79

(1) The Governor's recommended budget consolidated services and budgets related to early learning into a new agency. While SB 909 (2011) was adopted and, in part, created a Early Learning Council (ELC), funding for operating just the ELC was placed in the Governor's Office and funding for services to children remain in their original agencies pending further information from the Governor's design team.

(2)State School Funding includes $61 million Federal Funds related to the American Recovery and Reinvestment Act. No new funding is available for the 2011-13 biennium. This budget adjustment was included as a contingency if school and education service districts did not fully draw these resources prior to the close of the 2009-11 biennium.

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. With the passage of SB 552 (2011), the separately elected position will be eliminated when the current incumbent leaves office at which time the Governor will become the Superintendent of Public Instruction.

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 provides direct educational services at the School for the Deaf and assist in the education program at the juvenile correctional institutions.

The 2011-13 legislatively adopted budget for General Fund and Lottery Funds of $6.1 billion is $327.3 million, or 5.7%, higher than the 2009-11 legislatively approved budget. However, the total funds budget decreased by 2.6% reflecting the elimination of one-time federal American Reinvestment and Recovery Act and Education Jobs Fund Program funding of $342.6 million for school funding and a one-time increase of $237.1 million for Individuals with Disabilities Education Act (IDEA) and Title 1A of the Elementary and Secondary Education Act.

As part of the statewide budget plan, a $310 million supplemental ending balance was established by reducing most General and Lottery Funds budgets by 3.5%. The supplemental ending balance may be allocated to agencies during the February 2012 legislative session if financial conditions warrant that action. For ODE, a total of $13.3 million was reduced from the 2011-13 legislatively adopted budget, including $1.9 million in debt service which must be restored to avoid default. The State School Fund was not included in the supplemental ending balance calculation.

ODE – Operations

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended[(1)]	2011-13 Legislatively Adopted
General Fund	47,008,798	35,795,572	35,122,847	36,612,097
Other Funds	11,577,832	15,068,052	14,602,152	14,213,101
Federal Funds	46,357,560	65,645,579	67,659,619	58,278,523
Other Funds (NL)	3,615,848	5,147,342	5,271,167	5,271,167
Total Funds	**$108,560,038**	**$121,656,545**	**$122,655,785**	**$114,374,888**
Positions	280	269	274	270
FTE	273.74	265.70	269.59	265.34

(1) The Governor's recommended budget consolidated services and budgets related to early learning into a new agency. While SB 909 (2011) was adopted and, in part, created a Early Learning Council (ELC), funding for operating just the ELC was placed in the Governor's Office and funding for services to children remain in their original agencies pending further information from the Governor's design team.

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, federal liaison functions, and the federally supported school and community-based nutrition programs. Other 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, and the calculation and distribution of State School Fund payments to school districts and education service districts (ESDs).

The ***Office of Analysis and Reporting*** coordinates the development of education policies at the state, local, and federal levels, and provides support to the Quality Education Commission.

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 and Oregon Health Authority 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 IDEA, the National School Lunch Program, NCLB assessment funds, and various compensatory education programs.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $114.4 million total funds reflects a decrease of 6% from the 2009-11 legislatively approved budget, and a 4.9% decrease from the Governor's recommended budget. In addition to continuing the program reductions taken during the 2009-11 allotment reductions, including extending vacancy savings, reducing staff development and travel, and shifting position funding to other sources of revenues, the legislatively adopted budget reduced non-federally mandated writing assessments to once in the 11th grade and suspended the 4th and 7th grade writing assessments; eliminated six vacant or unfunded positions; reduced support for content standards, technical support, and program monitoring; and reduced the services and supplies budget by 6.5%.

However, the legislatively adopted budget does include some enhancements, including establishing eight new positions primarily to support internal auditing and school based nutrition programs, $5 million General Fund to cover a breach of contract court judgment, $250,000 General Fund for administration of the School District Collaboration Grant Program (SB 252), $4,000 General Fund for administration of the Farm-to-School program (HB 2800), $100,000 General Fund for administration of the Career and Technical Education grant program (HB 3362), and $30,000 General Fund for administration of the Afterschool Meal and Snack Program (SB 480).

ODE – Special Schools

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	17,949,936	13,458,510	11,182,598	11,131,950
Other Funds	3,864,780	5,304,839	5,823,913	8,243,389
Federal Funds	714,174	529,898	316,045	300,000
Total Funds	**$22,528,890**	**$19,293,247**	**$17,322,556**	**$19,675,339**
Positions	185	108	105	99
FTE	153.89	93.64	89.93	85.45

Program Description

The School for the Deaf (OSD) is a residential/day program that serves students who are hearing-impaired. OSD provides academic and career education, living skills development, athletics, and leadership training. On average, 115 students receive services per year with approximately 60% in the day program. Currently, OSD is expecting 105 students for the 2011-12 school year.

HB 2834 (2009) directed the closure of the Oregon School for the Blind (OSB) and established the Blind and Visually Impaired Student Fund (BVI) to assist students in receiving services in their communities, providing technical assistance, and professional development for those who serve students who are blind or visually impaired.

Revenue Sources and Relationships

Other Funds revenues reflect receipts from special education billings, donations, Medicaid reimbursements, fees from local school districts for services provided to their students, nutrition reimbursements, and other miscellaneous sources. When the BVI receives a General Fund appropriation, those resources are transferred to an Other Funds account and may be carried forward into future biennia. Federal Funds are from IDEA.

Budget Environment

HB 3687 (2010) directed the Department of Administrative Services (DAS) to transfer 50% of the proceeds from the sale of OSB to ODE for improvements, repairs, and maintenance costs benefitting the health, safety, and housing of the students of OSD. DAS has transferred approximately $2.3 million for this purpose, and may transfer additional resources once conditions of purchase are finalized.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $19.7 million total funds is 2% higher than the 2009-11 legislatively approved budget and 13.6% higher than the Governor's recommended budget. The BVI received $1 million General Fund, down from $2.8 million in the 2009-11 biennium. However, with carryover funds, the BVI is projected to have $5 million in resources available for the biennium. The adopted budget eliminated six vacant positions, eliminated three positions due to insufficient State School Fund dollars to support them, but restored three dorm counselor supervisors eliminated in the Governor's budget. The agency also received authorization for $650,000 Other Funds for maintenance projects and was directed to report during the interim on a staffing model and maintenance plan for the school.

ODE – Youth Corrections Education Program

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	21,285,645	20,678,293	9,231,781	15,030,552
Federal Funds	1,811,629	2,246,483	2,250,271	2,000,000
Total Funds	**$23,097,274**	**$22,924,776**	**$11,482,052**	**$17,030,552**
Positions	16	16	16	8
FTE	15.88	15.88	15.88	8.00

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, IDEA, 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. However, in 2011-13, ODE will need to work closely with OYA as that agency implements a reduced budget level. OYA has announced unit closures in several facilities and will transition some youth offenders into community placements, which will affect this program as well as the long-term care and treatment program within the Grant-in-Aid budget.

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $17 million total funds is 25.7% lower than the 2009-11 legislatively approved budget, but is 48.3% higher than the Governor's recommended budget. The Governor's recommended budget proposed to reduce OYA beds to 475 from 900, but a portion of that reduction was mitigated in the legislatively adopted budget which now anticipates funding 750 OYA beds. However, not all youths incarcerated are eligible for YCEP services. ODE will need to reconcile cash available for the program, and monitor actions taken within the OYA budget and final bed allocation by facilities in order to appropriately oversee its contracts and to make adjustments to minimize disruptions to educational services to this population. The adopted budget also eliminated eight long-term vacant positions.

ODE – Grant-in-Aid

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended(1)	2011-13 Legislatively Adopted
General Fund	255,170,010	268,325,011	286,958,790	295,228,700
Other Funds	18,659,420	20,742,588	15,217,588	17,317,588
Federal Funds	713,481,460	952,693,882	696,940,262	770,776,000
Federal Funds (NL)	283,428,367	327,692,417	285,380,254	285,380,254
Total Funds	**$1,270,739,257**	**$1,569,453,898**	**$1,284,496,894**	**$1,368,702,542**

(1) The Governor's recommended budget consolidated services and budgets related to early learning into a new agency. While SB 909 (2011) was adopted and, in part, created a Early Learning Council (ELC), funding for operating just the ELC was placed in the Governor's Office and funding for services to children remain in their original agencies pending further information from the Governor's design team.

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 (OPK), 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 (EI/ECSE), 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 Oregon Health Authority 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 from the U.S. Department of Agriculture for nutrition programs. Most of the funding is passed through to local school districts or contractors.

Budget Environment

The EI/ECSE program serves children with disabilities and their families to improve developmental status and increase school readiness for each child. The EI portion of the program serves children from birth through age 2 and is statutorily required. The ECSE component serves children from age 3 until the age at which schooling begins (usually age 5) and is federally mandated (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.

The OPK program, established in 1987 and modeled after the federal Head Start program, serves low-income 3- and 4-year-olds to foster their development and enhance their success in school. State and federal funds, as well as services, are coordinated to serve eligible children. 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.

With the passage of SB 170 (2011), ODE will pay for the educational costs of all students in eligible residential and day treatment programs. Previously, the agency only paid for students placed by the Department of Human Services and the OYA. This payment process resulted in some students losing services or not receiving services at all. These programs are supported through the State School Fund and the General Fund. Additional funding was not provided in the 2011-13 legislatively adopted budget; rather, ODE received a budget note directing an interim work group to review adequacy of funding and services.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $1.368 billion total funds is 12.8% lower than the 2009-11 legislatively approved budget, but is 6.6% higher than the Governor's recommended budget. The decrease is primarily due to elimination of a one-time federal funding increase of $237.1 million for IDEA and Title 1A of the Elementary and Secondary Education Act from the federal American Reinvestment and Recovery Act.

General Fund support, however, was increased by 10% in the 2011-13 legislatively adopted budget which is driven by the mandated caseload in EI/ECSE and an increase of $16.5 million for OPK. OPK funding is expected to cover approximately 7,300 slots, bringing the number of eligible children served to 71%. Funding for Early Head Start, which was implemented mid-biennium in 2009-11, was continued in the adopted budget and four new programs were established: a) career and technical education (HB 3362), b) accelerated college credit (SB 254), c) afterschool meal and snack program (SB 480), and d) For Inspiration and Recognition of Science and Technology (FIRST).

Grant-In-Aid Program ($ in millions)

Program	2009-11 LAB		2011-13 LAB		% Change	
	GF	All Funds	GF	All Funds	GF	All Funds
EI/ECSE	$106.17	$135.57	$115.26	$144.67	8.6	6.7
Oregon Prekindergarten	104.99	104.99	122.25	122.25	16.4	16.4
Early Head Start	0.95	0.95	0.92	0.92	-3.9	-3.9
IDEA/All Other Federal	0	401.24	0	271.33	n/a	
Regional Programs	29.43	59.34	25.83	55.74	-12.2	-6.1
Long-term Care & Treatment	16.82	36.03	14.76	31.05	-12.2	-13.8
Hospital Services	1.45	4.29	1.28	4.81	-12.2	12.0
Title I Low-Income/Migrant Education	0	405.38	0	357.45	n/a	-11.8
Nutrition	2.32	330.01	2.28	287.66	-1.7	-12.8
Title II Teacher Quality	0	55.89	0	55.40	n/a	-0.9
Teacher/Admin Quality (Mentoring)	4.68	4.68	4.52	4.52	-3.5	-3.5
District Collaboration/Student Achievement	0	0	4.75	4.75	n/a	n/a
Vocational Education	0	29.56	0	24.77	n/a	-16.2
Career & Technical Education	0	0	1.90	1.90	n/a	n/a
Accelerated College Credit	0	0	0.25	0.25	n/a	n/a
For Inspiration & Recognition of Science & Technology (FIRST)	0	0	0.15	0.15	n/a	n/a
Student Leadership	0.46	0.46	0.24	0.24	-47.7	-47.7
Physical Education	0.46	0.46	0.37	0.37	-19.7	-19.7
Connectivity	0.59	0.59	0.47	0.47	-19.7	-19.7
Total (may not tie due to rounding):	**$268.33**	**$1,569.45**	**$295.23**	**$1,368.7**	**10.0**	**-12.8**

ODE – School Funding

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted(2)
General Fund	4,952,161,767	4,798,323,989	5,185,364,432	5,155,269,981
Lottery Funds	1,061,258,188	609,121,349	371,918,440	556,980,287
Other Funds	3,247,438	3,637,214	340,252	340,252
Federal Funds	113,311,579	342,590,524	0	61,000,000
Total Funds	**$6,129,978,972**	**$5,753,673,076**	**$5,557,623,124**	**$5,773,590,520**

(2) State School Funding includes $61 million Federal Funds related to the American Recovery and Reinvestment Act. No new funding is available for the 2011-13 biennium. This budget adjustment was included as a contingency if school and education service districts did not fully draw these resources prior to the close of the 2009-11 biennium.

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 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 and donations of kicker rebates.

Budget Environment

Currently, there are 197 elementary and secondary school districts and 19 education service districts, serving about 536,000 students in grades K-12. The School Revenue Forecast Committee estimates enrollment growth of 0.2% per year during the 2011-13 biennium with weighted growth of 0.4% per year.

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget includes $5.77 billion total funds for school funding. Of that amount, $61 million Federal Funds is related to the American Recovery and Reinvestment Act (ARRA). No new funding is available for the 2011-13 biennium from ARRA; this budget adjustment was included as a contingency if school and education service districts did not fully draw these resources prior to the close of the 2009-11 biennium. Excluding the $61 million Federal Funds adjustment, the 2011-13 legislatively adopted budget is less than one percent lower than the 2009-11 legislatively approved budget, and 2.8% higher than the Governor's recommended budget.

For the 2011-12 school year, $125 million ($25 million General Fund and $100 million transferred from the Education Stability Fund) will be deposited into a newly created State School Fund subaccount for the purposes of distribution to school districts and programs, excluding education service districts, which agree to utilize these resources for smaller class sizes or to enhance learning opportunities. A school district or program must provide a written plan and proof of compliance to the Legislature by January 15, 2012.

With the passage of SB 250 (2011), certain school districts are able to withdraw from ESDs and the distribution of the State School Fund changed. The ESD allocation decreased from 4.75% to 4.5% and the school district distribution increased from 95.25% to 95.5%. Further, the measure created the Office of Regional Educational Services (ORES) to establish best practice policies, benchmarks, provide training and support to ESD superintendents, and make recommendations. ORES may expend up to $0.5 million per biennium. School districts are expected to receive an additional $22.6 million and ESDs will receive $23.1 million less with the implementation of this measure.

Allocations for the School Improvement Fund and for District Best Business Practices Audits were suspended for the 2009-11 biennium and again in the 2011-13 biennium. However, ODE may spend up to $1.6 million from the State School Fund for the purposes of the Oregon Virtual School District Fund. In addition, $1.9 million General Fund was approved for Local Option Equalization Grants (LOEG). This amount is expected to cover all of the grants for the biennium.

School Funding – excluding $61M Federal Fund relating to ARRA ($ in millions)

	2009-10	2010-11	Total	2011-12	2012-13	Total
State School Fund	$2,940.1	$2,797.7	$5,737.8	$2,867.8	$2,842.8	$5,710.7
Common School Fund (1% distribution increase)	9.7	9.4	19.1	10.9	12.1	23.0
Local Option Equalization	1.4	0.7	2.1	1.0	0.9	1.9
Special Education Fund	-	13.8	13.8	-	-	-
Subtotal:	**2,951.2**	**2,821.6**	**5,772.8**	**2,879.7**	**2,855.9**	**5,735.6**
Local Revenue*	1,505.2	1,513.8	3,019.0	1,545.7	1,585.9	3,131.7
Total:	**$4,456.4**	**$4,334.6**	**$8,791.8**	**$4,425.4**	**$4,441.8**	**$8,867.3**

*Local Revenue is part of the equalization formula but not included in the State's budget; line-item adjusted for the 1% Common School Fund distribution increase.

ODE – Debt Service

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Lottery Funds	56,415,089	55,232,892	55,497,890	52,311,630
Other Funds	2,248,343	2,496,841	2,464,515	2,464,515
Other Funds (NL)	40,933,107	1,351,780	0	0
Total Funds	**$99,596,539**	**$59,081,513**	**$57,962,405**	**$54,776,145**

Program Description

This program provides debt service (principal and interest) on Lottery revenue 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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget reflects the May 2011 projections of interest earnings and the statewide supplemental ending balance adjustment of $1.9 million. The $1.9 million will need to be restored during the 2011-13 biennium as the debt service requirements are fixed.

ODE – Common School Fund Distributions

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds (NL)	95,802,385	99,540,000	78,752,888	101,752,888
Total Funds	**$95,802,385**	**$99,540,000**	**$78,752,888**	**$101,752,888**

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. This policy was modified so that effective with the December 31, 2009 distribution, the amount of the distribution shall be equal to 4% of the average balance of the preceding 3 years if the 3-year rolling average growth is less than 11%.

During the past five biennia, 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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is based on a 5% distribution.

Oregon Health and Science University Public Corporation – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	82,233,539	77,012,357	63,400,000	66,059,636
Other Funds	31,920,847	1,978,974	31,634,760	31,634,760
Other Funds (NL)	0	66,522,871	0	0
Total Funds	**$114,154,386**	**$175,514,202**	**$95,034,760**	**$97,694,396**

Agency Overview

The Oregon Health and Science University (OHSU) is the only public academic medical center in the state. OHSU's mission includes education, research, clinical care, and public service. In addition to three main sites (Marquam Hill, the Oregon Primate Research Center and the Oregon Graduate Institute, and the South Waterfront Campus), OHSU also has clinical facilities throughout the Portland metropolitan area, and teaching programs in various locations throughout the state. Although operating as a public corporation since 1995, the university is governed by a Board of Directors that is appointed by the Governor and confirmed by the Senate. The Legislature no longer approves the university budget (or limits its expenditures from tuition and other sources), but the state continues to support OHSU through grants for academic programs (Schools of Medicine, Dentistry, and Nursing), Area Health Education Centers (AHEC), Child Development and Rehabilitation Center (CDRC), the Oregon Poison Center, and debt service for the Oregon Opportunity Program.

Revenue Sources and Relationships

To finance the Oregon Opportunity Program, an expansion of research programs in genetics and biotechnology, OHSU received $200 million in Article XI-L bond proceeds in 2001-03 and 2003-05. Other Funds are solely Tobacco Master Settlement Agreement funds for debt service on these bonds. The final payment is scheduled in 2024.

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. OHSU's educational programs alone do not generate sufficient revenue to cover their operating costs and have been subsidized with operating gains from healthcare or clinical services.

In fiscal year 2012, the state's appropriation was 1.7% of OHSU's board approved $2 billion operating budget and will account for the following percentages of unrestricted budgeted revenues in the School of Medicine – 5%, School of Nursing – 42%, School of Dentistry – 15%, AHEC/Rural Health – 99%, CDRC – 27%, and Oregon Poison Center – 89%.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $97.7 million total funds is 44.3% lower than the 2009-11 legislatively approved budget which included $66.5 million in one-time expenditures for debt refinancing. Excluding the debt refinancing, the percentage change is a decrease of 10.4%. With the restoration of $3.5 million for child development and rehabilitation centers, $0.9 million for the School of Nursing, and $0.1 million for rural health services from the Governor's recommended level, OHSU was directed to preserve many of the services in child development and rehabilitation centers and minimize service impacts to rural health when possible. The 2011-13 legislatively adopted budget also includes the 3.5% across-the-board reduction, or $1.8 million, to provide a supplemental statewide ending balance. Tuition increases are expected to be within the range of 6-10% per year. With the passage of HB 2397 (2011), OHSU also received $525,000 to support the Primary Health Care Loan Forgiveness Program within the Office of Rural Health.

Program/Activity	2009-11 LAB	2011-13 LAB	% Change
School of Medicine	$27,582,683	$22,863,225	-17.1%
School of Nursing	22,684,126	19,787,830	-12.8%
School of Dentistry	11,256,091	9,273,415	-17.6%
Area Health Education Centers/Office of Rural Health	4,451,146	4,054,092	-8.9%
Child Development and Rehabilitation Center	8,622,991	7,239,450	-16.0%
Oregon Poison Center	2,415,320	2,316,624	-4.1%
Health Care Loans (HB 2397)	-	525,000	n/a
Total – General Fund:	**$77,012,357**	**$66,059,636**	**-14.2%**

Oregon Student Assistance Commission – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	101,610,245	87,773,980	114,970,615	99,921,326
Lottery Funds	4,183,739	8,940,885	2,630,172	2,630,172
Other Funds	5,749,294	7,426,424	21,313,784	21,457,426
Federal Funds	1,783,654	1,791,006	727,244	0
Other Funds (NL)	9,546,744	11,883,623	0	0
Total Funds	**$122,873,676**	**$117,815,918**	**$139,641,815**	**$124,008,924**
Positions	33	30	28	28
FTE	31.66	26.66	26.33	26.33

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). The OOG accounts for approximately 80% of the 2011-13 legislatively adopted budget.
- Scholarship Services administers approximately 400 public and private scholarship and grant programs.
- Access to Student Assistance Programs in Reach of Everyone (ASPIRE) program trains volunteers to serve as mentors to high school students in 115 schools with information regarding college and career choices, preparation, and financial aid for post-secondary education.
- 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.

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. However, for the 2011-13, all payments will be limited.

Prior to the 2011-13 biennium, Federal Funds included resources from the Leveraging Educational Assistance Partnership (LEAP) and Special Leveraging Educational Assistance Partnership (SLEAP) that required the state to maintain its spending level for OOG to equal the average of the three previous years. SLEAP was sunset at the federal level and the state did not meet the maintenance of effort or match requirements for LEAP in 2010; thus no federal funds are anticipated for the 2011-13 biennium.

Budget Environment

In 2007, the Legislature approved the OOG Shared Responsibility Model (SRM) and substantially increased funding for student aid 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. With the implementation of the SRM, the Commission 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 other financial resources.

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.

Oregon students and families also receive Pell grants and higher education tax credits that, while not reflected in the state's budget directly, effect the level of shared responsibility for OOG. The maximum federal Pell Grant has increased by 17.3% to $5,550 for 2010-11 from $4,731 for 2008-09 and higher education tax credits are up to $2,500 (refundable up to $1,000). These funding limits are expected to remain during the 2011-13 biennium. From the latest award year available (2009-10), 86,866 Oregon students received approximately $301.9 million in Pell grants.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $124 million total funds is an increase of 5.3% over the 2009-11 legislatively approved budget, but 11.2% below the Governor's recommended budget. The adopted budget includes a 6.5% services and supplies reduction and the supplemental statewide ending balance hold back adjustment of 3.5% on General Fund and Lottery Funds expenditures.

Total funds support for the Oregon Opportunity Grant is $99.5 million or 4.8% above the 2009-11 legislatively approved budget. For the 2011-12 school year, OSAC announced awards in March 2011 which are estimated to pay $46 million. If the supplemental statewide ending balance hold back of $3.6 million is restored in February 2012, $57 million would be available for second year awards. At these levels, OSAC would serve approximately 52,000 grant recipients in the 2011-13 biennium versus approximately 56,000 in the 2009-11 biennium with the average distribution per recipient increasing by approximately 4.8%.

The 2011-13 legislatively adopted budget eliminates funding for new awards in the Nursing Services and Nursing Faculty loan repayment programs, but funds are available to allow the agency to fulfill the existing obligations in these programs. General Fund support for the ASPIRE program is limited to one position with the balance of the program shifting to Other Funds grants. Current programs are maintained in the Office of Degree Authorization, but funding for the program analyst and services and supplies are shifted to Other Funds from the General Fund.

With the passage of SB 242 (2011), on July 1, 2012, the Office of Degree Authorization will transfer to the newly created Higher Education Coordinating Council (HECC). The transfer of ODA would include two full-time positions and the balance of the 2011-13 budget on the measure's operative date. Also, effective January 1, 2012, the agency's name will change to the Oregon Student Access Commission.

State Support (General Fund & Lottery Funds)

	2009-11 LAB	2011-13 LAB	% Change
Opportunity Grant	$ 92,550,618	$99,395,000	7.4%
Nursing Services Program	262,698	56,512	-78.5%
Nursing Faculty Loan Program	184,709	-	-100.0%
Student Child Care	917,214	885,112	-3.5%
ASPIRE (portion to schools only)	162,381	-	-100.0%
ASPIRE (Agency Operations)	506,537	157,902	-68.8%
Office of Degree Authorization	275,725	127,622	-53.7%
Agency Operations	1,854,983	1,929,350	4.0%
Total:	**$96,714,865**	**$102,551,498**	**6.0%**

Teacher Standards and Practices Commission – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	0	0	0	100,000
Other Funds	5,008,724	5,324,071	5,739,017	5,444,612
Total Funds	**$5,008,724**	**$5,324,071**	**$5,739,017**	**$5,544,612**
Positions	28	25	26	24
FTE	26.01	25.00	25.50	24.00

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.
- Adopt standards for college and university teacher education programs and approve programs that meet such standards.

Revenue Sources and Relationships

The agency is primarily 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. The licensing base consists of approximately 65,000 educators.

The agency anticipates a decline of approximately 1% in revenues during the 2011-13 biennium, citing a trend to postpone new licensing with the reduced availability in the job market. While new applications may be lagging, a slight increase in renewals and reinstatements is projected, which is partially due to individuals returning to this labor market for part-time/substitute income. Overall, the legislatively adopted budget exceeds projected revenues by 4.8%, thus the agency will need to rely on existing cash balances if operations are to be sustained. The projected ending balance totals $1.2 million or approximately 5 months of operating expenditures.

Budget Environment

Superintendents or chief charter school administrators who discover possible ethical, criminal, or professional misconduct by licensed educators are required to report the misconduct to the agency. The Commission is required to investigate all complaints received from educators or the public. During the 2009-11 biennium, the number of new cases continued to grow over the prior biennium with a peak of 290 cases filed in 2009. However, as of February 2011, the agency had a backlog of 314 cases, or 7 fewer than at the close of 2009.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $5.5 million total funds is an increase 4.1% over the 2009-11 legislatively approved budget, but is 3.4% lower than the Governor's recommended budget. The adopted budget includes extending two limited duration, investigator positions, but does not include expenditure limitation to support relocating the office nor a district liaison position as recommended by the Governor. The agency was directed to continue working with the Department of Administrative Services to identify appropriate office space and to report back during the interim or to the Legislative Assembly during the February 2012 session.

With the passage of HB 3474 (2011), the agency received $100,000 General Fund for the Educator Preparation Improvement Fund. Resources shall be used to encourage teacher education programs and school district partnerships that respond to changes in student education, encourage collaboration in delivery of effective professional preparation, recognize the needs of the education workforce, encourage improvement in student success and postsecondary access, and meet national accreditation of teacher education programs.

Oregon University System – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	791,522,349	729,654,860	714,708,529	669,169,003
Lottery Funds	23,289,731	23,104,431	28,515,644	22,959,136
Other Funds	2,125,040,457	2,252,138,746	2,180,818,964	2,247,259,031
Federal Funds	55,636,352	70,823,654	4,922,075	4,922,075
Other Funds (NL)	2,179,493,390	2,255,344,882	2,232,952,699	2,232,952,699
Federal Funds (NL)	0	1	0	0
Total Funds	**$5,174,982,279**	**$5,331,066,574**	**$5,161,917,911**	**$5,177,261,944**
Positions	18,113	18,541	18,557	18,628
FTE	12,639.23	13,077.56	12,945.96	12,998.52

Agency Overview

The Oregon University System (OUS) is the state entity for the educational institutions, governing board, central administration, support services, and public services that make up Oregon's Post-Secondary institutions, excluding Community Colleges. The institutions of OUS 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. The budget for the Oregon University System is divided up into a number of program areas.

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 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 usually accounts for at least 75% of the entire 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.

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. Generally, only non-credit continuing education (distance learning) programs are still conducted on a self-support basis.

Oregon State University (OSU), as the state's land grant college, operates three statewide service programs:

- 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.
- 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. 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.
- 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.

There are three program areas involving capital expenditures:

- The ***Debt Service*** program area 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. Capital repairs have been financed using lottery backed bonds since 2001. 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. 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 Nonlimited. 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.
- 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.
- The ***Capital Improvement*** program unit includes capitalized expenditures less than $3 million for improvement to land or existing buildings that increase the value, extend the useful life of the asset, or make it adaptable to a different use.

Revenue Sources and Relationships

The primary source of revenue for the Oregon University System is Other Funds. The 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 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 and are generally initiated by the Legislature.

The Sports Action lottery game was authorized by the 1989 Legislature; 88% 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 Oregon University System Sports Action Lottery program area. Both actions were effective beginning July 1, 2007; $9.7 million Lottery Funds was allocated for the Sports Action program for the 2009-11 biennium, which was less than the dedicated 1% would have generated without legislative action. This same level of support was maintained for the 2011-13 biennium.

Previously, all Federal Funds were included in the Other Funds category in all program areas of the Oregon University System 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 were always included in the Nonlimited expenditure categories in their associated program areas. However, the American Recovery and Reinvestment Act (ARRA), which was passed by the federal government in early 2009, included funding to states for fiscal relief to help address the revenue impacts of the economic recession. Most of these dollars were directed towards education services. In Oregon, these monies were used as part of the March 2009 actions taken to rebalance the 2007-09 biennial budget by using these dollars in place of General Fund that had been budgeted for K-12 and OUS operations, but for which there was no revenue. Because of the unique nature of these moneys and their temporary nature, they were added to the OUS budget as Federal Funds expenditure limitation to better facilitate tracking of their expenditure, even though all previous Federal Funds and been expended as Other Funds. Similarly, ARRA state stimulus funds were used as part of the state support for the OUS budget in 2009-11.

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.

The statewide programs at OSU relay more heavily on state support than does the Education and General Services area. For the Agricultural Experiment Station, 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. 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. 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

The Oregon University System is facing unprecedented growth in enrollment while at the same time experiencing state support levels that are not adequate to support the higher levels of student enrollments. While enrollments have grown 26% over the last 10 years, the percentage of the General Fund in the Education and General Services area has fallen from around 50% in the 2001-03 biennium to 30% for 2009-11. These reductions in state support have most often been replaced, or backfilled, with Other Funds from tuition increases. In the last 10 years, the average tuition and fees for resident undergraduates has more than doubled, with graduate tuition going up even more significantly. Given the challenges facing programs supported by the state General Fund, it is likely even more of the OUS budget will rely on revenues from students.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget level of $5.177 billion is comprised of $669 million General Fund (13%), $23 million Lottery Funds (0.4%), $4.480 billion Other Funds (86.5%), and $5 million Federal Funds, and represents a $153.8 million (3%) overall decrease from the 2009-11 legislatively approved budget. General Fund and Lottery Funds support is $60.6 million (8%) less than the Governor's recommended level due primarily to the 6.5% reduction to services and supplies and the 3.5% supplemental statewide ending balance hold back reduction on total General Fund and Lottery Funds support, which were taken in all agencies as part of the final legislatively adopted budget. The remaining difference is due to an additional $20 million General Fund reduction taken in the Education and General Services program, of which $9.1 million was redirected to the Statewide Public Service programs to reduce the level of cuts recommended by the Governor for these programs.

The 2011-13 legislatively adopted budget for the Oregon University System incorporates the following changes:

- Education and General Services (E&G), which includes the instruction, research, public service, and operating costs of the seven institutions that make up OUS, plus the centralized administration and support services of the system, was reduced $84.1 million General Fund to reflect the roll-up of permanent General Fund reductions taken during the 2009-11 biennium as allotment reductions. The reduction was replaced with Other Funds from increased tuition revenues.
- Targeted programs in E&G were on average reduced by about 17% from 2009-11 levels for total reductions of $20.8 million. However, three targeted funding areas received an increase. Regional university support, which provides a state subsidy to the four smaller regional campuses of OUS, was increased $4.4 million to help these schools adjust to the lover all lower state funding which they rely on more than the three bigger campuses. In additional, as part of final budget reconciliation changes made at the end of session, the

Dispute Resolution program was increased by $150,000 General Fund and the Labor Education Research Center at UO was restored to about the 2009-11 level of General Fund support.

- $90 million Other Funds was added to E&G to reflect higher anticipated tuition revenues due to enrollment growth across the System's institutions. With the reductions to General Fund support for E&G in the 2011-13 legislatively adopted budget, the state supports less than 20% of all instruction costs at Oregon's public universities.
- The budget was accompanied by a budget note regarding rates of tuition increases, for resident undergraduates only, at the various OUS institutions. The budget note states that the Legislature intends increases in the rates for tuition and resource fees paid by resident undergraduate students at Oregon Institute of Technology, Oregon State University, Portland State University, and the University of Oregon may not exceed an average of 8% for the two years of the biennium and may not exceed 9% in any given year. Increases in the rates for tuition paid by resident undergraduate students at Eastern Oregon University, Southern Oregon University, and Western Oregon University may not exceed an average of 6.5% for the two years of the biennium, and 7.5% in any given year.
- Reduced General Fund $36.6 million and $119.7 million Other Funds to reflect an assumed 5.5% reduction to personal services costs. In addition, the Legislature adopted a budget note directing that if there are reductions to the total compensation for staff and/or faculty due to budget cuts, management and administrators should be subject to similar reductions to ensure equity between administrators and front line staff.
- General Fund support for the Statewide Public Services programs, which are Agriculture Experiment Station, Extension Service, and the Forest Research Laboratory, totaled about $95 million for 2011-13. This is about $12.2 million lower than the 2009-11 total support of $107.1 million, but $12 million higher than the level recommended by the Governor.
- Reversing the trend of other OUS state supported funding, General Fund support for debt service payments was increased $33.5 million (56.3%) over the 2009-11 total of $59.5 million and Lottery Funds debt service payments increased $3.1 million (23.4%) over 2009-11 as bonds for capital construction projects approved in previous biennia were sold.
- $260 million Other Funds was added for 23 capital construction projects and project reserves. This included $25 million in Lottery Bonds for capital renewal projects, $45 million in Lottery Bonds for five deferred maintenance projects, and $56 million in Lottery Bonds for a new business education building at OSU.

The 2011 Legislative Assembly also addressed governance reform for the Oregon University System with the passage of SB 242 (2011). SB 242 redefines OUS outside of consideration as a state agency for purposes of state statutes and constitutional provisions. This change exempts OUS from certain laws that govern state agency operations and is intended to provide operational flexibility and efficiencies. Among the changes included in the measure are: establishing a process for the Board of Higher Education to set enrollment fees, eliminate the requirement of OUS to request Other Funds expenditure limitation for enrollment fees, crediting all interest earned—including General Fund appropriations – to OUS, exempting OUS from participating in the state's risk management and insurance programs, allowing OUS to evaluate options for group health benefit plans and optional retirement plans, purchase property and construct facilities without seeking legislative approval if completed without General Fund, removing OUS from being represented by the Department of Justice, and exempting OUS from paying certain state assessment charges to the Department of Administrative Services. The loss of interest revenue to the General Fund is estimated to be $7.4 million in 2011-13 and $22 million in 2013-15. Due to this change all future General Fund appropriations must be made to the Department of Administrative Services since OUS will no longer be eligible for direct General Fund appropriations as it will not be considered a state agency. Additionally, future budgets will not include Other Funds expenditure limitation, which will have the effect of shrinking the size of state government as OUS Other Fund expenditures, positions, and FTE move off the state budget.

Commission for the Blind – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	1,519,859	1,339,094	1,208,534	1,148,037
Other Funds	2,497,347	2,672,619	2,799,193	2,946,859
Federal Funds	11,358,009	11,651,863	11,727,961	11,532,986
Total Funds	**$15,375,215**	**$15,663,576**	**$15,735,688**	**$15,627,882**
Positions	51	51	50	48
FTE	47.36	47.60	46.60	44.60

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

Forty-eight positions (44.60 FTE), organized into the following five program areas, support the mission of the Commission:

- ***Administration Services*** ($1.7 million, 7.50 FTE) coordinates the mission and goals of the agency and manages the Human Resources, Budget, Accounting, Operations, and Information Systems.
- ***Rehabilitation Services*** ($9.3 million, 26.50 FTE) 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. These services are provided in regional office throughout the state. This program also includes the Older Blind program.
- ***Business Enterprise*** ($0.7 million, 2.00 FTE) provides 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*** ($1.5 million, 0.00 FTE) 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. The program operates independently and program staff are statutorily exempt from state personnel law.
- ***Orientation and Career Center*** ($2.3 million, 8.60 FTE) 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.

Revenue Sources and Relationships

The Commission is funded with $1.2 million General Fund (7.4%), $3 million Other Funds (18.9%), and $11.5 million Federal Funds (73.8%).

Federal Funds are provided by formula and special grants from the U. S. Department of Education, Rehabilitation Services Administration (RSA) as authorized by the 1973 Rehabilitation Act (as amended). Vocational Rehabilitation basic support (Section 110) funds are the primary source of funding and have a match rate of approximately $3.70 Federal Funds (78.7%) for every $1 of state or state-matching funds (21.3%). In Oregon, the Department of Human Services (Children, Adults, and Families) receives 87.5% of Section 110 Vocational Rehabilitation basic support grant funding with the Commission receiving the remaining 12.5%. Other RSA grants include: in-service training ($93,766); Supported Employment ($79,438); independent living ($78,246); and the Older Blind program ($932,884). These grants are funded with 90% Federal Funds and 10% state matching funds.

General Fund and a limited amount of Other Funds are used to meet matching Federal Funds requirements. There is also a RSA maintenance-of-effort (MOE) requirement that is based on the prior two years of funding. If funding is reduced, an equivalent amount of federal funding is lost. The RSA MOE agreement, however, is for the state as a whole, which again includes both DHS and the Blind Commission RSA grant funding. The 2011-13 budget meets the federal matching funds and maintenance of effort requirements, which in part is accomplished through the one-time use of Other Funds from the Commission's donations account.

During the 2009-11 biennium, $1.34 million in one-time American Reinvestment and Recovery Act funding was distributed under the Rehabilitation Act. The unexpended balance of these funds, $12,835, is available until September 30th, 2011.

The Commission expects to have $3,459,408 in Other Fund revenue to support its 2011-13 legislatively adopted budget, which includes a $659,749 beginning balance. Over 45% of the Other Funds revenue supports the Industries for the Blind program and is comprised predominately of payments from Multnomah County for services to developmentally disabled persons ($1,585,464). Other revenue sources include: cooperative agreements with school districts and non-profit rehabilitation providers ($331,805); a transfer from the Department of Education by intergovernmental agreement ($150,000); and business enterprise vendor assessments ($283,536).

The agency also maintains an interest-bearing Blind Bequest and Donation Fund. The fund has an estimated 2011-13 beginning balance of approximately $450,170 and projected ending balance of $125,000. In prior biennia, the Commission only used the interest earnings to fund programs. Beginning in 2003-05, and continuing through to the 2011-13 biennium, the agency began using donation funding to match Federal Funds and offset the loss of General Fund support. The agency plans to use $496,198 from the account during the 2011-13 biennium in order to meeting federal matching funds and maintenance of effort requirements.

Budget Environment

The Commission estimates that approximately 18,955 Oregonians are blind, which would be 0.5% of Oregon's 3.8 million total population. Oregon's blind population is estimated to increase by 1,900 individuals or by 10% each year. Most causes of blindness are age-related – caused by macular degeneration, cataracts, diabetic retinopathy, and glaucoma. Others may be caused by accidents or injuries. As Oregon's elderly population grows, there is increased demand for agency services, especially for those who develop blindness or greater visual impairment later in life. The federal Rehabilitation Act of 1973, as amended, prescribes what services are provided and the eligibility for those services. The number of people served is a function of available revenue.

The general unemployment rate, both statewide and regionally, makes placement of vocational rehabilitation clients with vision loss or impairment more difficult. According to the Commission, the unemployment rate for individuals who are blind approaches 70%.

The Vocational Rehabilitation caseload for federal fiscal year 2010 was 684, which is down 7.9% from the prior federal fiscal year. Per counselor caseload is currently between 60 to 70 cases. The Older Blind program serves an additional 773 clients, which is 4.7% more than the prior year.

In federal fiscal year 2010, the average length of time from eligibility to case closure was 3.16 years with the average costs per case being $3,603. In federal fiscal year 2010, there were 85 case closures, which is 12.4% fewer than the prior year. Case closure is defined as an individual maintaining employment for a minimum of 90 days as a result of a comprehensive rehabilitation plan.

Some geographical areas of the state are underserved in the Older Blind program. There can also be waiting lists for a period of three to six- months before services are provided. The increased use of computers in the job market, as well as significant advances in technology designed to help a visually impaired person, continues to increase the demand for service from the Commission's Technology Center.

Order of Selection is a federally required wait list system that mandates vocational rehabilitation agencies to prioritize individuals with the most significant disabilities and rehabilitation needs. An agency is required to enter into an order of selection when they determine to have either inadequate staffing levels or case service funds to serve all eligible clients in the vocational rehabilitation program. The Commission has been in Order of Selection twice in the recent past, both times as a result of insufficient case service funds available to serve all eligible individuals (from August 2000 to September 2005 and from January 2009 to December 2010). The 2011-

13 legislatively adopted budget provides sufficient resources and staff for the Commission to remain outside the order of selection.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget (LAB) of $15.6 million is $107,806, or 0.7%, less than the Governor's recommended budget and is $35,694, or 0.2%, less than the 2009-11 legislatively approved budget and includes 48 positions (44.60 FTE). The General Fund portion of the budget totals $1.2 million and is $60,497, or 5%, less that than the Governor's recommended budget and is $191,057, or 14.3%, less than the 2009-11 legislatively approved budget. Federal Funds experienced less than a 1% decline from the prior biennium's approved budget.

The Commission's budget is comprised of $7.9 million personal services (50.6%), $3.5 million services and supplies/capital outlay (22.4%), and $4.2 million special payments (26.9%).

Some General Fund reductions were back-filled with $205,205 in Other Funds from the Commission's donation account and an additional $182,056 from the Donations Account was budgeted to meet federal maintenance of effort and matching funds requirements.

The budget reflects a reduction of $74,824 General Fund, $118,500 Other Funds, and $534,741 Federal Funds for standard reductions that include: a 5.5% reduction to personal service; a 6.5% reduction to services and supplies; the elimination of the standard inflation increase; and an adjustment to state government service charges and assessments charged to most agencies. The budget was also reduced by $6,400 for facility rental savings.

The budget includes a supplemental statewide ending balance holdback adjustment of $41,694 General Fund and $153,826 matching Federal Funds. This reduction may be restored during the 2012 legislative session for the second year of the biennium depending on statewide economic conditions.

State Commission on Children and Families – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	57,187,292	46,235,047	50,415,117	40,349,129
Other Funds	18,015,377	18,767,467	18,822,473	18,222,473
Federal Funds	3,551,117	4,836,294	4,394,876	4,273,051
Total Funds	**$78,753,786**	**$69,838,808**	**$73,632,466**	**$62,844,653**
Positions	34	28	26	16
FTE	30.92	25.67	23.49	13.75

NOTE: The 2011-13 Governor's Recommended Budget funded the State Commission on Children and Families' operations and programs as part of a proposed Early Learning Council budget. That funding is shown here for comparison purposes.

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 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 build statewide public/private partnerships; provide policy direction, program information, training, and technical assistance; leverage and distribute state, federal, and private resources; provide financial oversight; and monitor and report program outcomes. Counties use funds distributed through the State Commission, and locally-leveraged resources, for designated programs and investments in services to children and families.

Revenue Sources and Relationships

General Fund makes up 64.2% of the Commission's budget. Some of this General Fund is used to meet state match or maintenance of effort requirements for federal funds, most notably for the Temporary Assistance to Needy Families program administered by the Department of Human Services (DHS). Other General Fund is used to match federal Medicaid and Safe and Stable Families (Family Preservation and Support) funds.

Other Funds revenue supports 29% 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 about $12.7 million in federal Title XX Social Services Block Grant, Title IV-B (2) Safe and Stable Families (Family Preservation and Support), and Title IV-E Foster Care and Adoptions Assistance revenue, blended with Other Funds from the Casey Family Programs, to the Commission. Title XX funding supports programs for non-delinquent, at-risk youths aged 11-18, relief nurseries, and basic capacity grants to counties. Title IV-B (2) funds are used for family support, for basic capacity grants to counties and tribes, and for Healthy Start program support. The Title IV-E/Casey Family Programs funds are used for counties in the Safe and Equitable Foster Care Reduction initiative.
- The Commission also uses General Fund to match federal Title XIX Medicaid funds through the Oregon Health Authority (OHA) for qualified services in local Healthy Start programs. It distributes the Medicaid revenues as Other Funds to the counties. The 2011-13 budget includes $4.4 million Other Funds from OHA, reflecting the original matching funds sent back to the Commission plus the federal Medicaid match.

In the 2009-11 budget, $3.8 million in federal Child Care and Development Fund (CCDF) money, previously used by local commissions to improve child care quality, was redirected to the DHS budget. This was expected to be a one-time funding shift, with the funds to return to the Commission in the 2011-13 biennium. However, the 2011-13 budget again uses these CCDF funds in DHS rather than in the Commission.

The Commission also receives Other Funds from the Oregon Community Foundation and the Paul G. Allen Family Foundation for its Reading for Healthy Families project.

Federal Funds make up 6.8% of the total budget. These are U.S. Department of Justice, Office of Juvenile Justice and Delinquency Prevention (OJJDP) funds to support juvenile crime prevention programs and activities. A total of $4.3 million in OJJDP revenue is expected for the 2011-13 biennium.

The Commission's budget does not include revenues leveraged by local commissions to support local programs and activities. The commissions reported $67.8 million leveraged for the 2009-11 biennium.

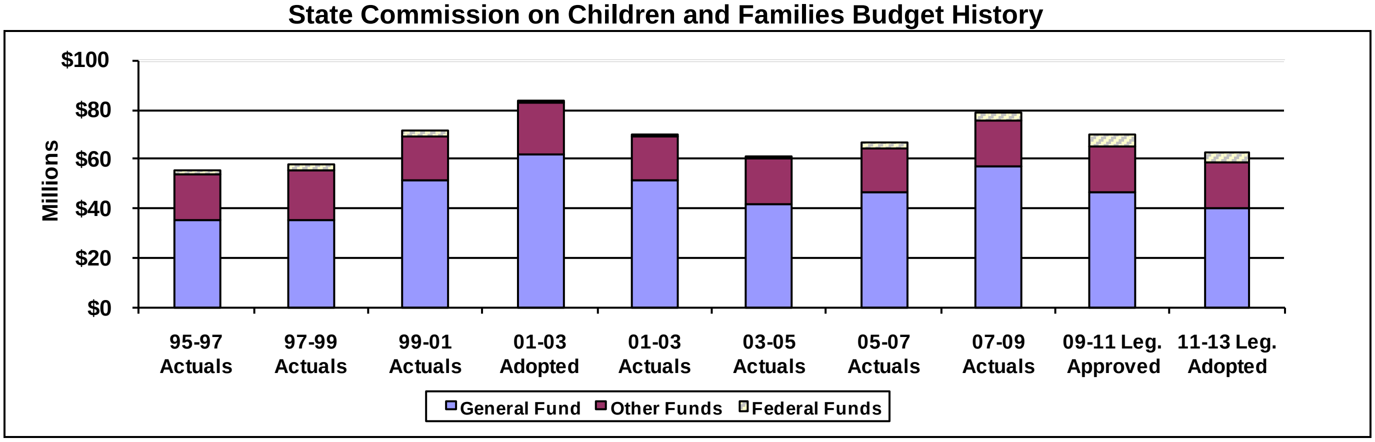
Budget Environment

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. Over time, the Legislature expanded the Commission's responsibilities to include a coordinated, comprehensive planning process for all early childhood, alcohol and drug, and juvenile services; a statewide early childhood framework; community schools; services to homeless and runaway youth and their families; and juvenile crime prevention programs.

The State Commission distributes funding to help communities address the priorities in their local comprehensive plans, as well as statewide initiatives. The local basic capacity grant funds local commission staff and operations. The Great Start grant; the Children, Youth, and Families grant; the Youth Investment grant; the juvenile crime prevention grant; and Family Preservation and Support resources all fund programs and services identified in the local plans. Statewide initiatives include the Healthy Start home visitation program, relief nurseries, Court Appointed Special Advocates (CASA), and Community Schools. State staff provide support for the State Commission; coordinate programs and initiatives; give technical assistance to counties; monitor programs, data collection, and reporting; and supply central administrative support.

Over time, the Commission's funding has been a roller coaster of budget enhancements and reductions, as shown below.

State Commission on Children and Families Budget History



The 2001-03 legislatively adopted budget included $61.4 million General Fund, with significant new funding for the new Oregon Children's Plan. In 2002, however, funding was reduced for local commission grants, Healthy Start, and CASA, as well as for other Oregon Children's Plan initiatives. The 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 2003-05 General Fund budget was almost 30% less than its original 2001-03 General Fund budget. The transfer of juvenile crime prevention programs from the Criminal Justice Commission to this agency, and funding for two new relief nurseries, increased the agency's budget for 2005-07. The 2007 Legislature added funds for local commission support, Healthy Start, juvenile crime prevention grants, CASA, relief nurseries, and the Community Schools and Homeless and Runaway Youth initiatives. To rebalance the statewide budget in spring 2009, however, the 2009 Legislature cut $3 million from the 2007-09 budget, from a combination of savings, fund shifts, and reductions to local basic capacity and program funding. The 2009-11 legislatively adopted budget had further reductions in almost all grants, statewide initiatives, and state staffing. In the February 2010 special session, however, $1 million General Fund was added for new relief nurseries in Ontario, Clackamas, Madras, and Corvallis. During the 2009-11 biennium, to meet the $3.8 million in General Fund allotment reductions directed by the Governor due to statewide revenue constraints, the agency reduced state staff technical assistance and other program support services by 9.7% and 4 positions (4.96 FTE), and reduced funding for local flexible grants and statewide initiatives by 7.4%. All told, the 2009-11 General Fund approved spending level (after allotment reductions) was 9.5% less than the agency spent in the 2001-03 biennium. The 2011-13 legislatively adopted budget makes further reductions as detailed in the next section of this analysis.

Limited program funds and support services have affected both the State and local commissions' capacity. A notable example of this is in the Healthy Start home visitation program, the Commission's single largest program, which provides support for new families during the pre-natal period through age 3. Previous program evaluations 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 expected to serve fewer than half 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 2005 Legislature encouraged the Commission to target state program funds to high-risk first-birth families, rather than operate as originally designed as a "universal" program to offer services to all first-birth families.

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. The funding in the Commission's budget has allowed local programs to serve only about one-third of the children and youth who need a CASA volunteer.

Relief nurseries provide comprehensive family services for at-risk families, supported with $5.7 million total funds in the Commission's budget. Growing from one program in Lane County, there are now 15 programs operating in 13 counties. Over the past several biennia, the Legislature has added funding to support the start-up of new programs in ready communities, but no new programs are funded for the 2011-13 biennium.

The 2001 Legislature appropriated $17.7 million General Fund for juvenile crime prevention grants tied to SB 555 (1999). This funding has been reduced significantly over the past decade, to the extent that the grant program funding is now only about one-third of the original funding level.

Looking forward, significant changes in the State and local commission structures and existing programs could occur with implementation of the newly-created Early Learning Council (SB 909). The Governor's Office is to report to the Legislature in the February 2012 session on the results from the early learning design team process and an implementation plan for the Early Learning Council. Further, HB 3102 creates a Court Appointed Special Advocate (CASA) Task Force to study and make recommendations on the structure and operation for funding and administration of the CASA program. The Commission's 2011-13 legislatively adopted budget as described below could change significantly after proposals for the Early Learning Council and the CASA program are considered in the February 2012 legislative session. In addition to the Commission's budget, the statewide budget includes a special purpose appropriation to the Emergency Board of $17.6 million for early learning programs and services, which could be allocated at that time.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for the Commission, at $40.3 million General Fund and $62.8 million total funds, is 12.7% General Fund and 10% total funds lower than the 2009-11 legislatively approved budget level. All programs, with the exception of relief nurseries, are budgeted at less than the 2009-11 level due to a roll-up of the General Fund allotment reductions taken in the second year of the 2009-11 biennium, no inflationary increase, a 6.5% reduction in services and supplies expenditures, staffing reductions, and the 3.5% supplemental ending balance reduction adjustment taken in all agencies. For the Commission, the 3.5% totals $1.5 million General Fund. At this time, no program or administrative budget impacts are specifically tied to the $1.5 million reduction, since the funding might be restored in the February 2012 legislative session for the second year of the budget, depending on economic conditions.

The statewide program funding adjustments anticipated in the 2011-13 budget are described in more detail below. It should be noted that individual local commissions may have different levels of reductions, due to the allocation formula for specific programs or local choices made in implementing the General Fund allotment reductions in the last year of the 2009-11 budget period.

- Relief nurseries are funded at $3.6 million General Fund for the 2011-13 biennium, up 6.5% from the $3.4 million General Fund in the 2009-11 legislatively approved budget. An additional $2 million Other Funds also supports these programs.
- General Fund support for the statewide Healthy Start program and program staff is reduced by $2.1 million from the 2009-11 funding level, a 13.1% reduction, which leaves $14.1 million General Fund in the 2011-13 budget. This General Fund is supplemented with the $4 million in Other Funds from federal Medicaid matching funds transferred from the Department of Human Services.

- The Children, Youth and Families grant and the Great Start grant are reduced by 18.7% and 17.6%, respectively, from their 2009-11 statewide funding levels, to about $1.6 million General Fund each for the 2011-13 biennium.
- The local basic capacity grant that supports local commission operations is reduced by almost 9% overall, from $10.6 million General Fund in 2009-11 to $9.6 million General Fund in 2011-13.
- The Court Appointed Special Advocates (CASA) program that supports children in the foster care system is funded at $2.1 million General Fund, down 11% from the $2.4 million in the 2009-11 budget.
- General Fund for juvenile crime prevention grants and program staffing is reduced by 12.4% overall, with $5.8 million General Fund in the 2011-13 budget compared to $6.6 million in 2009-11. Oregon is also expected to continue receiving $4.3 million in federal juvenile crime prevention grants.
- Community Schools grants are reduced 8.1%, to $87,818 General Fund for the 2011-13 biennium.
- The Runaway and Homeless Youth program is transferred to the Department of Human Services, with a corresponding reduction of $159,913 General Fund and $600,000 Other Funds in this budget.

The 2011-13 legislatively adopted budget also reflects a total $1 million General Fund reduction in state office support and operating costs, a 41.6% drop from the $2.4 million General Fund in the 2009-11 legislatively approved budget. The budget eliminates five central office positions, including the agency administrator position. Central support and operational needs are expected to be reviewed again during the 2012 legislative session, as part of the overall discussion for the Early Learning Council.

Oregon Health Authority (OHA) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	1,553,376,197	1,461,404,697	1,750,220,034	1,721,639,876
Lottery Funds	12,637,762	10,903,639	11,142,377	10,779,583
Other Funds	1,444,908,082	1,661,707,350	1,514,812,956	1,989,328,229
Federal Funds	3,183,652,436	4,900,795,113	3,901,322,655	4,877,574,818
Other Funds (NL)	484,649,262	2,902,669,952	3,294,911,521	3,294,911,521
Federal Funds (NL)	101,996,686	104,800,827	107,103,462	107,103,462
Total Funds	**$6,781,220,425**	**$11,042,281,578**	**$10,579,513,005**	**$12,001,337,489**
Positions	3,351	4,030	3,695	4,089
FTE	2,976.58	3,638.62	3,629.84	4,033.27

NOTE: The Governor's Recommended column includes those programs that were proposed to be moved to the Early Learning Council. This allows comparisons with the 2011-13 Legislatively Adopted column.

Agency Overview

The Oregon Health Authority (OHA) is a new agency. It was created by the 2009 Legislature (HB 2009) to bring most health-related programs into a single agency to maximize its purchasing power and to contain rising health care costs statewide. OHA is overseen by a nine-member, citizen-led board called the Oregon Health Policy Board. Members are appointed by the Governor and confirmed by the Senate.

OHA's mission is to help people and communities achieve optimum physical, mental, and social well-being through partnerships, prevention and access to quality, affordable health care. It has three goals to transform the health care system in Oregon: improve the lifelong health of Oregonians; increase the quality, reliability, and availability of care for all Oregonians; and lower or contain the cost of care so it is affordable to everyone.

The Oregon Health Authority combines the Public Employees Benefit Board (PEBB), the Oregon Educators Benefit Board (OEBB), the Office of Private Health Partnerships, and the Oregon Medical Insurance Pool (OMIP; from the Department of Consumer and Business Services) with the health services programs from the Department of Human Services (DHS): Medical Assistance programs, Addiction and Mental Health programs, and Public Health programs. OHA will be the largest health care purchaser for the state of Oregon, purchasing health care for about 800,000 Medicaid clients, state employees, and local educators.

OHA is the largest agency within the Human Services program area, making up about 60% of total program area expenditures. Overall, OHA's 2011-13 legislatively adopted budget comprises about 12% of the state's combined $14.6 billion General Fund and Lottery Funds budget, and 21% of the state's total funds budget.

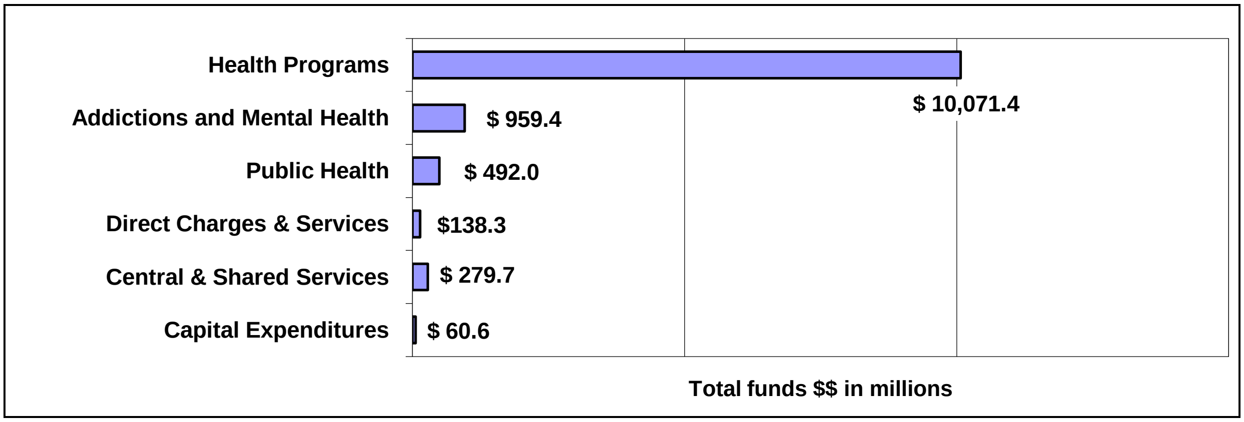
The numbers in all the charts for this agency have been adjusted in 2007-09 and 2009-11 to include the new programs that have been moved into OHA from other agencies for 2011-13. While these numbers are estimates, it does provide context for how the program costs have changed over time.

The OHA budget is organized into six program areas:

- ***Health Programs*** consists of four programs: the Medical Assistance Programs, which includes the Oregon Health Plan; the Public Employees Benefit Board; the Oregon Educators Benefit Board; and Private Health Partnerships.
- ***Addictions and Mental Health*** includes community mental health services; alcohol and drug treatment and prevention; the Oregon State Hospital and Blue Mountain Recovery Center; and gambling treatment and prevention.
- ***Public Health*** includes community health, environmental public health, family health, and disease prevention and epidemiology.
- ***Direct Charges and Services*** includes central government assessments and usage charges.
- ***Central and Shared Services*** includes the OHA Director's Office, central administrative and support functions and shared services, as well as the debt service payments on OHA's capital construction financing.

- Capital expenditures support the Oregon State Hospital (OSH) facility replacement project and limited capital improvements for OSH.

The chart below shows how OHA's $12,001.3 million total funds legislatively adopted budget for 2011-13 is allocated among these program areas.



Revenue Sources and Relationships

For the 2011-13 biennium, the General Fund supports 14% of OHA's budget. Almost all of the General Fund is used as match or to meet state maintenance of effort requirements to receive Federal Funds. The OHA budget includes $10.8 million of expenditure limitation to allow the use of statutorily dedicated Lottery Funds for gambling addiction prevention and treatment services.

Other Funds revenues, excluding Nonlimited, support 17% of OHA expenditures. These come from a wide variety of sources including tobacco taxes, Medicaid provider taxes, Article XI-Q bonds, grants, beer and wine taxes, fees, estate collections, health care premiums, third party recoveries, pharmaceutical rebates, transferred federal funds from other state agencies, and charges for services. 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 2009 Legislature approved new hospital taxes and health insurance premium assessments through September 30, 2013 (HB 2116). During the 2011 legislative session, significantly higher hospital taxes were negotiated in order to avoid large budget reductions in the Oregon Health Plan. The tax is increased from the old rate of 2.32%, potentially up to a rate of 5.25%. A portion of the increase is subject to approval by the Centers for Medicare and Medicaid Services (CMS).

This budget includes significant amounts of Nonlimited expenditures. Nonlimited expenditures are not constrained by a budgetary restriction and agencies may make these expenditures as long as revenue is available. Nonlimited Other Funds (27% of the total budget) primarily represent self-insurance payments in PEBB, and insurance premium payments in OEBB and OMIP. Nonlimited Other Funds also come from infant formula rebates in the Women, Infants and Children (WIC) program.

Overall, Federal Funds support 42% of OHA expenditures in the legislatively adopted budget for the 2011-13 biennium. Federal Funds subject to expenditure limitation are about $4.9 billion. The largest source of these Federal Funds comes from the Title XIX Medicaid program, and to a lesser extent, the Child Health Insurance Program (CHIP). Nonlimited Federal Funds are for the Women, Infants and Children (WIC) nutrition program.

Budget Environment

Given the broad range of Oregonians it serves, and multiple funding sources, OHA 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.

<u>Demographics and Economics</u>
Population changes, especially the number of people who are elderly, disabled, or living in poverty, greatly affect the need or demand for OHA services. The health of the economy also has a significant effect on this

budget. Typically, when the economy is poor, demand for OHA services increases and program caseloads grow. Although the caseload forecasts on which OHA's 2011-13 legislatively adopted budget is based have attempted to factor in economic conditions projected for the biennium, there is still considerable risk to OHA's budget as demand for its services often continues even as the economy recovers.

Federal Law and Funding

Federal revenue supports about 42% of OHA's total expenditures. Federal revenue is tied to a significant body of law and federal administrative rules. A number of OHA's 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 OHA's budget is used to match Federal Funds or to meet federal maintenance of effort (MOE) requirements. As a result, General Fund budget reductions 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, the new federal health care reform law requires states to maintain eligibility levels that were in place when the legislation passed, March 23, 2010. This eliminates one of the tools the state has used historically to control costs. In addition, the federal match rate for Medicaid services is significantly reduced in 2011-13 compared to last biennium when the state received the enhanced match rate included in the federal American Recovery and Reinvestment Act (ARRA). The OHA budget must adjust for such changing federal revenue estimates on an on-going basis.

Health Care Cost Inflation and Utilization

The biggest single share of OHA's budget is medical costs. At the legislatively adopted budget level, OHA uses $6.4 billion of its $12 billion total funds 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 has consumed a larger share of the total state budget.

Politics

About 79% of the OHA budget is earmarked for special payments to individuals, local governments, insurance companies, health care providers and suppliers, 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 OHA budget.

All of the factors described above 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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for the Oregon Health Authority is $1,721.6 million General Fund and $12,001.3 million total funds. For comparison, OHA's 2009-11 legislatively approved budget was $1,461.4 million General Fund and $11,042.3 million total funds. The 2011-13 legislatively adopted budget is 17.8% General Fund and 8.7% total funds more than the agency's 2009-11 legislatively approved budget; it is 1.6% General Fund less and 13.4% total funds more than the Governor's budget. These numbers do not include an $8 million special purpose appropriation that was appropriated to the Emergency Board for caseloads or other costs for programs and services, available for either the Oregon Health Authority or the Department of Human Services.

As in other agencies, OHA's 2011-13 legislatively adopted budget reflects several statewide budget adjustments. The budget includes the Governor's proposed 5.5% reduction to projected personal services costs, assuming savings from final employee compensation decisions. It also includes standard reductions to continue allotment reduction savings from the 2009-11 biennium, as well as the elimination of inflation. OHA's reduction for the statewide supplemental ending balance totals $62.4 million General Fund and $0.4 million Lottery Funds. At this time, no program or administrative budget impacts are specifically tied to this action; the funding may be restored in the February 2012 session for the second year of the budget, depending on economic conditions. All or part of this amount may be added back later in the biennium depending on economic conditions. Also, all General Fund services and supplies expenditures were reduced by 6.5% from the Governor's proposed budget level, a $6.7 million General Fund reduction across OHA.

Although the General fund budget increases $260 million over 2009-11, that does not begin to cover the back-fill of the nearly $700 million in one-time revenues that were used in the 2009-11 biennium – mostly from the ARRA federal stimulus package and provider tax ending balances. In order to avoid the large program cuts in the Medical Assistance Programs that would have resulted from this level of General Fund, significantly higher hospital provider taxes were negotiated during the legislative session. Even with these additional resources, reimbursement rates to providers will be less than in the 2009-11 biennium.

The adopted budget also assumes additional cost savings of $239 million in the second year of the biennium as a result of health care transformation (HB 3650), passed in the 2011 legislative session. This will result in an additional reimbursement reduction to providers in the second year. HB 3650 establishes the Oregon Integrated and Coordinated Health Care Delivery System in which Coordinated Care Organizations (CCOs) are used to improve health, increase the quality of care, and reduce costs. CCOs will be managed within fixed global budgets, and will be accountable for integrating physical, mental, and oral health care. CCOs are expected to operate under contracted performance standards to ensure that care is being improved while costs are reduced.

With the exception of the Medical Assistance Programs, most programs in the agency are funded at their 2009-11 levels. More detail follows on each of the five major program areas in OHA: Health Programs; Addictions and Mental Health; Public Health; Direct Charges; and Central and Shared Services.

OHA/Addictions and Mental Health (AMH) – Program Area Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	497,874,098	582,153,130	643,214,806	645,158,772
Lottery Funds	12,637,762	10,903,639	11,142,377	10,779,583
Other Funds	28,877,981	36,094,719	39,255,258	42,096,424
Federal Funds	198,089,900	281,842,375	280,582,976	261,410,057
Total Funds	**$737,479,741**	**$910,993,863**	**$974,195,417**	**$959,444,836**
Positions	1,888	2,417	2,179	2,369
FTE	1,588.89	2,121.48	2,153.57	2,351.99

NOTE: The Governor's Recommended column includes those programs that were proposed to be moved to the Early Learning Council. This allows comparisons with the 2011-13 Legislatively Adopted column.

Summary Description

The Addictions and Mental Health (AMH) 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 state hospital system which has facilities in Salem, Portland, and Pendleton. The budget also 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. Lottery funds are used to fund the Gambling Addiction and Treatment Program. The Gambling Addiction and Treatment Account normally receives 1% of net lottery proceeds. For the 2011-13 biennium, the Legislature approved a fixed amount of funding for this program that is nearly 1%.

Federal Funds revenue of $261 million in the 2011-13 legislatively adopted budget is dominated by Medicaid, which accounts for about 82% 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 Medicaid match rate used in the 2011-13 budget for program expenditures is approximately 37% state funds and 63% Medicaid funds. The enhanced match rate that was included in the federal American Recovery and Reinvestment Act (ARRA) ends as of June 30, 2011. 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. In the future, the Mental Health and Substance Abuse Treatment and Prevention block grants are being consolidated by the federal government. In addition, the Department was awarded two grants from the Substance Abuse and Mental Health Services Administration (SAMHSA) for addictions treatment and prevention. Both these grants end in 2014 and provide $5.4 million annually until that time.

Budget Environment

Over the last 40 to 50 years, mental health services have become less institutional and centralized and more community-based. The continued development of community residential capacity, and the advancement of pharmacological treatment has also enabled more mental health services to be provided at the community (rather than institutional) level. This trend continues today. The challenge of this budget is to find a balance between institutional and community-based services, for both mental health services and alcohol and drug treatment, which maintain an appropriate continuum of care.

In September 2010 the agency began implementation of the Adult Mental Health Initiative (AMHI). A key strategy under AMHI is to transfer the full responsibility for managing residential services to the mental health organizations. The goal is to transition patients through the system to the appropriate level of care much more quickly than often happened in the past. This initiative has the potential for significant cost savings in the system.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $959.4 million total funds is $48 million, or 5.3%, higher than the 2009-11 legislatively approved budget. General Fund supporting the adopted budget is $645.2 million, which is $63 million (10.8%) higher than the 2009-11 spending level, and about the same as the 2011-13 Governor's budget.

The significant budgetary increase from the 2009-11 biennium to the 2011-13 biennium is primarily the result of caseload increases, the backfill of one-time federal revenue, and the phase-in of hospital staff added in 2009-11 to full biennial costs. Other budget adjustments include reductions for the continuation of allotment reductions implemented in the 2009-11 biennium, as well as significant program cuts proposed in the Governor's budget that were partially restored in the legislatively adopted budget.

The community mental health system is funded at approximately 2009-11 funding levels plus caseload increases. Addiction services are also funded at 2009-11 spending levels. The Oregon State Hospital funding includes the cost of phasing in the new positions added in 2009-11 to their full biennial cost. The Governor's budget included a $36 million General Fund reduction to the hospital budget, or about a 10% reduction. The legislatively adopted budget restores $11.9 million of that reduction in order to prevent ward closures in the newly constructed Salem campus. The new system for electronic medical records and hospital management, known as Avatar – a system developed in partnership with Netsmart Technologies – is also funded in this budget. The project to develop this system has been referred to as the Behavioral Health Integration Project (BHIP).

The adopted budget includes standard reductions to continue allotment reduction savings from the 2009-11 biennium, the elimination of inflation, and a reduction in personal services compensation. The budget is also reduced by $3.4 million General Fund and $0.1 million Lottery Funds as a result of the statewide 6.5% services and supplies reduction, and the supplemental ending balance hold back reduces the budget by $23.4 million General Fund and $0.4 million Lottery Funds.

Two policy bills were passed by the Legislature that will affect the mental health system in Oregon. Both are intended to ensure that people receive the appropriate level of care, and to ultimately reduce costs in the system. HB 3100 affects the "front door" of the state hospital. It requires an evaluation by a certified forensic evaluator before a defendant can be found guilty except for insanity, and sets up a certification process for those evaluators. It also reduces admissions to the state hospital for persons unfit to proceed, and removes misdemeanants from Psychiatric Security Review Board (PSRB) jurisdiction under certain circumstances. SB 420 affects the "back door" of the state hospital. For persons found guilty except for insanity of a non-Measure 11 crime, jurisdiction changes to OHA rather than PSRB. For those under the jurisdiction of OHA, OHA will then decide when a person can be released back into the community. The agency budget includes an additional $878,360 General Fund and three positions to implement these two bills. Most of these resources are included in the AMH budget.

The Governor's budget proposed a transfer of children's mental health funding to a new entity called the Early Learning Council. This transfer would have reduced the AMH budget by $21.1 million General Fund and $2.6 million Federal Funds. That program remains within this budget, and for the sake of comparison is also included in AMH in the Governor's budget numbers.

AMH – Programs

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	479,758,785	564,089,779	625,408,222	627,838,515
Lottery Funds	9,466,762	8,426,341	8,426,341	8,267,078
Other Funds	28,042,517	31,474,270	33,722,938	34,051,431
Federal Funds	191,270,061	270,871,409	270,213,454	251,386,406
Total Funds	**$708,538,125**	**$874,861,799**	**$937,770,955**	**$921,543,430**
Positions	1,656	2,268	2,031	2,219
FTE	1,426.81	1,978.68	2,012.97	2,209.93

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. Medicaid-eligible persons receive mental health diagnoses and treatment under the Oregon Health Plan (OHP). Mental health organizations receive capitation payments and manage much of the risk of providing treatment for 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 Health Programs.

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 Blue Mountain Recovery Center (BMRC). The FTE associated with this budget are state employees who work at the OSH or BMRC.

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 OSH. For individuals and services not covered under OHP, AMH 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 counties, tribes, 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 Driving Under the Influence of Intoxicants (DUII) education and treatment for first offender diversion referrals, as well as convicted repeat offenders. This program area also includes Lottery funding for gambling addiction prevention and treatment.

Oregon State Hospital and Blue Mountain Recovery Center – The state operates institutional facilities in Salem, Portland, and Pendleton for patients who have a severe mental illness. OSH provides psychiatric evaluation and diagnosis, as well as intermediate and long-term inpatient care. A project is currently underway to replace the old facilities in Salem with a modern psychiatric treatment and recovery facility, which is expected to be complete at the end of 2011 and have a capacity of 620 beds. A second new facility, located in Junction City, is in the planning stage. The Oregon State Hospital facility in Portland serves 92 patients in leased space near the Lloyd Center. The Blue Mountain Recovery Center in Pendleton serves 60 adult general psychiatric patients at any one time.

Revenue Sources and Relationships

Funding for mental health and alcohol and drug treatment programs is about 68% General Fund, 5% Other Funds and Lottery Funds, and 27% 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, as noted above, about 63% for program services. About 1.6% of the program budget is for county administration, and is at a 50% match rate. The program 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 $43 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 settlements with third-party insurers, patient resources, beer and wine tax receipts, Lottery Funds for the prevention and treatment of gambling addictions, and earnings for patient work. The legislatively adopted budget includes a Lottery Funds expenditure limitation of $8.3 million to fund the Gambling Addiction and Treatment Program. Other Funds revenue also consists of patient resources including Social Security benefits and private insurance, as well as personal assets.

Budget Environment

Mental illness 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.

A series of legal proceedings has had a significant impact on Oregon's mental health system. The Olmstead case in Georgia 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, the Department of Human Services (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 which 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. More recently, a March 2006 settlement agreement in the lawsuit *Harmon v. Fickle* requires OSH to achieve higher staffing ratios to improve patient care.

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. In 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, the Department completed extensive planning, and finally, in September 2008 broke ground for the new Salem facility. The budget for both the facilities was originally about $458 million. However, in order to provide adequate treatment as described in the hospital's Continuous Improvement Plan supported by the U.S. Department of Justice (USDOJ) report issued in January 2008, the square footage of the hospital is nearly 30% larger than originally budgeted. The final cost of the Salem facility is now expected to be roughly $390 million.

While much of the legislative and public's attention has been on the new hospital facilities, the Department also worked hard to develop additional community mental health residential treatment placements. These efforts have been difficult and AMH has encountered opposition from communities that are reluctant to site residential treatment facilities that will serve former OSH patients – particularly forensic patients. In 2008, the Governor appointed a workgroup to assess the situation and make recommendations. The group issued a report in 2009.

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. Housing and facility development continues as part of caseload growth planning.

As a more recent backdrop to all of this, USDOJ conducted a review of OSH under the Civil Rights of Institutionalized Persons Act (CRIPA) and issued a highly critical report in January 2008. 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 set aside $6.7 million General Fund during the February 2008 special session, and later allocated the funds to hire additional OSH staff. An additional 527 positions were added in the 2009-11 legislatively adopted budget for OSH, at a cost of $36 million total funds. USDOJ has continued to scrutinize the Oregon system, and have recently appeared to be focused on the community-based services. They requested extensive documentation relating to services being provided in the least restrictive and most appropriate setting (as required by the Olmstead case).

An on-going agency initiative to transform the mental health system is called the Adult Mental Health Initiative (AMHI). Implementation began in September 2010. A key strategy under AMHI is to transfer the full responsibility for managing residential services to the mental health organizations. The goal is to transition patients through the system to the appropriate level of care much more quickly than often happened in the past. This initiative has the potential for significant cost savings in the system.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $921.5 million total funds is about $47 million, or 5.3%, higher than the 2009-11 legislatively approved budget. General Fund supporting the adopted budget is $627.8 million, which is about $64 million (11.3%) higher than the 2009-11 spending level, and about the same as the 2011-13 Governor's budget. The significant budgetary increase from the 2009-11 biennium to the 2011-13 biennium is primarily the result of caseload increases ($27 million General Fund), the backfill of one-time federal revenue ($26 million General Fund), and the phase-in of hospital staff added in 2009-11 to full biennial costs ($58 million General Fund).

The community mental health system is funded at approximately 2009-11 funding levels plus caseload increases. While the Governor's budget included a number of cuts to this system, the adopted budget restores $15 million General Fund. The budget maintains funding for the Suicide Hotline at the 2009-11 level. Addiction services are also funded at about 2009-11 spending levels.

The Oregon State Hospital funding includes the cost of phasing in the new positions added in 2009-11 to their full biennial cost. The Governor's budget included a $36 million General Fund cut to the hospital budget, or about a 10% reduction. The legislatively adopted budget restores $11.9 million of that reduction in order to prevent ward closures in the newly constructed Salem campus. The hospital plans to take a number of management actions to implement this reduced budget, including holding some non-direct care positions vacant, reducing overtime and contract nursing services, and increasing Medicare billings. The adopted budget includes the elimination of eight management positions as part of the agency management plan. The AMH budget includes $4.3 million General Fund to implement the new system for electronic medical records and hospital management known as Avatar.

The adopted budget includes standard reductions to continue allotment reduction savings from the 2009-11 biennium, the elimination of inflation, and a reduction in personal services compensation. In addition, the budget is reduced by $3.4 million General Fund, primarily in the Oregon State Hospital, as a result of the statewide 6.5% services and supplies reduction. The supplemental ending balance hold back reduces the program budget by $22.8 million General Fund and $0.3 million Lottery Funds.

AMH – Program Support and Administration

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	18,115,313	18,063,351	17,806,584	17,320,257
Lottery Funds	3,171,000	2,477,298	2,716,036	2,512,505
Other Funds	835,464	4,620,449	5,532,320	8,044,993
Federal Funds	6,819,839	10,970,966	10,369,522	10,023,651
Total Funds	**$28,941,616**	**$36,132,064**	**$36,424,462**	**$37,901,406**
Positions	232	149	148	150
FTE	162.08	142.80	140.60	142.06

Program Description

This budget unit includes staffing to manage and administer AMH prevention, and community-based addiction, gambling, and mental health services. A number of positions and related expenditures used to increase OSH staffing ratios were transferred from the program support and administration budget to the program budget for the 2009-11 biennium. The OSH budget is a part of the AMH program budget.

Revenue Sources and Relationships

Lottery and Other Funds constitute 28% of the program support and administration budget for AMH, while 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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for AMH program support and administration is about $37.9 million total funds and $17.3 million General Fund. The General Fund budget is 4.4% less than the 2009-11 legislatively approved budget, and also slightly less than the Governor's budget. The adopted budget includes reductions for the continuation of allotment reductions implemented during the 2009-11 biennium, as well as services and supplies reductions and a $0.6 million General Fund and $0.1 million Lottery Funds reduction as a result of the supplemental ending balance hold back. Five vacant positions were eliminated for a savings of $0.4 million total funds. Finally, the adopted budget includes an additional $100,000 General Fund for Oxford Houses.

OHA/Health Programs – Program Area Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	924,283,536	726,423,629	927,628,388	914,450,359
Other Funds	1,230,243,760	1,213,880,749	1,092,772,597	1,664,199,641
Federal Funds	2,688,870,686	4,248,325,814	3,289,615,065	4,237,803,490
Other Funds (NL)	446,265,208	2,862,669,952	3,254,911,521	3,254,911,521
Total Funds	**$5,289,663,190**	**$9,051,300,144**	**$8,564,927,571**	**$10,071,365,011**
Positions	288	370	341	543
FTE	268.31	340.75	329.33	527.82

Summary Description

Health Programs consists of Medical Assistance Programs, Public Employee Benefit Board (PEBB), Oregon Educators Benefit Board (OEBB), and Private Health Partnerships, as well as program support and administration. It is the largest of the Oregon Health Authority program area budgets, and the 2011-13 legislatively adopted budget includes over $914 million of General Fund.

The ***Medical Assistance Programs*** include the Oregon Health Plan (OHP), Non-Oregon Health Plan (Non-OHP), and the Children's Health Insurance Program (CHIP). Almost all the General Fund in Health Programs is contained in these three programs.

OHP is expected to provide medical care to over 600,000 low income Oregonians in 2011-13. 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 and the Family Health Insurance Assistance Program (FHIAP).

The Non-OHP budget includes payments on behalf of Qualified Medicare Beneficiaries for certain forms of Medicare cost sharing such as co-payments or coinsurance. This budget also contains a General Fund "clawback" payment to the federal government that is required under the Medicare Modernization Act (MMA). In addition, this part of the budget includes funding for the state's Breast and Cervical Cancer program and the Citizen Alien Waived Emergency Medical program.

The 2009-11 budget included the implementation of two service expansions: the Health Care for All Oregon Children initiative (Healthy Kids), and doubling the size of the OHP Standard program. These expansions were funded with a newly established health care premium assessment of 1% and a re-structured Medicaid hospital provider tax, respectively, included in HB 2116. Both of these programs continue in 2011-13.

The ***Public Employees Benefit Board*** contracts for and administers medical and dental insurance programs for state employees and their dependents, representing about 128,000 Oregonians.

The ***Oregon Educators Benefit Board*** contracts for and administers medical and dental insurance programs for various school, education service, and community college districts throughout the state.

The ***Private Health Partnerships*** includes FHIAP which provides health insurance premium subsidies to previously uninsured, low-income families and individuals. It also includes Healthy KidsConnect which is the private market insurance component of the state's Healthy Kids program. It provides choices for families that earn too much to qualify for OHP, but cannot afford to pay the full cost of private health insurance premiums. This unit also includes the Oregon Medical Insurance Pool (OMIP) and Federal Medical Insurance Pool (FMIP), which offer guaranteed issue health insurance coverage for individuals who are unable to obtain medical insurance because of health conditions, regardless of income level.

The ***Program Support and Administration*** budget provides funding for staff who provide policy direction and administrative support for all 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 $334 million), Medicaid provider taxes (about $947 million), 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 and Oregon Health and Science University) funds eligible for federal match.

In order to avoid large program reductions during the 2011-13 biennium, significantly higher hospital provider taxes were negotiated during the legislative session. These increased provider taxes are expected to generate up to $460 million in additional Other Fund revenue and almost $1.2 billion in additional resources when the federal matching revenue is included.

PEBB and OEBB collect premiums for all insured individuals, and then purchase insurance with those revenues. The expenditures are shown as Nonlimited Other Funds in the budget. These programs combined account for over $2.8 billion in Other Funds Nonlimited, or 28% of the total funds budget for Health Programs. PEBB and OEBB fund their operational costs through an administrative charge (assessment) added to the employees' health insurance premiums. OMIP is funded with premiums collected from insured individuals and insurer assessments, while FMIP is funded with a combination of premiums collected from insured individuals and federal revenues.

Federal Funds revenue sources are mainly two: Medicaid, which accounts for more than 90% of the division's Federal Funds, and 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 2011-13 budget for Medicaid is approximately 37% state funds and 63% Medicaid funds for most services. This match rate is significantly reduced from last biennium, when the state received the enhanced match rate included in the federal American Recovery and Reinvestment Act (ARRA), at about 30% state funds and 70% federal funds. (Medicaid staffing expenditures, such as those in program support and administration are generally funded with half state funds and half Federal Funds.) CHIP funds also require state matching funds. The match rate for CHIP is about 26% state funds to 74% 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

In March 2010, Congress passed federal health care reform legislation, the Affordable Health Care Act, which is intended to reduce health care spending over the next decade. It will expand health care coverage to an estimated 500,000 additional Oregonians by 2014 through a combination of subsidized private insurance and expanded Medicaid coverage. Federal subsidies to states will cover 100% of the additional cost of those who are newly eligible through 2016. It also allocates money to improve quality and halts certain insurance practices. In addition, the law creates exchanges or marketplaces for health insurance in 2014. The Oregon Health Insurance Exchange was established in SB 99, passed during the 2011 legislative session.

HB 2009, from the 2009 legislative session, began Oregon's version of health care reform. It created the Oregon Health Authority and the Oregon Health Policy Board. The Board is charged with coordinating the state's existing patchwork system of purchasing and regulating health care, community services, and workforce training. The Board has been involved in making recommendations on the health care workforce, medical liability, population health, integrated primary care, health purchasing, administrative simplification, and technology.

Oregon, like all other states, has taken an incremental approach to controlling cost growth in Medicaid programs in recent years. Historically, three main levers have been used to control the OHP budget: limit client eligibility, reduce client benefits, and cut provider reimbursement. All three of these tools are problematic. With the 2011-13 budget, the new federal health care reform law requires states to maintain eligibility levels that were in place as of March 23, 2010. Therefore, this tool is no longer available to the state. Also, reducing clients does not address recognized structural flaws in the current health care system. Reducing client benefits is only of limited value under current Medicaid rules since the majority of health care reimbursement is for hospital care or physician services, both of which are mandatory Medicaid services. Oregon can reduce or eliminate optional Medicaid services, such as prescription drugs, dental, therapies, rehabilitation, optometry, preventative and diagnostic services. However, many of these services prevent more expensive alternatives such as hospitalization. Finally, cutting provider reimbursement will eventually limit access to medical services to low-income Oregonians.

The other option for reducing costs in the system is to structurally change the health care delivery system in Oregon, consistent with the goals of the federal health care reform and HB 2009. This is a health care system that funds services to improve population health, and prioritizes prevention services while removing resources from the back end of the system, primarily hospital care. In addition, administrative costs in the system must be substantially reduced. The challenge for the 2011-13 budget is that reform measures may not produce enough savings in this short timeline.

Finally, the OHP budget is greatly influenced by economic conditions. As a general rule, when the economy is not doing well, more people are without medical coverage and seek Medicaid services. Caseloads are expected to remain high throughout the 2011-13 budget period. Approximately 600,000 Oregonians are forecasted to need some type of OHP coverage during 2011-13, an increase of 14% over 2009-11.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for Health Programs is $10.1 billion total funds ($914.5 million General Fund). This budget is $1 billion, or 11%, higher than the 2009-11 legislatively approved budget and $1.5 billion or 18% higher than the Governor's budget. General Fund in the adopted budget is $188 million, or 26%, higher than the 2009-11 approved budget.

Although the General Fund increases $188 million over the 2009-11 biennium, that does not begin to cover the back-fill of more than $600 million in one-time revenues that were used in the 2009-11 budget – mostly the enhanced FMAP that was provided to states as part of the ARRA stimulus package.

The adopted budget includes standard reductions to continue allotment reduction savings from the 2009-11 biennium, the elimination of inflation, and a reduction in personal services compensation. The budget is also reduced by $0.8 million General Fund as a result of the 6.5% reduction to services and supplies, and the 3.5% supplemental ending balance hold back reduces the budget by $33.1 million General Fund for Health Programs.

The Governor's budget proposed reductions to provider reimbursement rates of 19% from the 2009-11 level. The adopted budget mitigates that reduction, primarily through an increase in hospital provider tax. This negotiated hospital tax increase provides about $260 million in additional revenues to bring the average provider rate reimbursement reduction down to 11.2%. Up to an additional $200 million in resources will be available to the hospitals. When the federal matching funds are included, this represents a total funds increase of almost $1.2 billion.

As in the Governor's budget, the adopted budget assumes that cost savings of $239 million in the second year of the biennium will result from health care transformation, including changes implemented in HB 3650, passed in the 2011 legislative session. HB 3650 establishes the Oregon Integrated and Coordinated Health Care Delivery System in which Coordinated Care Organizations (CCOs) are used to improve health, increase the quality of care, and reduce costs. CCOs will be managed within fixed global budgets, and will be accountable for integrating physical, mental, and oral health care. CCOs are expected to operate under contracted performance standards to ensure that care is being improved while costs are reduced.

The budget also includes a number of benefit changes that result in savings. This includes expanded prior authorizations, a change in pharmacy reimbursement, and selective co-pays, among others. It also includes eliminating 13 conditions from the priority list for the Oregon Health Plan. Finally, the budget assumes several administrative efficiencies, including additional third party collections and the submission of medical claims electronically.

Health Programs – (Special Payments Only)

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	902,665,556	697,243,798	899,629,484	878,236,706
Other Funds	1,209,889,241	1,152,847,897	1,057,218,418	1,609,216,777
Federal Funds	2,660,433,030	4,142,352,324	3,240,103,020	4,170,024,067
Other Funds (NL)	446,265,208	2,862,669,952	3,254,911,521	3,254,911,521
Total Funds	**$5,219,263,035**	**$8,855,113,971**	**$8,451,862,443**	**$9,912,389,071**

Program Description

Medical Assistance Programs

For budgetary purposes, Medical Assistance Programs 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.

The ***Oregon Health Plan*** legislatively adopted budget for the 2011-13 biennium is about $645 million General Fund – about 73% of the $878 million of General Fund special payments made by Health Programs. 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 eligibility 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 have been used to control the OHP budget.

<u>Eligibility for OHP</u>

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. In the past if a state wanted to reduce eligibility, it had to receive approval from CMS to do so. The new federal health care reform law requires states to maintain eligibility levels that were in place as of March 23, 2010.

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 Supplemental Security income (SSI). The SSI grant is currently $674/month for a household of one, which represents 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.
7. Adults with incomes under 100% of FPL who are not eligible for Medicare may be eligible for the OHP Standard program. Due to cuts in the state's General Fund, OHP Standard closed to new enrollment in 2004. Since that time the program has relied primarily on provider taxes as its state revenue source, allowing a biennial average enrollment of about 24,000 clients. However, the Medicaid hospital provider

tax was restructured during the 2009 legislative session and approved as part of HB 2116, providing funding for another 35,000 adults to enroll in OHP Standard. Medicaid managed care plans will continue to be assessed through a health insurance premium tax – also part of HB 2116. This latter assessment will be used to support the newly established Health Care for All Oregon Children program.

OHP Benefits

All those eligible for 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. Vision services (except those deemed medically necessary) for non-pregnant adults were eliminated from the budget during the 2009 legislative session.

Currently, the OHP Standard benefit package is less comprehensive, and excludes transportation, vision, and a portion of the dental services. The hospital benefit covers only emergency services and hospital admission through the emergency department for conditions for which prompt treatment would prevent life-threatening health deterioration. 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.

However, the 2011-13 legislatively adopted budget increases the OHP Standard hospital benefit to be the same level as the OHP Plus hospital benefit, effective January 1, 2012. By increasing the OHP Standard hospital benefit, the state will provide additional coverage for inpatient and outpatient services and will not be limited to urgent and emergent diagnoses.

Underlying all the benefits for both OHP Plus and Standard is the OHP "prioritized list of services." 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 OHA, 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.

OHP Provider Reimbursement

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. About 80% of those eligible are served through managed care organizations (other than those providing dental services), which receive capitation payments from OHA and who assume the risk of providing necessary medical services for their members. The remaining 20% are served on a fee-for-service basis. Dental care organizations (managed care organizations providing dental services) serve nearly 95% of those OHP clients eligible for dental coverage.

The ***Non-Oregon Health Plan*** budget includes several 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 ($165.6 million General Fund and total funds), and expenditures for the Citizen Alien Waived Emergency Medical (CAWEM) program ($57.5 million total funds), and women eligible for the Breast and Cervical Cancer Prevention and Treatment Program ($27.4 million total funds). This budget also includes assistance for low-income Medicare clients which covers Medicare deductibles, coinsurance, and copayments ($20.1 million total funds), and limited prescription drug coverage for select former clients of the Medically Needy Program. The entire Non-OHP legislatively adopted budget for 2011-13 is $299.1 million total funds ($204.9 million General Fund).

The ***Children's Health Insurance Program*** is a federal (Title XXI of the Social Security Act) program designed to improve the health of children by increasing their access to health care services. Oregon's CHIP program was implemented in July 1998. Oregon's policy makers took advantage of the more favorable federal CHIP match rate (currently about 74% for CHIP versus 63% 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 200% FPL. Those eligible for CHIP receive the OHP Plus benefit package. The 2011-13 adopted budget for CHIP is $373.2 million total funds ($18 million General Fund).

Public Employees Benefit Board
PEBB contracts for and administers medical and dental insurance programs for state employees and their dependents, representing about 128,000 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. PEBB began to move toward self-insurance in 2006. By 2010, 85% of participants were enrolled in self-insured medical and visions plans, and 75% were enrolled in self-insured dental plans. The 2011-13 adopted budget for PEBB is $1.41 billion Other Funds Nonlimited.

Oregon Educators Benefit Board
OEBB was created in 2007. The Board designs, contracts, and administers benefit plans for about 145,000 educational entity employees and early retirees, and their eligible dependents, in 231 school districts, education service districts, community colleges, and charter schools throughout Oregon. 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. The 2011-13 legislatively adopted budget for OEBB is $1.44 billion Other Funds Nonlimited.

Private Health Partnerships
The ***Family Health Insurance Assistance Program*** was created in 1997 as an expansion of OHP and is regulated by federal Medicaid waivers and administrative rules. It provides direct premium subsidies to low-income individuals up through 200% of FPL who may earn too much to qualify for Medicaid, but not enough to afford private health insurance. Depending on family income, subsidies range from 50% to 95% of the premium cost for adults, and 100% for children up to age 19. The 2011-13 legislatively adopted budget for FHIAP is about $51.8 million total funds ($8.9 million General Fund). As of August 2011, about 7,790 members were enrolled in the program, while more than 36,800 people remained on the reservation list. This budget assumes that FHIAP will be closed to new adult applications starting the 2011-13 biennium and enter a period of natural attrition, during which 8,100 covered lives will be reduced to 6,400 by the end of the biennium.

To qualify for a FHIAP subsidy, members must have been uninsured for two months. Members can serve this period of uninsurance while waiting on the reservation list. There are a few exceptions to the uninsurance period including, but not limited to enrollment in OHP or loss of insurance due to change in employment. In addition to a portion of the monthly premium, members are responsible for any co-payments, co-insurance, and deductibles of the plan they select. Enrollment is on a first-come, first-served basis.

Healthy KidsConnect (HKC) is the private sector component of the **Healthy Kids Program**, which was created by the 2009 Legislative Assembly as part of the Health Care for All Oregon Children initiative, established in HB 2116. While the bulk of the expenditures for Healthy Kids are included in the Medical Assistance Programs' budget, Private Health Partnerships' budget includes funding for premium subsidies for the private health insurance coverage offered in HKC. Healthy KidsConnect contracts directly with commercial health insurance carriers for benefit plans that are comparable to the OHP Plus benefits.

Private Health Partnerships provides premium subsidies to families with household incomes above 200% and through 300% FPL. Families may use these subsidies (85 or 90 percent of monthly premiums) to purchase health insurance through Healthy KidsConnect contracted carriers or insurance through their employer, as long as the employer plan meets federal benefit standards. Families over 300% of the federal poverty level can still enroll their children in HKC, but are not eligible for subsidies. The legislatively adopted budget for Healthy KidsConnect in 2011-13 is $84.9 million total funds. This budget assumes an end of biennium enrollment in Healthy KidsConnect of 14,860 and a monthly average of 10,050. Current enrollment in HKC is 5,279 children as of August 2011.

Health insurer's premium tax is used to help fund both FHIAP and HKC. The tax is forecast to generate $28.3 million Other Funds revenue for these programs during the 2011-13 biennium.

The ***Oregon Medical Insurance Pool (OMIP)*** and ***Federal Medical Insurance Pool (FMIP)*** are the high-risk health insurance pools for the State of Oregon. The high-risk pools serve Oregonians who cannot get private health insurance because of pre-existing medical conditions, regardless of income level. OMIP also serves as Oregon's portability option for residents who are eligible for portability coverage, but have no access to a commercial portability plan. The 2011-13 legislatively adopted budget for OMIP is $411.7 million Other Funds Nonlimited, while the budget for FMIP is $41.3 million Other Funds and $41.3 million Federal Funds.

Revenue Sources and Relationships

The federal government will fund approximately 63% of OHP Medicaid costs during the 2011-13 biennium. Most of the state's 37% match comes from the General Fund, tobacco taxes, a hospital Medicaid provider tax, and a health care premium tax to support children's health care that was established in 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.

A large hospital provider tax increase was negotiated during the 2011 legislative session. The rate is expected to increase from the 2.32% rate at the end of the 2009-11 biennium to a rate up to 5.25%. Part of this increase is subject to federal approval, and the final rate could be somewhat less. These increased provider taxes are expected to generate up to $460 million in additional Other Fund revenue and almost $1.2 billion in additional resources when the federal matching revenue is included.

The adopted budget uses $30 million of the Tobacco Master Settlement Agreement (TMSA) in lieu of General Fund, for the Oregon Health Plan.

PEBB and OEBB collect premiums for all insured individuals, and then purchase insurance with those revenues. The expenditures are shown as Nonlimited Other Funds in the budget. OMIP is funded with premiums collected from insured individuals and insurer assessments. Enrollee monthly premiums fund about 55% of OMIP expenditures, while assessments on health insurers fund approximately 45%. FMIP is funded by a combination of member premiums and funds from the federal government.

Budget Environment

Many factors affect the budget of Health Programs, including population growth and aging; policies of other OHA and 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 changes resulting from the federal health care reform, as well as HB 2009, Oregon's health care reform, have been discussed above. The hope is that in the longer run these reforms will reduce costs in the system. However, in the short run, significant reductions to programs have been needed to balance the 2011-13 state 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. The caseload forecasts for the OHP used to generate the 2011-13 legislatively adopted budget were developed in the spring of 2011. These forecasts used actual data through September 2010– two years and nine months prior to the end of the 2011-13 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, OHA 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 can 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. It remains to be seen whether the recent federal health care reforms will significantly reduce these cost trends.

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 37% state to 63% 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 Medical Assistance 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 of the savings states would have realized 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.

More recently, in December 2006, Congress passed the Tax Relief and Health Care Act which temporarily lowered the ceiling for Medicaid provider taxes from 6% to 5.5%. This will go back to 6% in October 2011 unless altered by Congress. Discussions in recent months regarding the federal deficit have led to increasing concerns among states that the federal government may significantly reduce their contribution to the Medicaid program.

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, the agency and the Legislature have looked to alternative methods of budgetary control, such as eliminating specific services or eligibility groups, finding greater efficiencies in delivering care, changing the effective dates of eligibility, and attempting to control medical costs through managed care.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $9.9 billion total fund ($878 million General Fund) is almost $1.1 billion, or 11.9% higher than the 2009-11 legislatively approved budget. Adopted budget General Fund is $181 million, or 26%, more than the 2009-11 budget level.

The 2009-11 budget used over $600 million of one-time revenues that were not available in the 2011-13 period. An increase in hospital provider tax replaced a portion of that one-time revenue. While the Governor's budget proposed reductions to provider reimbursement rates of 19% from the 2009-11 levels, the increase in hospital provider tax brought this down to an average of 11.2% reduction. Additional provider tax resources will be available to hospitals to bring their rate reduction down even further. Hospital provider taxes will also be used to increase the intergovernmental transfer to Oregon Health and Sciences University by $12 million, and to fund an enhanced hospital benefit package for the OHP Standard program beginning January 1, 2012 ($13.9 million).

In spite of this large increase in hospital provider tax, the adopted budget assumes $239 million General Fund savings in the second year of the biennium as a result of health care transformation. The passage of HB 3650, as well as other policy bills, will provide the health care system with tools to help bring down costs to providers. However, there are on-going concerns that the system cannot transform as quickly as assumed in the budget.

Insurer's premium assessments continue to fund the Healthy Kids program. In addition, $10 million of insurer's tax is used to prevent reimbursement reductions to primary care providers, in order to maintain access to health care for children. Likewise, $13.3 million is used in order to avoid cuts to children's health services. Outreach efforts for Healthy Kids is reduced by $2.5 million in order to reprioritize those dollars for direct service, as described above.

A number of benefit changes is expected to generate $7.8 million General Fund savings. This includes a streamlined prior authorization process, a new reimbursement methodology to pharmacies, and a reduction in the use of non-preferred drugs. The budget does include funding for mental health drugs without the use of an enforceable preferred drug list. The agency also expects to realize $8.9 million in savings through various administrative efficiencies, including continuous improvement initiatives, additional savings from third party liability efforts, and savings from drug rebate changes as a result of national health care reform. Both the benefit changes and administrative efficiencies include small investments in staff in the Program Support and Administration unit. In addition, the Governor's budget proposed eliminating 39 lines from the OHP priority list for a savings of $29.1 million General Fund. The legislative budget adds back $22.2 million General Fund to restore 26 of the 39 lines.

The adopted budget includes $12.5 million General Fund to eliminate rate reductions for all Type A and B hospitals. Additional General Fund resources were added to the budget to mitigate rate reductions for rural ambulances ($300,000) and durable medical equipment ($600,000).

The legislatively adopted budget funds SB 433 which expands medical assistance eligibility for low-income and uninsured women diagnosed with breast or cervical cancer ($3.7 million total funds), and SB 608 to continue to provide medical liability insurance premium subsidies to physicians and nurse practitioners in underserved rural communities ($6.1 million total funds).

Finally, the 2011-13 budget includes $41.3 million Other Funds and $41.3 million Federal Funds expenditure limitation for the new Federal Medical Insurance pool (FMIP).

Health Programs – Program Support and Administration

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	21,617,980	29,179,831	27,998,904	36,213,653
Other Funds	20,344,519	61,032,852	35,554,179	54,982,864
Federal Funds	28,437,656	105,973,490	49,512,045	67,779,423
Total Funds	**$70,400,155**	**$196,186,173**	**$113,065,128**	**$158,975,940**
Positions	288	370	341	543
FTE	268.31	340.75	329.33	527.82

Program Description

This budget unit includes funding for the staff that administer Health Programs. This includes the Medical Assistance Programs, PEBB, OEBB, Healthy Kids, and Private Health Partnerships. Of the $159 million total funds legislatively adopted budget for 2011-13, about 47% is used for personal services (salary, and other payroll expenses such as medical insurance, Public Employee Retirement System contributions, or Social Security taxes). Almost half the budget is for services and supplies. This includes professional services, such as actuarial, pharmacy benefit management, or disease management services. The other services and supplies' budget is used for office expenses, telecommunication, publications, IT equipment, Attorney General costs, and training. The budget also includes a $4.4 million total funds payment to the State Commission on Children and Families for its Healthy Start program. The Commission transfers General Fund to Medical Assistance Programs where it is matched with federal administrative Medicaid funds and subsequently returned to the Commission in this special payment.

Program Support and Administration now includes the Information, Education and Outreach (IEO) programs that were formally a part of the Office of Private Health Partnerships. These programs establish and maintain relationships with private and public sector partners, train insurance producers, industry professionals, civic groups and employers, and educate consumers and stakeholders on the healthcare delivery system and state program options.

Revenue Sources and Relationships

The Program Support and Administration budget for Health Programs is funded with General Fund, allocations of Other Fund revenue discussed earlier, such as prescription drug rebates from pharmaceutical manufacturers or Medicaid provider taxes, health insurance premium assessments, as well as federal Medicaid revenue. PEBB and OEBB operational costs are funded through an administrative charge (assessment) added to the employees' health insurance premiums. By law, the assessment cannot exceed 2% of monthly premiums. For 2011, PEBB has reduced the assessment from 0.6% to 0.4%, and the OEBB assessment remains at 0.95% of monthly premiums.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $159 million total funds ($36.2 million General Fund) is 19% less than the 2009-11 legislatively approved budget. Adopted budget General Fund, however, is $7 million, or 24%, higher than the 2009-11 budget of $29.2 million.

The increase in General Fund is a result of two program transfers into this budget. The OHP-only eligibility unit is transferred from the Department of Human Services to OHA and will be combined with outreach functions. This includes $9.1 million General Fund, $22.9 million totals funds, and 196 positions. In addition, the Care Assist prescription drug program moves from Public Health and is combined with other prescription drug activities in this unit. This transfer includes $3.5 million General Fund, $23.5 million total funds, and nine positions.

Other budget adjustments include the following:

- A reduction of $3.1 million General Fund and $7.4 million total funds as a result of continuing the 2009-11 allotment reductions.
- The statewide 6.5% reduction to services and supplies reduces this budget by $0.8 million General Fund.
- A total of nine vacant positions are eliminated, for a total funds savings of $0.8 million.

OHA/Public Health – Program Area Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	46,727,500	46,009,414	40,196,684	32,587,158
Other Funds	73,184,871	73,077,999	79,876,266	72,031,541
Federal Funds	200,607,692	262,744,113	249,819,305	244,662,175
Other Funds (NL)	38,384,054	40,000,000	40,000,000	40,000,000
Federal Funds (NL)	101,996,686	102,729,051	102,729,051	102,729,051
Total Funds	**$460,900,803**	**$524,560,577**	**$512,621,306**	**$492,009,925**
Positions	698	740	701	695
FTE	662.97	688.39	683.40	683.30

NOTE: The Governor's Recommended column includes those programs that were proposed to be moved to the Early Learning Council. This allows comparisons with the 2011-13 Legislatively Adopted column.

Summary Description

Public Health provides a diversity of services to improve and protect the health of all Oregonians. The program 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 staff. For the purposes of this discussion, the program's budget is divided into two parts: special payments, and program support and administration.

Revenue Sources and Relationships

This budget includes significant amounts of Nonlimited expenditures. Within Public Health, Nonlimited Other Funds and Federal Funds support the Women, Infants, and Children (WIC) program. The Nonlimited Federal Funds of $102.7 million represent WIC food grant expenditures and the $40 million of Nonlimited Other Funds represent expenditures of rebates from the manufacturers of infant formula.

The Other Funds supporting the legislatively adopted budget 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. 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 provider taxes transferred from the Department of Consumer and Business Services for school-based health centers.

Federal Funds that support the public health budget include Medicaid for Family Planning through Title XIX, as well as Family Planning Title X and Oregon ContraceptiveCare (CCare), formerly known as the Family Planning Expansion Project (FPEP), the Maternal and Child Health Block Grant, Immunizations, Emergency Preparedness and Response and Hospital Preparedness, 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. Public Health also receives federal support from the Environmental Protection Agency (EPA) in administering the State Drinking Water Program (Primacy) and the EPA State Revolving Loan Fund.

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 chronic diseases or environmental hazards. In March 2010, the Trust for America's Health, a non-partisan health policy organization, issued a report of state health indicators. Oregon had the fourth highest asthma rate (15.3%), but ranked 49th in the percentage of adults who are physically inactive. We had the third 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.

Like many other health and human services programs, public health faces significant funding challenges. The Oregon Coalition of Local Health Officials conducted an assessment in 2008 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."

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is $492 million total funds ($32.6 million General Fund). The total funds budget is 6.2% less than the 2009-11 legislatively approved budget level and 4% below the 2011-13 Governor's budget. The legislatively adopted General Fund budget of $32.6 million is about 29% below the legislatively approved level of $46 million.

The adopted budget includes standard reductions to continue allotment reduction savings from the 2009-11 biennium, the elimination of inflation, a reduction in personal services compensation, and an additional 6.5% reduction to services and supplies. It also includes the 3.5% supplemental ending balance hold back which represents a total of $1.2 million General Fund. Most programs are maintained at their 2009-11 spending levels. One notable exception is the Drinking Water program. As in the Governor's budget, all remaining General Fund is eliminated out of the Drinking Water program and the Emergency Management and Trauma System ($5.7 million). The General Fund is partially replaced with increased medical marijuana fee revenue. The General Fund reduction in the 2011-13 adopted budget also reflects the transfer of the Care Assist Prescription Drug program to Health Services.

The Governor's budget proposed a transfer of the Babies First program, the Maternal and Child Health grant program, and the WIC program to a new entity called the Early Learning Council. This transfer would have reduced the Public Health budget by $194.5 million total funds ($1.5 million General Fund, $40 million Other Funds Nonlimited, $50.3 million Federal Funds, and $102.8 million Federal Funds Nonlimited). For the time being those programs remain within this budget, and for the sake of comparison are also included in Public Health in the Governor's budget numbers. The Early Learning Council is expected to be revisited in the February 2012 legislative session.

Public Health Programs – (Special Payments Only)

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	25,779,959	25,794,810	18,105,983	22,779,200
Other Funds	6,208,384	6,734,070	12,434,070	10,033,125
Federal Funds	105,416,084	142,231,368	130,026,941	132,026,441
Other Funds (NL)	38,384,054	40,000,000	40,000,000	40,000,000
Federal Funds (NL)	101,559,911	101,929,051	101,929,051	101,929,051
Total Funds	**$277,348,392**	**$316,689,299**	**$302,496,045**	**$306,767,817**

Program Description

Special Payments of $306.8 million are about 62% of Public Health's total funds legislatively adopted budget for 2011-13. Of this total, about half is paid to counties to support local public health departments in their efforts to promote public health initiatives, and the rest is distributed to providers of services – most of it, 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. 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., CCare); WIC; vital records; and environmental health services. Oregon statutes require local public health authorities to submit annual plans that OHA must review and approve or disapprove. Most counties supplement state and federal funding with local resources to carry out local public health activities.

Revenue Sources and Relationships

Public Health special payments are supported with $22.8 million of General Fund, which comprise about 7% of the 2011-13 legislatively adopted level. Other Funds subject to limitation ($10 million) comprise about 3% of this budget. Much of this is tobacco tax to support TPEP or payments to School Based Health Centers funded with provider taxes, but increases in medical marijuana fees also fund certain programs included here. Nonlimited Other Funds of $40 million are rebates from manufacturers of infant formula and are used in the WIC program. This revenue is about 13% of the special payments budget.

Federal Funds revenue of $234 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 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 $65 million of federal revenue is generated by Medicaid and is used to support the Family Planning Title XIX program (CCare) – 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 Emergency Preparedness and Response and Hospital Preparedness Grant, the Maternal and Child Health Block Grant, the Preventive Health Block Grant, HIV Prevention Project, as well as numerous other individual federal grants.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for public health programs is $306.8 million total funds. This is 3.1% less than the 2009-11 legislatively approved budget, but 1.4% more than the Governor's budget. The General Fund budget of $22.8 million is 11.7% less than the 2009-11 budget. Comparisons with the Governor's budget are not useful because of mistakes in the Governor's budget, both in the total level of General Fund and in the split between Special Payments and Program Support.

Most programs are funded at about the same level as the 2009-11 biennium, after the allotment reductions were implemented. The budget restores funding for some programs that were reduced in the Governor's budget. This includes $2 million for CCare, $1.2 million for the immunization program, $269,000 for the WIC/Seniors Farmers Market program, and $500,000 for the School Based Health Centers. The supplemental ending balance hold back reduced this budget by $0.9 million General Fund.

A total of $1.7 million was transferred from the Tobacco Use Reduction Account (TURA) to the General Fund. The 2009-11 revenue forecast for TURA increased late in the biennium. Rather than carrying the TURA revenues forward into the 2011-13 biennium, the money was transferred to the General Fund and the $1.7 million of General Fund was then used to restore the immunization program and CCare.

Public Health – Program Support and Administration

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	20,947,541	20,214,604	22,090,701	9,807,958
Other Funds	66,976,487	66,343,929	67,442,196	61,998,416
Federal Funds	95,191,608	120,512,745	119,792,364	112,635,734
Federal Funds (NL)	436,775	800,000	800,000	800,000
Total Funds	**$183,552,411**	**$207,871,278**	**$210,125,261**	**$185,242,108**
Positions	698	740	701	695
FTE	662.97	688.39	683.40	683.30

Program Description

The Program Support and Administration budget for Public Health consists of six program offices.

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 OHA. In addition, the office conducts emergency readiness training to prepare state and local public health officials for possible emergency incidents including such things as threats of terrorism, tsunamis, or other environmental hazards, or epidemics such as H1N1.

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 are safe. 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, increase awareness of women's health issues, and conduct screening for breast and cervical cancer. The Maternal and Child 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 Program; Center for Health Statistics; Health Promotion and Chronic Disease Prevention; Injury Prevention and Epidemiology Program; 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.

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 health care institutions providing medical care can meet state and federal operational standards. Office staff oversee other health care providers such as emergency medical technicians, ambulance services, and trauma systems, and supports the activities of the Patient Safety Commission. Key programs include Emergency Medical Services and Trauma Systems, Health Care Regulation and Quality Improvement, and Oregon Medical Marijuana Program.

Revenue Sources and Relationships

The 2011-13 legislatively adopted budget for Public Health program support and administration is $185.2 million total funds. General Fund of $9.8 million is about 5% of the budget. Other Funds revenue is comprised of licenses and fees, charges for services, sales income, and smaller Other Funds revenue sources. In addition, Other Funds revenue reflects funds that are transferred from other state agencies including the Department of Revenue for the Tobacco Prevention and Education Program, and the Employment Department for childcare health consultation. Altogether, Other Funds revenue of $62 million supports about 33% of program support and administration expenditure limitation.

Federal Funds of $113.4 million make up about 61% of the adopted budget for 2011-13. Federal Funds sources include Ryan White grants, Public Health Emergency Preparedness, WIC administrative support, Maternal and Child Health Block Grant, Immunization, and Breast and Cervical Cancer funds from the Centers for Disease Control.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for public health program support and administration is $185.2 million total funds, which is 10.9% less than the 2009-11 legislatively approved budget. General Fund of $9.8 million are less than half the 2009-11 approved level. The decrease in funding includes the standard reductions to continue allotment reductions from the 2009-11 biennium, the 6.5% reduction to services and supplies ($0.6 million General Fund), and the supplemental ending balance hold back that reduced this budget by $0.4 million General Fund. A total of 11 vacant positions were eliminated (4.60 FTE) for a reduction of $0.7 million total funds.

As in the Governor's budget, all remaining General Fund is eliminated out of the Drinking Water program and the Emergency Management and Trauma System. Most of the $5.7 million reduction is in this budget unit. That General Fund is replaced with $5.1 million Other Funds from increased fees on medical marijuana. While the Emergency Management and Trauma System is funded at about 2009-11 levels, the Drinking Water program is reduced about 13% total funds and six staff.

The General Fund reduction in the 2011-13 adopted budget also reflects the transfer of the Care Assist Prescription Drug program to Health Services ($3.5 million General Fund and $23.5 million total funds).

OHA/Direct Charges and Services – Program Area Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	59,887,467	63,614,240	68,143,585	59,580,538
Other Funds	18,966,809	27,619,851	11,250,311	11,089,720
Federal Funds	81,221,083	75,593,913	66,624,135	67,616,050
Total Funds	**$160,075,359**	**$166,828,004**	**$146,018,031**	**$138,286,308**

Summary Description

The Direct Charges and Services section contains the budget to pay for central government assessments and usage charges. Included are the state government service charges, risk assessments, State Data Center usage charges, facility charges, and information technology direct charges. In addition, the funding to pay for shared services received from both OHA and DHS is included in this budget. More detail on shared services is included in the Central and Shared Services program area.

Revenue Sources and Relationships

The 2011-13 legislatively adopted budget is 43% General Fund, 8% Other Funds, and 49% Federal Funds. Costs are allocated to the various program areas within OHA. Federal funding is subject to a federally approved cost allocation plan that charges programs for the services received.

Federal Funds in this budget are primarily Title XIX Medicaid administrative reimbursement, but also include funds for administrative support for CHIP and a variety of other smaller federal program funding sources. Federal public health grants also pay a share of these operating costs.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $138.3 million total funds ($59.6 million General Fund) is $28.5 million, or 17%, lower than the 2009-11 legislatively approved budget for total funds. General Fund is $4 million, or 6%, less than the 2009-11 budget level. This budget was cut significantly in the Governor's budget, and further reduced in the legislatively adopted budget.

Budget adjustments include a $3.8 million General Fund reduction ($8.6 million total funds) for the continuation of allotment reductions implemented in the 2009-11 biennium, as well as a $3.2 million General Fund program reduction ($6.8 million total funds) in the Governor's budget. The agency will also need to hold positions vacant and reduce services and supplies expenditures to achieve a $5.9 million General Fund and $10.7 million total funds unspecified reduction to balance to the Governor's budget.

The legislatively adopted budget was further reduced by $1.4 million General Fund as a result of the statewide 6.5% services and supplies reduction, and the supplemental ending balance hold back reduced the budget by $2.2 million General Fund. Reductions to the Secretary of State and Department of Administrative Services budgets resulted in cost savings of $0.6 million General Fund ($1.2 million total funds) for assessments paid through this budget.

OHA/Central and Shared Services – Program Area Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	23,306,657	43,184,268	70,373,253	69,199,731
Other Funds	4,612,496	31,844,914	126,873,524	140,010,903
Federal Funds	14,863,075	32,288,898	14,681,174	66,083,046
Federal Funds (NL)	0	2,071,776	4,374,411	4,374,411
Total Funds	**$42,782,228**	**$109,389,856**	**$216,302,362**	**$279,668,091**
Positions	477	503	474	482
FTE	456.41	488.00	463.54	470.16

NOTE: The 2007-09 and 2009-11 columns above include positions and FTE, but not the related, non-add Other Funds expenditures, for the OHA Shared Services staffing that is part of the 2011-13 budget.

Summary Description

As part of the transition to create the new Oregon Health Authority, a new model was developed for providing administrative functions to OHA and the Department of Human Services (DHS). A number of functions such as information technology, financial services, budget, human resources, facilities, and procurement will be provided as shared services. While some of the functions will be housed in OHA and some in DHS, all functions will provide services to both agencies. Following the joint governance model that the two agencies are developing, service-level agreements will be developed to define the relationship between the agency providing service and the agency receiving the service.

Other functions, including leadership, communications, and portions of budget and human resources, are directly related to policy and program and so will be housed separately in each agency. These are the central services in each agency. Direct charges and services for central government assessments and usage charges are included in a separate budget unit that provides direct program support.

<u>Shared Services</u>

Services that will be shared with DHS, but housed within OHA include the following:

- The ***Information Security Office*** protects the security of all confidential information; educates staff, volunteers, and partners about now to protect confidential information; develops and audits processes for protecting information; and ensures that the Department and its partners meet all federal and state security regulations and contractual obligations.
- The ***Office of Information Services*** deploys and maintains the hardware and software needed by OHA and DHS employees to do their jobs; oversees the implementation of enterprise-wide technology solutions; ensures the back-up and integrity of data used by employees and partners through Oregon; and provides the information infrastructure and technical support necessary to maintain the business services such as payroll distribution, vendor payments, and personnel actions. Information Services develops new information systems such as the Medicaid Management Information System (MMIS) and the ORKids project.
- The ***Office of Health Information Technology (OHIT)*** provides leadership in health reform technology efforts statewide to ensure coordination and maximize federal and private funding sources.
- ***Shared Services Administration*** houses the Chief Information Officer and support staff.

Services that will be shared with OHA, but housed within DHS include contracts and procurement; caseload forecasting; technical budget tracking; document management and archiving; forms and distribution; facility management; human services tracking; payment accuracy and recover; continuous improvement; audits and consulting; and investigations.

<u>Central Services</u>

The OHA Central Services section includes all governance functions specifically for the operation of OHA, such as the agency's director's office, communications, portions of budget and human resources, and the Office of Multicultural Health and Services. Central Services also include the Office of Policy and Performance, which provides health policy analysis and development; coordinates strategic and implementation planning; and conducts data collection, statistical analysis, and evaluation to provide information needed for OHA policy development. It also develops financial, performance, and administrative information for the management of OHA, and provides staff support, policy coordination, and project management in support of the Oregon Health Policy Board.

This budget also includes the debt service for loan repayment within OHA. These costs are primarily for construction of the new Oregon State Hospital. There is also debt service for the Public Health Laboratory and the Oregon Educators Benefit Board's benefit system (MyOEBB).

Revenue Sources and Relationships

The 2011-13 legislatively adopted budget is 25% General Fund, 50% Other Funds, and 25% Federal Funds. Administrative costs are allocated to the other program areas within OHA, as well as DHS for Shared Services. The Other Funds in the Shared Services budget reflect revenues received from both DHS and other parts of OHA for purchased services. Federal funding is subject to a federally approved cost allocation plan that charges programs for the services received.

The 2011-13 adopted budget anticipates $9.8 million in Other Funds from Article XI-Q bonds issued to pay debt service on financing for the Oregon State Hospital replacement project. OEBB assessments provide the funding for the debt service related to the MyOEBB project.

Federal Funds in this budget are primarily Title XIX Medicaid administrative reimbursement and the Health Insurance Exchange IT project grant, but also include funds for administrative support for CHIP and a variety of other smaller federal program funding sources. Federal public health grants also pay a share of these operating costs. The Nonlimited Federal Funds are used to pay debt service on the bonds issued through the federal Build America Bonds program.

Budget Environment

The Central and Shared Services model is new for the 2011-13 biennium. The shared services structure was chosen to help ensure that administrative services are provided cost-effectively without duplication of resources between OHA and DHS. Overall, the combined budgets for central services, shared services, and direct charges for central government assessments and usage charges in OHA and DHS are essentially equivalent to the old Department of Human Services' Administrative Services Division, which has been eliminated.

As noted above, the major share of this budget is spent as Other Funds, but the costs are paid by the various program areas in OHA and DHS as General Fund, Other Funds, and Federal Funds in their budgets. Reductions made in the shared administrative services operations (for example, in financial services or facilities, as was done in the 2009-11 biennium) reduce costs elsewhere in OHA and DHS.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $279.7 million total funds is $170 million higher than the 2009-11 legislatively approved budget. The major difference in the total funds number is that only the 2011-13 budget includes the Other Funds expenditures that will support the OHA Shared Services staffing.

General Fund of $69.2 million to support the 2011-13 legislatively adopted budget is $26 million (60%) higher than the 2009-11 spending level. This increase is a result of higher General Fund debt service for the Oregon State Hospital replacement project, which increased by $38 million.

Budget adjustments include a $1.1 million General Fund reduction to Central Services ($2 million total funds), as well as an $11.3 million Other Funds reduction to Shared Services. Further adopted program reductions included in the Governor's budget total $1 million General Fund in Central Services ($1.7 million total funds) and $8 million Other Funds in Shared Services.

The legislatively adopted budget was further reduced by $0.4 million General Fund as a result of the statewide 6.5% services and supplies reduction, and the supplemental ending balance hold back reduced the budget by $2.5 million General Fund. The adopted budget funds the safety net clinic grants at $1.5 million Other Funds, a reduction of $3.5 million.

The Central Services budget was increased by $50.7 million Federal Funds, primarily as a result of including the expenditure limitation for the Health Insurance Exchange IT project. Similarly, the Shared Services budget was increased $18.6 million Other Funds for three IT projects; the Health Insurance Exchange, the Self-Sufficiency and Modernization, and the Child Care Automated Billing System. Limited duration positions necessary to support the IT projects are expected to be approved administratively by the Department of Administrative Services. Resources for information services within Shared Services were also increased by $2.2 million Other Funds and 6.62 FTE to continue the Behavioral Health Integration Project in Addictions and Mental Health.

The agency continues to refine its staffing needs in Central and Shared Services as the transition to two agencies progresses. The adopted budget abolishes three positions and establishes three new positions for a Chief Financial Officer, a Human Resources Director, and the Director of Pharmaceutical Programs. The agency is reviewing other position changes that are needed to "true up" its Central and Shared Services staffing, and will return to the Legislature with a final staffing plan during the interim.

OHA/Capital Improvements

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	367,939	20,016	663,318	663,318
Total Funds	**$367,939**	**$20,016**	**$663,318**	**$663,318**

OHA/Capital Construction

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	929,000	0	0	0
Other Funds	89,022,165	279,189,118	164,785,000	59,900,000
Total Funds	**$89,951,165**	**$279,189,118**	**$164,785,000**	**$59,900,000**

Program Description

The capital improvements budget sets aside $0.7 million General Fund for emergency repairs for the Oregon State Hospital and the Blue Mountain Recovery Center in Pendleton.

The capital construction budgets in all three biennia include expenditure limitation to allow work on a new Oregon State Hospital (OSH) in Salem, and to complete planning work for the Junction City facility. These projects are described in more detail below.

Budget Environment

For years, OSH facilities had been deteriorating. The youngest buildings were over 50 years old and the oldest buildings were 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 called 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 report also recommended developing a more expansive array of community-based mental health treatment services.

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 subsequently called 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, the agency completed extensive planning work on the OSH replacement project in Salem, and in September 2008 broke ground for the new Salem facility. The budget for both the Salem and Junction City facilities was originally about $458 million. However, in order to provide adequate treatment as described in the hospital's Continuous Improvement Plan supported by the U.S. Department of Justice report issued in January 2008, the square footage of the hospital is nearly 30% larger than originally budgeted. The final cost of the Salem facility is expected to be roughly $360 million, excluding project management and staffing costs, as well as the cost of the Behavioral Health Integration Project data system.

During the latter part of the 2007-09 biennium and continuing through the 2009 legislative session, a debate has ensued regarding the need for the Junction City facility. Some policymakers questioned the need for the Junction City facility, wondering instead, whether both the resources used to finance and operate that site might be better used to enhance community-based mental health services. Others pointed out that the original *Master Plan Phase II Report* recommending an additional hospital facility was based upon the assumption that Oregon had already developed a robust community-based mental health system, which would reduce 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 an optimal community-based mental health system. Consequently, the need for a facility in Junction City remains.

Based on the amount of time that had passed since the original *Master Plan Phase II Report,* changes in the mental health system, and the economy, OHA updated the forecast of the needed hospital and community-based treatment beds for people living with mental illness in Oregon through 2030. The agency completed this work in January 2011, in time to be considered by the 2011 Legislature. The report concluded that the Junction City facility will be needed, but at a 174 bed size rather than the original 360 bed recommendation. This conclusion is based on a number of critical assumptions:

- The Portland facility and the Blue Mountain Recover Center (BMRC) will close in early 2015, with a total of 152 beds currently.
- The 174 bed hospital will only be adequate if the following happen in the longer run:
  - Move 70 neuro-geriatric patients to community
  - Increase community forensic beds by 64
  - Continue to reduce length of stay in community facilities, and move people through the system more quickly in order to create additional capacity

The report concluded that the cost of operating Junction City will be about $11 million more in a biennium than costs would be to operate Portland and BMRC at USDOJ recommended staffing levels. This additional $11 million represents the costs to operate the additional 22 beds. The report also notes that if the state continues to use Portland and BMRC beyond early 2015, remodels would be necessary at both facilities, at a cost of roughly $13 million for Portland and $11 million for BMRC.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget includes $59.9 million of Other Funds expenditure limitation in the capital construction budget for the Oregon State Hospital replacement project. This amount of limitation will allow OHA to finish the new Salem hospital facility by the end of 2011, and provides $5 million to continue planning work and infrastructure development of both mental health and correction uses at the Junction City site. This $5 million will provide for the final design work, final detailed construction documents, and the completion of the permitting process for the Junction City facility. In order to begin construction in the spring of 2012, an additional $29 million in bonding authority and expenditure limitation will be needed for the 2011-13 biennium, with approval in the February 2012 legislative session. Costs in the 2013-15 biennium to finish the construction of Junction City are estimated at $50.4 million. If the facility is to open in late 2014 as planned, construction must begin in the spring of 2012.

Department of Human Services (DHS) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	1,581,574,206	1,773,727,595	2,099,020,064	2,036,853,446
Other Funds	349,926,421	340,061,902	420,105,868	430,256,781
Federal Funds	2,784,298,884	3,543,842,025	3,032,145,642	3,131,478,990
Federal Funds (NL)	1,249,243,981	2,192,921,139	2,383,981,537	2,383,981,537
Total Funds	**$5,965,043,492**	**$7,850,552,661**	**$7,935,253,111**	**$7,982,570,754**
Positions	7,121	7,719	8,166	7,392
FTE	6,738.71	7,544.27	7,968.69	7,298.44

NOTE: The 2011-13 Governor's recommended budget funded Employment Related Day Care and Children's Wraparound Initiative as part of a proposed Early Learning Council, at $45,643,499 General Fund, $1,490,217 Other Funds and $98,972,977 Federal Funds. For comparison purposes, the funding is shown here as if the Governor's recommended budget had included it in DHS – as $45,643,499 General Fund, $98,972,977 Other Funds, and $1,490,217 Federal Funds.

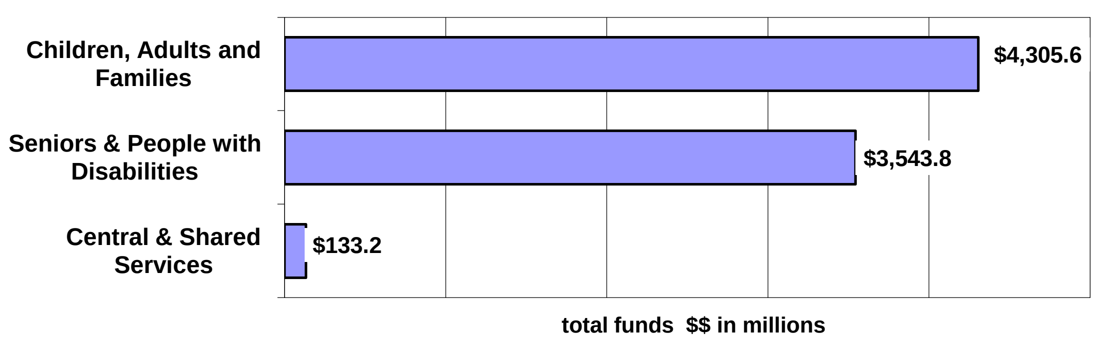
Agency Overview

The Department of Human Services (DHS) supports children, families, seniors and people with physical and developmental disabilities by providing a range of services through 170 field offices and community partners. With the implementation of HB 2009 (2009 session) and the creation of the Oregon Health Authority (OHA), the DHS budget now includes two program areas as well as administrative support for both DHS and OHA:

- ***Children, Adults and Families (CAF)*** includes self-sufficiency and family safety services; child protection, child welfare, and adoption services; vocational rehabilitation services; and field staff who deliver the services.
- ***Seniors and People with Disabilities (SPD)*** includes Medicaid long-term care, 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 ***Central and Shared Services*** budget includes the DHS Director's Office and central administrative and support functions, as well as the debt service payments on DHS information system projects financed with certificates of participation.

At the 2011-13 legislatively adopted budget level, DHS has the second largest budget of any state agency, after the Oregon Health Authority. DHS makes up about 15% of the statewide $13.6 billion General Fund budget and about 14% of the statewide $57.8 billion total funds budget.

The chart below shows how DHS' $7.983 billion total funds legislatively adopted budget is allocated among its program areas.



The numbers for all the charts for DHS and its program areas in this analysis have been adjusted for 2007-09 and 2009-11 to reflect the reorganization of DHS and the creation of the new OHA. The OHA expenditures have been separated from the agency totals, and some expenditures have shifted between the program and administrative budgets. These adjusted numbers are estimates, and do not match up with the totals reported in the Legislative Fiscal Office's *Budget Highlights: 2011-13 Legislatively Adopted Budget* document, but are intended to provide more comparable context for how DHS' program costs have changed over time.

Revenue Sources and Relationships

For the 2011-13 biennium, the General Fund supports 25.5% of DHS' budget. Almost all of the General Fund is used as match or to meet state maintenance of effort requirements to receive Federal Funds. The General Fund share of DHS' budget is higher than in the 2009-11 biennium, largely as a result of increased Federal Funds from the federal American Recovery and Reinvestment Act of 2009 (ARRA), which provided an enhanced Medicaid match rate and other one-time federal funds for the 2009-11 budget to support DHS' programs. These funds are not available for the 2011-13 budget, so General Fund is used to help offset this loss of revenue.

Other Funds revenues support 5.4% of DHS expenditures. These come from a wide variety of sources including nursing home provider taxes, grants, the unitary tax assessment, estate collections, third party recoveries, fees, and charges for services. Federal Child Care and Development Fund moneys are received from the Employment Department and used as Other Funds in this budget for Employment Related Day Care.

Federal Funds support 69.1% of DHS expenditures for the 2011-13 biennium. The largest single Federal Funds source is the Supplemental Nutrition Assistance Program (SNAP, previously food stamps), which makes up 30% of DHS' total budget; the benefits are reflected in the budget as Nonlimited Federal Funds. Federal Funds subject to expenditure limitation include the Title XIX Medicaid program, Temporary Assistance to Needy Families (TANF), Title IV-E Foster Care and Adoption Assistance, Child Welfare Services, Title XX Social Services Block Grant, and Basic 110 Rehabilitation funds. Some of these sources are capped block grants (e.g., TANF, Social Services Block Grant); others provide federal matching funds as partial reimbursement of state costs (e.g., Medicaid, Foster Care and Adoption Assistance).

Budget Environment

DHS operates within a complex and dynamic budget environment due to the broad range of Oregonians it serves and its multiple funding sources. Oregon's economy, demographics, federal law and funding levels, and state human services policy all affect demand for DHS' services and influence its budget.

Oregon's economy has a significant impact on DHS' budget: a poor economy creates more need for basic services for those who have few or no financial resources. TANF caseloads and applications for SNAP have grown significantly over the past several years, and are projected to remain at high levels in 2011-13. When Oregon's economy does recover, the recovery may lag for the multiple-needs clients that DHS serves.

Demographics have a long-term impact, most notably for services to seniors. As the number of Oregonians aged 65 and up continues to grow, particularly those 75 and older, there is greater demand for long-term care services. Even individuals who are financially stable when younger may seek help when needing more costly in-home or out-of-home care as they age.

With federal funds supporting more than two-thirds of DHS' budget, federal law and funding levels can give the state more or less capacity to meet the needs of Oregonians. For example, the ARRA stimulus funds provided significant help for states to fund Medicaid services through the end of the 2009-11 biennium, but ARRA funds are not available for 2011-13. DHS must adjust its budget on an ongoing basis for changes in the Federal Medical Assistance Percentage (FMAP) match rate, which determines the state's share of Medicaid program costs. More broadly, all federal revenue is directly tied to federal law and regulations. DHS' long-term care program for seniors and people with disabilities, for example, is governed by waivers of certain federal Medicaid regulations. Proposed program changes must be approved by the Centers for Medicare and Medicaid Services before being implemented. As a result of ARRA, and recent federal health care reform, states face new constraints on Medicaid long-term care, limiting the choices states can make to help balance their budgets. Further, most of the General Fund in DHS' budget is used to match Federal Funds or to meet federal maintenance of effort (MOE) requirements. General Fund budget reductions often result in equal or greater federal revenue reductions. They can also jeopardize the state's ability to meet federal match or MOE requirements, thus forfeiting federal funds or incurring penalties.

State human services policy has a direct effect on DHS' programs and service delivery. Over the past few decades, Oregon's human services programs have moved to intervene earlier and in less-costly ways to prevent or mitigate the problems these programs address. 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. In-home services are delivered to help elderly Oregonians, and people with developmental disabilities, stay at home rather than be moved to out-of-home care. The TANF program is in part a family safety program, with cash assistance and other services a means to help stabilize families. Child welfare is focusing more on in-home services, where appropriate, instead of foster care. Prevention and early intervention has been a clear policy choice. The dilemma comes when available funding is not enough to support earlier, less-costly services as well as more intensive, more expensive services to meet emergent needs.

Over the past several biennia, although the DHS budget has increased overall due to higher caseloads and costs, DHS has made selected administrative and program reductions to help offset that growth. During the 2009-11 biennium, DHS took a number of actions to balance its budget internally and to offset its share of the statewide General Fund allotment reductions required to balance the statewide budget. It delayed hiring staff and held position vacancies for savings, and reduced its services and supplies expenditures. In the TANF and Employment Related Day Care programs, changes in eligibility were made to limit access to benefits. JOBS employment and training services were scaled back. The TANF cash assistance grant and Post-TANF benefits have been reduced. Provider reimbursements were not adjusted for inflationary cost-of-living increases (COLAs), and in some cases reimbursement rates were reduced. For the most part, these budget actions are continued in the 2011-13 budget, with additional actions taken in most areas to further constrain costs.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for the Department of Human Services (DHS) is $2.037 billion General Fund and $7.983 billion total funds. This is 14.8% General Fund and 1.7% total funds more than the comparable 2009-11 legislatively approved budget of $1.773 billion General Fund and $7.851 billion total funds. However, excluding the Nonlimited Federal Funds pass-through for Supplemental Nutrition Assistance Program benefits, the 2011-13 budget is effectively 1% less than the 2009-11 legislatively approved budget level.

In addition to this funding, the 2011 Legislature established three special purpose appropriations to the Emergency Board that could be allocated to the agency during the biennium: $5 million for child welfare differential response services, $5.7 million for Employment Related Day Care and other services, and $8 million for caseloads and costs for programs and services in DHS and OHA. Allocation of these amounts can be considered during the February 2012 legislative session, or later in the interim by the Emergency Board.

The legislatively adopted budget maintains core programs in DHS, but reflects a number of budget actions affecting the full range of DHS' programs and program staffing. Most notably:

- TANF cash assistance levels and the 60-month lifetime limit are maintained, but some program elements are suspended or scaled back. Funding for the JOBS employment and training program is cut by almost half from the 2009-11 level, with more limited services and a focus on the most job-ready families.
- The Employment Related Day Care program is funded in the DHS budget, not in the new Early Learning Council. The program will be capped at a monthly average of 9,500 cases if the $5.7 million special purpose appropriation is allocated; without that funding, the program will be capped at a lower level.
- Selected investments are made for improvements in child welfare services to expand access to domestic violence services in local offices, start up Strengthening, Preserving and Reunifying Families programs (SB 964), and improve support for the culturally, racially, and ethnically diverse families who receive services.
- Vocational Rehabilitation Services will operate with a 10% reduction in client services funding.
- Child welfare foster care reimbursement and funding for specialized behavioral rehabilitation services is reduced by 10% from the 2009-11 levels. The long-term care budget for seniors and people with disabilities reflects a reduction of $51.5 million General Fund, $147.6 million total funds in provider costs, to take effect in the second year of the biennium. This is equivalent to a 14% to 19% reduction from the 2009-11 reimbursement level, depending on the care setting. The issue is to be revisited during the 2012 legislative session when the results of discussions with the federal Centers for Medicare and Medicaid Services, negotiations with program providers, and any alternative cost savings or additional resources will be better known. Reimbursement for Area Agencies on Aging (AAAs) and developmental disabilities program providers will be reduced overall, although funding levels for certain AAAs and developmental disability comprehensive services providers is also expected to be reviewed during the 2012 session.
- $6.97 million in Other Funds from the Developmental Disability (Fairview) Community Housing Trust Fund is expected to be withdrawn to support services for persons with developmental disabilities. Other budget adjustments are made in developmental disability service eligibility and service levels.
- No new field staff is added for self-sufficiency programs, child welfare services, eligibility determination for long-term care services, or for Adult Protective Services. The Legislature directed DHS to instead fill vacant

positions which were held open during the 2009-11 biennium for budget savings. Even with the positions filled, staffing would remain significantly below the level recommended based on DHS' workload models.

DHS' 2011-13 legislatively adopted budget also reflects several statewide budget adjustments. The budget includes the Governor's proposed 5.5% reduction to projected personal services costs, assuming savings from final employee compensation decisions. If final negotiated decisions on employee compensation do not yield the assumed 5.5% savings, DHS will need to identify additional budget savings or reductions. The standard COLA is not funded for program providers or agency operations. All General Fund services and supplies expenditures are reduced by 6.5% from the Governor's proposed budget level, for a $9.3 million General Fund reduction across DHS. The 3.5% General Fund reduction taken in all agencies for the statewide supplemental ending balance totals $73.7 million General Fund for DHS. At this time, no program or administrative budget impacts are specifically tied to this action. The funding may be restored in the February 2012 session for the second year of the budget, depending on economic conditions. If not restored, the resulting budget impacts will need to be identified.

More detail follows on each of the three major budgets in DHS: Children, Adults and Families; Seniors and People with Disabilities; and Central and Shared Services.

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

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	643,926,815	755,173,169	873,979,287	791,979,526
Other Funds	161,651,665	156,691,228	164,691,502	163,354,313
Federal Funds	946,732,143	1,029,460,497	953,974,166	966,315,935
Federal Funds (NL)	1,249,243,981	2,192,921,139	2,383,981,537	2,383,981,537
Total Funds	**$3,001,554,604**	**$4,134,246,033**	**$4,376,626,492**	**$4,305,631,311**
Positions	4,338	4,962	5,252	4,708
FTE	4,167.60	4,830.21	5,140.40	4,651.02

NOTE: The 2011-13 Governor's recommended budget funded Employment Related Day Care and Children's Wraparound Initiative as part of a proposed Early Learning Council, at $45,643,499 General Fund, $1,490,217 Other Funds and $98,972,977 Federal Funds. For comparison purposes, the funding is shown here as if the Governor's recommended Budget had included it in DHS – as $45,643,499 General Fund, $98,972,977 Other Funds, and $1,490,217 Federal Funds.

Summary Description

Children, Adults and Families (CAF) is responsible for helping Oregon's vulnerable families and individuals improve their capacity to be self-sustaining while creating a safe and permanent living environment for children. CAF provides services in three key program areas:

- ***Self-Sufficiency*** programs promote independence for families and adults. The programs include the Supplemental Nutrition Assistance Program (SNAP/food stamps), Temporary Assistance for Needy Families (TANF), and related programs including Job Opportunity and Basic Skills (JOBS) services, Employment Related Day Care, Refugee Assistance, and youth prevention services.
- ***Child Welfare*** programs help provide safe and permanent families for Oregon's abused, neglected, and dependent children through child protective services, in-home services, out-of-home care, and adoptions.
- ***Vocational Rehabilitation Services*** works with businesses, schools, and community programs to help youths and adults with disabilities other than blindness prepare for and find employment.

CAF administers these programs through coordination and collaboration with families and individuals as well as community partners, and through direct services provided by state staff. Field staff provides CAF program services and benefits to clients through more than 100 Child Welfare and Self-sufficiency field and branch offices, and 34 Vocational Rehabilitation field offices throughout the state.

CAF is also responsible for qualifying individuals and families for the Oregon Health Plan (OHP) and the Healthy Kids Program, in coordination with the Oregon Health Authority.

Revenue Sources and Relationships

For the 2011-13 biennium, General Fund supports 18.4% of this budget; Other Funds, 3.8%; and Federal Funds, 77.8%. The General Fund share is higher than in 2009-11 due to the use of General Fund to partially replace one-time Federal Funds revenues used in the 2009-11 budget from the federal stimulus legislation (the American Recovery and Reinvestment Act of 2009, or ARRA). The federal stimulus impact for the 2009-11 biennium included $83.4 million in TANF ARRA funds, $19.9 million from temporary enhanced federal match rates for Title XIX Medicaid and Title IV-E Foster Care and Adoptions Assistance programs, and $6.2 million in Basic 110 Vocational Rehabilitation funds. With the exception of a small amount of unspent ARRA funds carried forward for vocational rehabilitation services, these federal funds are not available for the 2011-13 budget.

The major source of Other Funds is $99 million in federal Child Care and Development Funds transferred from the Employment Department for the Employment Related Day Care program. 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. 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 receives Other Funds from a surcharge on marriage licenses, and federal funds. User fees support the Adoption Assisted Search Program and Independent Adoption Home Studies.

Nonlimited SNAP benefits are the single largest source and use of Federal Funds in CAF. SNAP benefits are projected at $2.4 billion for the 2011-13 biennium. This is up 8.9% from the $2.2 billion in the 2009-11 biennium, and is almost double the $1.2 billion spending level in the 2007-09 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 base federal TANF block grant, which pays for cash assistance, JOBS services, child care, and other self-sufficiency programs, as well as child welfare services such as foster care and residential care. The 2009-11 budget used $83.4 million from the ARRA stimulus funds that will not be available in 2011-13, but CAF expects to qualify for $20 million in separately-available TANF contingency funds that it can use in 2011-13. The Title XX Social Services Block Grant (SSBG) is estimated at about $41 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 2011-13. CAF uses these funds in its own budget to pay for family reunification work and post-adoption services. CAF will also 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 vocational rehabilitative services. This grant is distributed to states based upon population and per capita income. The Department of Human Services (DHS) receives about 87.5% of Oregon's allocation of Section 110 Federal Funds; the Commission for the Blind receives the remaining 12.5%. The 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 program costs through Title XIX Medicaid and Title IV-E Foster Care and Adoption Assistance. Medicaid funding is used for case management services, special rates for some children in foster care, residential treatment, and related administrative services. Title IV-E funding is used for child welfare services, adoption assistance, and related administrative costs. Overall, federal reimbursement for the programs varies with federal match rate changes, the number of children served, and eligibility of the services provided. For 2011-13, Oregon's base Federal Medical Assistance Percentage (FMAP) is estimated at 62.7%; at this rate, Oregon would pay 37.3% of eligible program costs. Most administrative functions are paid only on a 50% state/50% federal share.

CAF expects to receive about $9.9 million in federal Refugee Resettlement funds for refugee program and administrative costs. CAF also uses a small amount of TANF funds for the refugee program. Other targeted federal grants support family violence prevention, child abuse prevention and treatment, and other services.

Budget Environment

Demand for many of the services provided by CAF and its partners 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 – e.g., Foster Care and Adoption Assistance payments – federal funds supporting TANF, child care, and vocational rehabilitation programs are capped. Most notably, Oregon has seen a significant increase in caseloads for SNAP benefits and TANF cash assistance with the most recent economic downturn. SNAP 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 when costs exceed the available federal funding. Similarly, the federal Child Care and Development Fund (CCDF) that supports the Employment Related Day Care program (ERDC) 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. For vocational rehabilitation services, federal funding has not kept pace with the demand for services and cost escalation in services such as tuition, books, rehabilitation technology, assistive devices, and medical services. Funding increases at the federal and state level have historically been 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 serve all those in need of services. In many areas of CAF, the combination of increasing caseloads, higher costs, and capped federal funding creates a significant budget challenge to continue services and programs if state General Fund is not available to cover the higher costs.

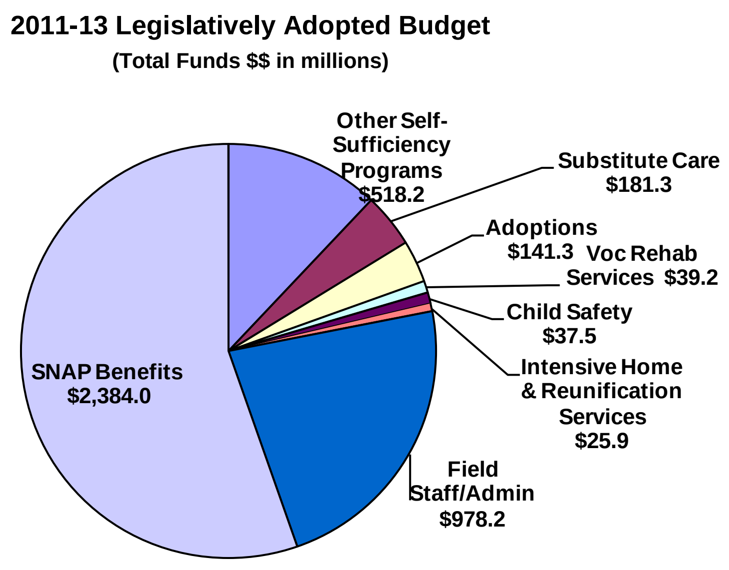
The federal Medicaid program does not dominate CAF program funding, so Medicaid program constraints are not the primary budget consideration for CAF as they are for DHS Seniors and People with Disabilities programs or in the Oregon Health Authority. However, other federal program and funding requirements apply. SNAP, TANF, Child Care and Development Fund, Foster Care and Adoption Assistance, Basic 110 funds, or the Social Services Block Grant all are available only when states comply with the specific federal law and regulations that govern those programs. In TANF and Child Welfare foster care programs, especially, the federal government has established outcome standards, reviews state performance against those standards, and can levy penalties and/or develop program improvement plans to force progress towards those standards. (On a much more limited basis, some performance improvements can result in a financial award to the state).

A number of federal funding streams, most notably TANF and the Basic 110 grant for Vocational Rehabilitation Services, also have state maintenance of effort (MOE) funding requirements, which prevent states from reducing state program funding below identified levels without risking penalties. For example, in exchange for the $166.8 million for the annual federal TANF block grant, Oregon must meet both MOE requirements and client work participation rate requirements. The MOE requirement means non-federal support from the General Fund or other state resources must be at least $91.6 million per year (75% of the state contribution in the 1994 base year). 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. Oregon has been able to meet MOE funding requirements, but it has not been able to meet federal work participation penalties, and faces potential rates for federal fiscal years 2007, 2008 and 2009.

CAF's service delivery system relies on both state staff and contracted community partners for child care, foster care, residential treatment, and other services. In some years providers receive standard cost-of-living increases (although not in recent years), but reimbursement rates have no formal review cycle and no consistent pricing methodology. Typically, the rates are reviewed in response to federal concerns or when access to services becomes an issue, and the necessary adjustments made as a result can be significant.

Legislatively Adopted Budget

CAF's 2011-13 legislatively adopted budget is $792 million General Fund and $4,305.6 million total funds, with 4,708 positions (4,651.02 FTE). This is 4.7% General Fund and 4.1% total funds higher than the 2009-11 legislatively approved level. The chart below shows how the CAF budget is distributed by program area.



Nonlimited Federal Funds for Supplemental Nutrition Assistance Program (SNAP/food stamps) benefits make up more 55% of CAF's total budget. At almost $2.4 billion, the payments for the 2011-13 biennium are expected to be 8.7% higher than the 2009-11 biennium level, with caseloads peaking at almost 428,000 households in January 2012. It should be noted that if the SNAP benefits are excluded from the comparison, CAF's legislatively adopted budget for 2011-13 would actually be $20 million, or 1%, below the 2009-11 legislatively approved level.

The legislatively adopted budget maintains the TANF Basic and Unemployed Two-Parent programs, and most other related services. However, continuing high caseloads and capped federal funding again drives a number of changes in the TANF program. Most notably, funding for the JOBS employment and training program is cut by almost half; the program will be restructured with limited services and a focus on the most job-ready families.

The Governor's budget proposed moving the Employment Related Day Care program to a new Early Learning Council. For now, however, the program remains within DHS. The program's funding level and potential relocation to the Early Learning Council will be reviewed in the February 2012 legislative session.

The legislatively adopted budget makes several investments to improve child welfare services:

- Expands access to domestic violence services in CAF program offices.
- Funds Strengthening, Preserving and Reunifying Families programs (SB 964).
- Anticipates allocation of a $5 million General Fund special purpose appropriation to the Emergency Board for community-based "differential response" for child welfare services. Specific proposals for the funds will be reviewed during the 2012 legislative session.
- Adds family navigators to help families of color who are involved in the system.

However, the basic foster care reimbursement rate is reduced by 10% from the 2009-11 level. Funding for specialized behavioral rehabilitation services (BRS) is also reduced 10%, with the means to achieve this savings to be determined, but targeting improved management of BRS beds and system expenditures.

The Legislature, instead of adding new field staff positions, directed the agency to fill vacant positions which were held open during the 2009-11 biennium for budget savings. Both Self-Sufficiency and Child Welfare staffing levels are expected to be at about 67-68% of CAF's workload model when those vacancies are filled.

Vocational Rehabilitation Services are continued with a 10% reduction in client services funding. The program expects to serve about 13,600 consumers during the biennium.

The budget numbers also reflect a $28.7 million General Fund reduction for the statewide 3.5% supplemental statewide ending balance. Although this funding is not included in the legislatively adopted budget, no specific program or administrative actions have yet been identified to achieve this reduction. Some or all of the $28.7 million may be added back later in the biennium depending on agency needs and the state's economic conditions. An additional statewide adjustment reduced all General Fund services and supplies expenditures by 6.5% from the Governor's proposed budget level, a $6.9 million General Fund reduction for CAF.

The Programs and Program Support and Administration sections below provide further detail on each budget.
.

CAF – Programs

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	311,725,089	342,292,077	385,597,265	357,839,341
Other Funds	126,104,994	117,563,017	118,915,818	122,887,552
Federal Funds	472,851,837	562,960,759	436,284,863	462,764,675
Federal Funds (NL)	1,249,243,981	2,192,921,139	2,383,981,537	2,383,981,537
Total Funds	**$2,159,925,901**	**$3,215,736,992**	**$3,324,779,483**	**$3,327,473,105**

Program Description

The responsibilities of the CAF Programs cover Self-Sufficiency, Child Welfare, and Vocational Rehabilitation Services. The expenditures in this budget are largely benefit payments to individuals and payments to service providers, with some program funds distributed to the State Commission on Children and Families and to Oregon's Native American tribes.

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

- The *Supplemental Nutrition Assistance Program* (*SNAP/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 July 2011, almost 780,000 persons – about 1 in 5 Oregonians – received SNAP benefits worth over $100 million for the month. The benefit costs are included in the Self-Sufficiency budget as Nonlimited Federal Funds; eligibility determination staff costs are part of the CAF Program Support and Administration budget and the Seniors and People with Disabilities budget as limited expenditures.
- *Temporary Assistance to Needy Families (TANF)* provides cash assistance grants, which, when coupled with SNAP benefits, supplies basic supports for families with children under the age of 19 that meet eligibility criteria. In July 2011, a total of 30,415 single- and two-parent families received TANF cash assistance. Income qualification and benefit amounts are based on family size and expenses. For example, a family of three must have income under $616 per month to qualify, with limited cash resources. The current maximum monthly benefit for a family of three is $506. 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. Only families with incomes up to 185% of the federal poverty level ($2,823 per month for a family of three) are eligible for ERDC. Clients make a co-payment based on income and household size, and the state subsidizes the remaining costs up to the DHS maximum rate. In July 2011, 9,875 families received ERDC subsidies for 17,991 children in day care.
- The *Refugee Program* works with community groups and social and workforce agencies to provide time-limited cash and medical assistance, SNAP benefits, and employment services to new refugees in Oregon.
- *Youth Services* support teen pregnancy prevention and other youth development initiatives related to juvenile crime, drug and alcohol use, youth suicide, school dropout, and sexual assault prevention and education programs.

Child Welfare Services work to assure the safety of children and provide services to their families, including responding to reports of child abuse or neglect, providing in-home supports or out-of-home care when necessary, and arranging adoption or guardianship services and supports. The children served are dependent, neglected, abused, mentally or physically disabled, and/or placed in the state's legal custody by an Oregon court.

- *Child Protective Services (CPS)* assesses reported child abuse or neglect and, if needed, prepares and implements safety plans for children, including case management or contracted services for families. CPS is supported by Child Safety and Intensive Home and Reunification Services expenditures in the CAF Programs budget. Services may include substance abuse treatment, domestic violence and sexual abuse services, in-home safety and reunification services, and System of Care flexible funding.
- *Out of Home Care* represents a broad range of care, supervision, and treatment services for children in temporary or permanent custody of the state. Family foster care homes and "special rates" foster care are the primary service elements. Residential Care is provided by private agencies in residential or therapeutic foster care settings for children who cannot live in a family setting. Providers are reimbursed for a portion of the cost of a child's room and board, clothing, school supplies, and personal incidentals; medical, dental, and mental health services are also provided for children in the state's custody. For older youth, independent living services help with the transition out of the foster care system.
- 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 subsidy payments to help remove financial barriers to adoption or guardianship for special needs children.

This budget also supports the Office of Vocational Rehabilitation Services, which coordinates Vocational Rehabilitation Services to individuals with disabilities, with a goal to prepare and engage them in gainful employment. In federal fiscal year 2010, the program served a total of 15,245 individuals with disabilities.

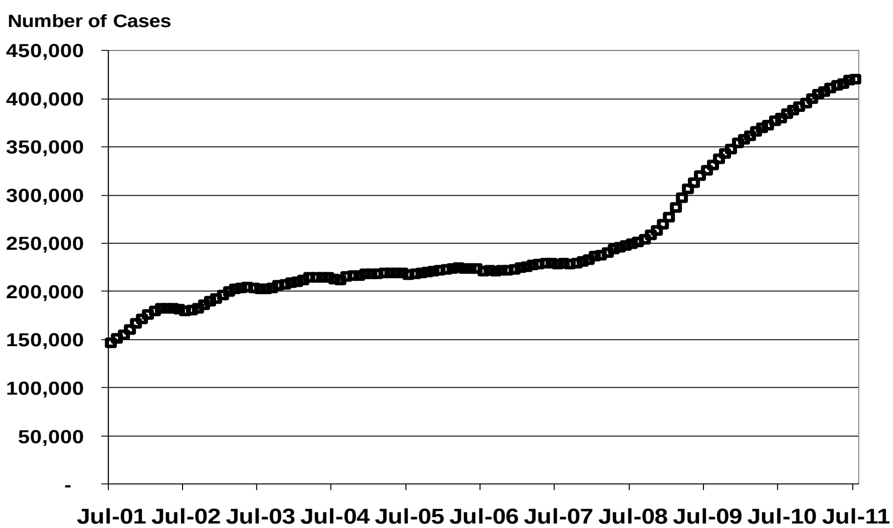
- *Vocational Rehabilitation Services* provides training, vocational, and educational services to persons with disabilities that are substantial impediments to obtaining or maintaining employment. These services are delivered through field offices and employees outstationed across the state.
- *Youth 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 Supplemental Nutrition Assistance Program (SNAP) benefits make up over half of the CAF budget. The benefits are Nonlimited Federal Funds expenditures without a direct General Fund cost, but staffing to determine and monitor eligibility for the program is a 50% state/50% federal cost. The SNAP caseload has grown drastically as a result of both Oregon's economic conditions and program outreach to encourage eligible individuals and families, especially the elderly, to apply for the assistance. The chart below displays the recent caseload history for the program, which has gone from 146,642 households in July 2001 to 420,636 households in July 2011, almost tripling over the past decade.

Statewide SNAP Households
July 2001 through July 2011



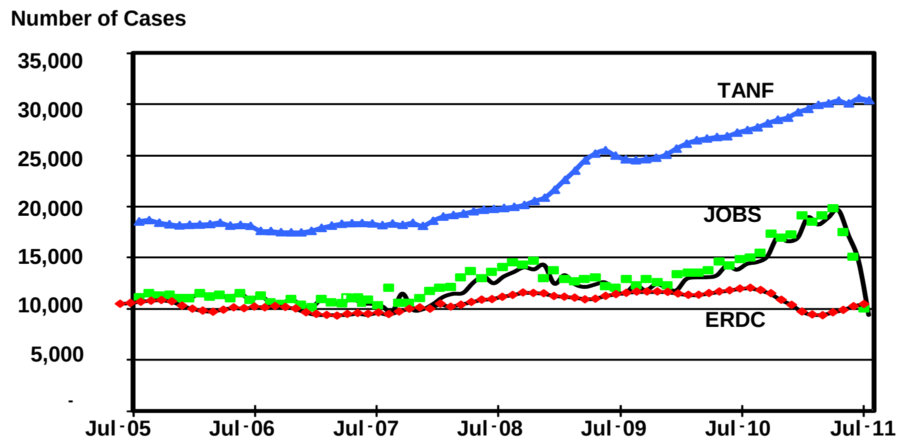
The number of SNAP households is projected to continue growing during the 2011-13 biennium, although at a slower rate than in the past few years. The agency's spring 2011 forecast projects an average of 421,642 households a month, an increase of 11.9% from the 376,750 monthly average in 2009-11.

The number of Oregon families receiving TANF cash assistance had declined dramatically after the mid-1990s. With federal TANF program reauthorization in 2006, Oregon restructured its program in an attempt 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 and added funding to implement 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. Initial reports after the redesign was put into practice showed higher work participation rates and improved employment outcomes. As Oregon's economy weakened, however, cash assistance caseloads increased and the range of services and supports expected under the program redesign were diluted as a result of budget constraints. Since 2007, program caseloads have continued upwards at a significant rate.

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. Many of these needed services are funded in other agency budgets. In the CAF budget itself, JOBS program services and day care subsidies can help families reduce or end their need for cash assistance. The 2007 Legislature approved additional investments in JOBS and the Employment Related Day Care program as part of the TANF program restructuring. As Oregon's economic downturn has put upward pressure on SNAP benefits and TANF cash assistance caseloads, though, more limited resources have been made available for other services. Bottom line, Oregon has not fully funded the TANF program and related services as envisioned in 2007. Program reductions have been made to achieve budget savings in TANF, JOBS, and ERDC, and some statutory elements of the 2007 program redesign have been suspended.

The chart below shows recent caseload history in the TANF, JOBS, and ERDC programs.

TANF, JOBS, ERDC Caseloads
July 2005 through July 2011

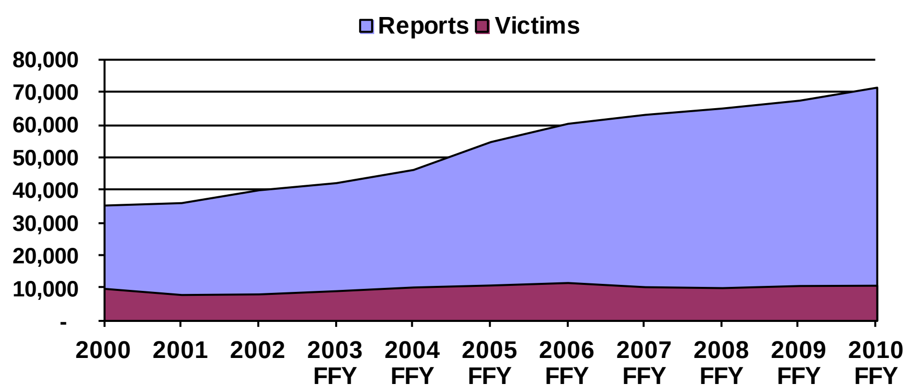


For the 2011-13 biennium, TANF caseloads are projected to average 29,308 a month, up 7.1% from the 27,366 monthly average in 2009-11. Caseloads in both the JOBS and ERDC programs are expected to be lower than in the 2009-11 biennium due to budget limitations.

Child Welfare Services

In federal fiscal year (FFY) 2010, CAF received 71,886 reports of suspected child abuse or neglect, continuing a 15-year trend of increased reports. The number of victims increased about 1% from the prior year, to 11,188; this represents about 1.3% of the state's estimated 866,544 children aged 0 to 18. Over half of the victims are age 6 or younger. As the following graph shows, the number of abuse and neglect reports has more than doubled since 2000, while the number of victims was about 9.8% higher in FFY 2010 than the number of victims in FFY 2000.

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. However, funding for the services in this budget has not kept pace over time with the continuing growth in reports of abuse and neglect. Other 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.

After several years of lower child welfare caseloads, the average monthly caseload for 2011-13 is forecast to be 23,331, up 2.1% from the average 22,844 caseload in 2009-11. In FFY 2010, 13,129 children spent at least one day in foster care, fewer than the 13,291 children the year before. Family foster care is the primary setting, with 4,673 foster families in 2010. Almost 33% of the children placed in family foster care are placed with relatives. The agency reports that 63% of children who left foster care during the year were reunited with their families.

Families and other foster care givers receive partial reimbursement for the cost of room and board, clothing, school, and personal items for foster children. In 2009, CAF redesigned its foster care reimbursement methodology to address federal concerns with Oregon's methodology and increase consistency in rate-setting. Most children placed with foster families received a higher base foster care rate during the 2009-11 biennium as a result of the changes. Many children in foster care require additional special rates 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 caregivers. Children in foster care also are eligible for physical and mental health services through the Oregon Health Plan, funded in the Oregon Health Authority budget.

Other, higher cost services may be required in residential treatment or specialized service plans for children whose needs cannot be met in existing service settings. Capacity in residential treatment programs has been constrained by budget, and many providers' costs have increased more rapidly than the rates paid by DHS. DHS completed a needs assessment for its Behavioral Rehabilitation Services (BRS) providers and implemented the new rate structure for those providers and others in 2008.

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 FFY 2002, due to federal Adoptions and Safe Families Act deadlines to place a "backlog" of children who had been in foster care. During FFY 2010, 781 adoptions were finalized. This is 29% fewer than the 1,104 adoptions finalized in 2009, and the lowest number of finalized adoptions since the year 2000. An additional 201 children left foster care for a guardianship arrangement, down 31.6% from the 294 in 2009. In almost all cases, children placed receive adoption or guardian assistance payments and medical coverage to provide for their special needs. This program budget continues to grow due to both new adoptive and guardianship arrangements, and the cumulative nature of the caseload based on continued payments until the children "age out" at age 18, although the growth has moderated from double digit growth over the last few years. The spring 2011 caseload forecast projects Adoption Assistance and Subsidized Guardianship will grow from a combined average of 11,823 cases in 2009-11 to 12,261 cases in 2011-13, a 3.7% caseload increase.

<u>Vocational Rehabilitation Services</u>

Almost all of the clients who receive vocational rehabilitation services have severe disabilities which require a broad array of services. For FFY 2010, 71% of the 15,199 persons served had primary disabilities characterized as cognitive, psychosocial, physical or mental impairments; two-thirds of those clients had secondary disabilities, again predominately cognitive, psychosocial, physical or mental impairments. The severity of the disabilities, and the extent of the services needed to correct or address the disabilities, increase the cost and difficulty of rehabilitation and employment.

Vocational Rehabilitation Services is not an "entitlement" program like SNAP or Medicaid long-term care services, where funding is tied directly to the number of eligible Oregonians receiving those services. For the past two decades, federal funding for vocational rehabiliation services has been generally flat, with only cost-of-living adjustments. This has not kept pace with increased costs and demands for services, and state budget resources have not filled the gap. In January 2009, to allow it to manage within its budgeted resources, the program implemented an Order of Selection, which mandates services to the most severely disabled individuals first. Individuals who cannot be served are put on a wait list; in January 2009, there were 4,657 people on the wait list. With added resources from federal ARRA stimulus funds during the 2009-11 biennium, Oregon's program has been able to address the wait list and is again serving individuals in all priority levels. The program will remain in the Order of Selection, however, given the ongoing uncertainty around program funding levels. The program will continue to be challenged to place clients in jobs as Oregon's economic downturn has resulted in fewer available jobs and tighter competition for the jobs that are available.

Legislatively Adopted Budget

At $357.8 million General Fund and $3,327.5 million total funds, the legislatively adopted budget for CAF Programs is 4.5% General Fund and 3.5% total funds higher than the 2009-11 legislatively approved General Fund budget. The legislatively adopted budget level includes the 3.5% General Fund supplemental statewide ending balance adjustment of $12.9 million distributed across the CAF Programs.

The Self-Sufficiency Programs budget is funded at $166.4 million General Fund and $2,902.2 million total funds.

- Supplemental Nutrition Assistance Program benefits, at $2,384 million, make up over 70% of the CAF Programs total funds budget. The $191.1 million, or 8.7%, increase in SNAP benefits between 2009-11 and 2011-13 is the largest single component of CAF Programs' budget growth for 2011-13. Without the higher SNAP benefits, the CAF Programs budget would be $79.3 million, or 7.8%, total funds less than the 2009-11 legislatively approved level.
- The budget fully funds projected TANF cash assistance caseloads for the biennium, continuing the reduced maximum cash grant levels started in the 2009-11 biennium. The current 60-month lifetime TANF limit will continue. Other adjustments modify the pre-TANF eligibility process, eliminate the enhanced grant payment for pre SSI/SSDI applicants, cap pre-TANF payments, and close the Parents as Scholars program to new participants. The $50 monthly post-TANF cash grants are continued for the first year of the biennium. The JOBS re-engagement and disqualification process is also modified. Notably, HB 2049 made a number of these changes effective only for the 2011-13 biennium, in an effort to preserve the overall TANF program policy and structure as set out in HB 2469 (2007), even with the 2011-13 budget reductions made.
- Funding for the JOBS program is reduced by almost half, to a total $60 million, with the program to be restructured to focus on "job ready" and "near job ready" clients during 2011-13. The reduction in overall JOBS program funding means many current JOBS clients lose employment and training services, and other support services such as child care, beginning July 1, 2011. Although a new small monthly stipend allows eligible working SNAP recipients to be included in TANF work participation counts, the overall low level of JOBS funding puts Oregon at ongoing risk of work participation penalties related to the TANF program. Oregon currently has three separate work participation penalties in the federal appeal process.
- The Employment Related Day Care program is continued in this budget with the current provider rate and client co-payment levels. The Governor had proposed to move the program to the Early Learning Council, funded at an average of 10,000 cases for the biennium. The CAF budget supports an average of 9,000 cases through December 2011, an average of 9,500 cases from January through March 2012, and an average of 9,000 cases for the rest of the biennium. A $5.7 million General Fund special purpose appropriation to the Emergency Board, if allocated to the agency, would allow the program to continue at an average 9,500 cases from April through December 2012, and increase to an average 10,000 cases for the January through June 2013 period. The program and funding level is expected to be reviewed during the 2012 legislative session.

For Child Safety services, the legislatively adopted budget is $9.1 million General Fund and $37.5 million total funds. Funding for the Children's Wraparound Initiative is continued in this budget at $602,563 General Fund and $1.5 million Federal Funds. An additional $1.3 million General Fund and $2.1 million Federal Funds will support SB 964 family preservation and reunification child welfare services. These funds will be used to start pilot projects and contracted services in three to six counties as the budget will allow. Also, the budget reflects the HB 3260 transfer of the Runaway and Homeless Youth program from the State Commission on Children and Families to the Department of Human Services, with $38,208 General Fund and $703,659 Federal Funds to continue contracts with runaway and homeless program sites now in eight counties. Staffing and related administrative costs for SB 964 and HB 3260 are part of the CAF Program Support and Administration budget.

The legislatively adopted budget for Intensive Home and Reunification Services is $8.2 million General Fund and $25.9 million total funds. Contracted services for the SB 964 family preservation and reunification work are funded at $413,459 General Fund and $3.5 million Federal Funds. The Governor's proposed $10 million General Fund for child welfare differential response services – alternative interventions to connect families with preventive, community-based services – is not included in the budget. However, $5 million General Fund was set aside as a special purpose appropriation to the Emergency Board for this purpose. The agency is to refine its plans and report to the 2012 legislative session with a proposal on how the funding would be spent.

The Substitute Care budget is funded at $97.8 million General Fund and $181.3 million total funds. Child welfare foster care base rates will be reduced by 10%, with funding for contracted Behavioral Rehabilitation Services (BRS) reduced by a level equivalent to a 10% rate cut as a savings target. CAF is to work with the BRS providers on how to achieve the savings, which could include some combination of reductions in capacity, reductions in rates, or other management actions. Funding for crisis case management services is eliminated, cutting 70 contracted days of emergency shelter services in Clackamas, Multnomah, and Washington counties. This budget also reflects estimated savings of $1.3 million General Fund and $830,544 Federal Funds for the projected impact of the SB 964 family preservation and reunification pilot programs.

The Adoptions budget is set at $69.3 million General Fund and $141.3 million total funds for the 2011-13 biennium. General Fund for post-adoption services will end, but a mix of Federal Funds, including a one-time federal Adoption Assistance award, will fund continued services during the 2011-13 biennium.

The adopted budget for Vocational Rehabilitation Services is $7.2 million General Fund and $39.2 million total funds. General Fund support for rehabilitation services is reduced by about 10% from the 2009-11 level. The program expects to be able to serve an estimated total of 13,595 clients during the biennium.

CAF – Program Support and Administration

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	332,201,726	412,881,092	488,382,022	434,140,185
Other Funds	35,546,671	39,128,211	45,775,684	40,466,761
Federal Funds	473,880,306	466,499,738	517,689,303	503,551,260
Total Funds	**$841,628,703**	**$918,509,041**	**$1,051,847,009**	**$978,158,206**
Positions	4,338	4,962	5,252	4,708
FTE	4,167.60	4,830.21	5,140.40	4,651.02

Program Description

This budget includes field staff for CAF programs and the Service Delivery Area (district) field administration. The Program Support and Administration budget also reflects expenditures for the Office of the Assistant Director for CAF, 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, quality control functions, training, and diversity.

Budget Environment

The ongoing challenge in this budget is to balance central and field staffing levels to provide the best possible support for CAF programs and clients, while at the same time controlling administrative costs. For the past several biennia, CAF field staffing levels for Self-Sufficiency and Child Welfare programs have been understaffed relative to recommended workload staffing ratios. The 2009 Legislature made targeted investments to reduce the gap in the program staffing. During the 2009-11 biennium, however, CAF took management actions to hold positions vacant, freeze hiring, and reduce its operating expenses for budget savings. This increased the pressure on remaining staff to deliver services to clients and providers. CAF is using the transformation initiative to improve its operations, which has helped it better handle growing caseloads with less than optimal staffing levels. For example, CAF standardized and streamlined the intake process for SNAP, medical, and day care benefits, reducing clients' wait for benefits and saving staff time. It is also working on the Child Care Billing and Tracking project to automate child care attendance and billings for payment, and the Self Sufficiency Modernization project, which is intended to provide one coordinated information technology system to improve caseworker efficiency and client services.

Legislatively Adopted Budget

The legislatively adopted budget funds CAF Program Support and Administration at $434.1 million General Fund, $978.2 million total funds, and 4,708 positions (4,651.02 FTE). This is $21.3 million (5.1%) General Fund and $59.6 million (6.5%) total funds more than the 2009-11 legislatively approved budget level. The budget includes $104.2 million General Fund and $228.7 million total funds based on the transfer of part of the revenues and expenditures of the old DHS Administrative Services Division to this budget.

The Program Support and Administration budget rolls up CAF's June 2010 General Fund allotment reductions into the 2011-13 biennium, eliminates standard inflation increases, and adjusts State Government Service Charges. Personal services costs, tied to both compensation and benefits costs, reflect the Governor's 5.5% across the board reduction from the original projected costs. The agency will need to identify other budget resources or reductions as an offset if the final negotiated decisions on employee compensation do not yield the 5.5% savings. The budget also reflects the statewide reductions approved by the Legislature, including a $6.9 million General Fund reduction in services and supplies, and a $15.8 million General Fund supplemental statewide ending balance adjustment distributed across-the-board.

The legislatively adopted budget was reduced from the Governor's budget for the transfer of the Oregon Health Plan statewide processing center and Medicaid Policy Unit from CAF to the Oregon Health Authority ($9.3 million General Fund, $23.5 million total funds, 196 positions, 194.70 FTE). DHS and OHA agreed that placement of these functions should be with OHA. A total of 11 vacant positions (6.00 FTE) were eliminated, for a $366,570 General Fund and $913,689 total funds savings. The two positions (1.00 FTE) and funding for a federal early childhood grant were eliminated from this budget; the positions and grant funding were moved to the Governor's Office budget to better align with the Early Learning Council established in SB 909.

The Governor had supported adding a total of $29.4 million General Fund, $55 million total funds and 486 positions (341.11 FTE) to address caseload growth and improve staffing levels for both the Self-Sufficiency and Child Welfare programs. The adopted budget does not include this funding or additional positions. Instead, CAF is expected to fill its field services positions that were held vacant during the 2009-11 biennium to achieve budget savings (at February 28, 2011, CAF had 484 vacant field service positions). When the positions are filled, based on the spring 2011 caseload forecast, staffing levels for Self-Sufficiency programs will be about 68% of the workload model, and staffing levels in Child Welfare will be about 67.5% of the workload model.

The legislatively adopted budget includes $6.2 million General Fund as proposed by the Governor to allow CAF to contract with local domestic violence programs to co-locate domestic violence specialists in Child Welfare and Self-Sufficiency offices statewide. One new state position (0.88 FTE) will support that work.

Funding for two information technology projects is part of the budget: $950,407 General Fund and two positions (1.50 FTE) for the Automated Child Care Billing and Attendance system that was begun during the 2009-11 biennium, and $172,542 General Fund, $29.7 million total funds for the Self Sufficiency Modernization project (SSM). The funding for the SSM project was adjusted to reflect additional Federal Funds available due to the system's connection with eligibility determination for the Oregon Health Plan and the Healthy Kids programs and the Oregon Health Authority's health insurance information system. Debt service on the certificates of participation used to finance the SSM project is included in the DHS Central and Shared Services budget.

To implement SB 964's family preservation and reunification efforts, $1.2 million General Fund, $1.8 million Federal Funds, and six positions (6.00 FTE) were added to the Program Support and Administration Budget.

This budget was increased by $121,705 General Fund, $98,002 Federal Funds, and one position (1.00 FTE) to support the HB 3260 transfer of the Runaway and Homeless Youth program to DHS. Under the bill, DHS is to recommend policies to integrate a system of services and support for these youth into the state's continuum of care for children; coordinate data collection and technical assistance to communities; and recommend long term goals for addressing the underlying causes of youth homelessness.

Additional resources of $500,116 General Fund, $271,627 Federal Funds, and three positions (2.38 FTE) were approved for an Equity Office, to improve workforce training, services, and outcomes for the racially, ethnically, and culturally diverse Oregonians served by the agency.

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

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	915,108,246	991,859,310	1,197,987,469	1,219,017,083
Other Funds	188,132,737	183,116,526	159,149,700	168,506,779
Federal Funds	1,819,881,003	2,494,958,910	2,068,799,161	2,156,260,198
Total Funds	**$2,923,121,986**	**$3,669,934,746**	**$3,425,936,330**	**$3,543,784,060**
Positions	2,124	2,118	2,284	2,036
FTE	1,936.32	2,097.70	2,216.83	2,019.42

Summary Description

Seniors and People with Disabilities (SPD) and its partners provide 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. Over 28,000 seniors and adults with physical disabilities receive Medicaid long-term care services. Services to those with developmental disabilities include case management, family or community support services, and comprehensive (residential) care. At June 2010, SPD and its partners provided services to 13,400 adults and 5,600 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 supports to aged, blind, and disabled persons who receive SSI; and limited employment programs for elderly and disabled persons. SPD also has responsibility for the state's Medicare buy-in programs for low income elderly and disabled Oregonians, paying Part B Medicare premiums for more than 105,000 persons each month.

Revenue Sources and Relationships

General Fund makes up 34.4% of the SPD budget. This is up significantly from the 27% share in the 2009-11 budget, due to one-time Federal Funds used in that budget that do not continue into the 2011-13 budget. Most of the General Fund is used to match federal Title XIX Medicaid and other federal funds. A smaller share is used for General Fund-only programs such as Oregon Project Independence and in-home services for children with developmental disabilities and their families.

Other Funds revenue is 4.8% of the overall budget. The Other Funds come primarily from nursing facility Medicaid provider taxes, clients' contributions towards their care, and estate recoveries. In the 2009-11 biennium, SPD also used $10 million in one-time Other Funds from the Homecare Union Benefits Board reserve and Other Funds settlements which is not available in the 2011-13 biennium. The nursing facility provider tax is used to match federal Medicaid funds for facilities that serve Medicaid clients, allowing for higher levels of nursing facility reimbursement. The current provider tax agreement continues until 2014. Other Funds from the Senior Property Tax Deferral Account have supported the Oregon Project Independence (OPI) program in the past – in the 2007-09 biennium, $16.6 million was transferred to the program and used in the 2007-09 and 2009-11 program budgets – but no new transfers are expected for 2011-13.

Federal Funds make up 60.8% of the budget. Federal revenues are predominately federal Medicaid funds. Federal matching funds for the Medicaid program are determined by the Federal Medical Assistance Percentage (FMAP), which is the federal share of eligible program expenditures. The program match rate changes each federal fiscal year and depends on Oregon's per capita income relative to other states. The 2009 federal stimulus legislation (the American Recovery and Reinvestment Act of 2009, or ARRA) included a substantial, temporary increase to the Medicaid match rate from October 2008 through June 2011. For SPD, the 2009-11 approved spending level included $270.7 million from these additional federal Medicaid funds, which helped to offset General Fund need to cover higher caseloads and costs. The higher federal funding level is not available for 2011-13, so the 2011-13 budget uses General Fund to partially replace the 2009-11 federal funds increase. For the 2011-13 biennium, the average Medicaid match rate is estimated at 62.7%; at this rate, Oregon would pay 37.3%

of eligible program costs. Most Medicaid administrative functions, however, are paid only on a 50% state/50% federal share. Federal Older Americans Act (OAA) funding also supports program services. Oregon uses OPI funding as well as local Area Agencies on Aging resources as its required match and to meet OAA maintenance of effort requirements for state funding. SPD also receives federal funds for SSDI and SSI eligibility determination through Titles II and XVI of the Social Security Act. In addition, a modest amount of federal revenue comes from Medicare and the Supplemental Nutrition Assistance Program (SNAP).

Budget Environment

Over the last three decades, the delivery of services for seniors and people with disabilities has shifted from institutional care to community-based care. In Oregon, long-term care for Medicaid-eligible seniors and people with disabilities has moved from nursing facilities and "training centers" to use of in-home care, adult foster homes, group homes, and residential care and assisted living facilities. Federal waivers have allowed continued use of federal funds to support more community-based care at a lower overall cost than institutional care.

Demand for services to seniors and adults with physical disabilities is driven largely by demographics. The number of Oregonians ages 65 or older, the population most likely to require long-term care services, increased by almost 80,000, or 18%, in the decade from 2000 to 2010. The Department of Administrative Services' Office of Economic Analysis projects this population will grow by 9.7% during the 2011-13 biennium, reaching over 584,000 by July 1, 2013. As of June 2011, SPD was serving 28,539 seniors and adults with physical disabilities in its long-term care programs for the elderly and the physically disabled (which include in-home services, community-based care, and nursing facilities). DHS' spring 2011 caseload forecast projects long-term caseloads overall will increase by 4.4% for the 2011-13 biennium. Given the demographic projections, the issue of sustainability of the long-term care system has been a recurring topic of discussion, but no new significant funding has been allocated for new system resources due to the large price tag for the recommendations presented.

For developmental disability services, the budget over the past decade has been driven less by demographics and more by state policy, federal Medicaid policy, and the Staley Settlement Agreement. State policy and budget issues directed the closure of the Fairview Training Center in Salem, and later the Eastern Oregon Training Center in Pendleton, with clients moving from the institutions to community homes. On the federal level, as a result of the 1999 Olmstead decision, states must provide Medicaid services in the most integrated setting appropriate to the needs and wishes of people with disabilities; i.e., provide community rather than institutional services where appropriate. In 2000, in lieu of a federal class action lawsuit, Oregon entered into the Staley Settlement Agreement, and over the past decade has expanded its system and services for persons with developmental disabilities. Under the agreement, Oregon phased-in universal access to developmental disability 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. As of July 2009, anyone needing support services is to be enrolled within 90 days after becoming eligible. The Staley Settlement Agreement was modified in 2003 due to state budget issues, and ended June 30, 2011. However, the service model and the range of services established as a result of the Staley Agreement are expected to continue past the agreement's final effective date.

SPD has seen a number of targeted funding enhancements over the past decade. 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 Ballot Measure 99 (2000), 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).

Other significant changes have been made to SPD programs in response to state budget constraints. Most notably, 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 has been reduced, and, as noted above, services under the Staley Settlement Agreement were phased-in at a lower, renegotiated level. Agency expenditures and provider reimbursement have also been adjusted over the past several biennia, both in the legislatively adopted budgets and in interim adjustments for statewide General Fund revenue shortfalls and to "rebalance" the SPD budget.

When budget reductions are needed, options in human services programs focus on client eligibility, benefit levels, and staffing and service delivery costs. In SPD, federal Medicaid services make up the largest share of the budget. The state is not required to provide Medicaid services, but if it opts to do so and receives Medicaid funds, it agrees to follow federal Medicaid program regulations on determining eligibility and providing services. As part of the ARRA provisions, and more recently as part of federal health care reform, states have been restricted from changing Medicaid program eligibility. Benefit levels in SPD are primarily not payments to individuals, but reimburse providers for services. The cost of delivering services – individualized supports, community programs, or residential services – might be reduced through provider rate reductions, but providers' operational costs, collective bargaining requirements for some providers, and state statutory requirements are all factors. SPD has made efforts to better tie reimbursement to levels of need, but provider reimbursement has historically been determined by the type of provider group and is not consistent across programs or services provided. Also, changes in reimbursement levels can reduce or close access to services, depending on Oregon's economy and market forces. In some cases, reducing General Fund-only programs such as OPI can be done without as much red tape, but might create longer-term budget impact if the services provided now prevent or delay clients from needing more intensive, more expensive services in the future.

Legislatively Adopted Budget

SPD's 2011-13 legislatively adopted budget is $1,219 million General Fund and $3,543.8 million total funds. This is 22.9% General Fund more, but 3.4% total funds less, than the 2009-11 legislatively approved budget at the close of the 2011 session. As noted in the revenue discussion above, one-time federal ARRA funding in the 2009-11 budget is not available for the 2011-13 budget, and General Fund has been used to replace some of that federal funding. Also, General Fund cost and program reductions in the 2011-13 budget in many cases also reduce federal matching funds.

The legislatively adopted budget maintains all in-home, community-based, and nursing facility care for seniors and persons with physical disabilities, with no change in program eligibility per se but modest changes in the level of some in-home services provided. Services for individuals with developmental disabilities are also more limited. Also significant, reimbursement rates for both long-term care and developmental disability services providers are reduced, or scheduled to be reduced in the second year of the biennium.

The budget numbers also reflect a $44.1 million General Fund reduction for the 3.5% supplemental statewide ending balance. Although this funding is not included in the legislatively adopted budget, no specific program or administrative actions have yet been identified to achieve this reduction. Some or all of the $44.1 million may be added back later in the biennium depending on agency needs and the state's economic conditions.

The legislatively adopted budget is discussed in more detail in the Programs and Program Support and Administration sections below.

SPD – Programs

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	761,702,264	839,665,413	1,020,180,221	1,043,739,529
Other Funds	175,139,123	167,320,356	142,921,818	157,731,069
Federal Funds	1,613,523,157	2,268,375,967	1,808,865,798	1,906,646,542
Total Funds	**$2,550,364,544**	**$3,275,361,736**	**$2,971,967,837**	**$3,108,117,140**
Positions	800	708	695	660
FTE	780.15	728.40	668.39	657.68

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, Medicaid long-term care services are provided through nursing facilities, assisted living facilities, residential care facilities, adult foster homes, and in-home providers including Medicaid client-employed home care workers. Oregon Project Independence (OPI) provides in-home services outside of the Medicaid program. Direct financial support is made through Medicare buy-in programs and special needs payments. Federal Older American Act services include help with abuse prevention, caregiver supports, medication management, nutrition services, senior employment, legal issues, and other support services. DD services include home or community based services delivered to children and adults through counties and support service brokerages, private providers, and state-operated and private group homes.

The FTE included in the Programs budget are state employees who work at 29 state-operated group homes housing 138 people with developmental disabilities. The position count and FTE do not include non-state staff for which SPD provides reimbursement in local Area Agencies on Aging (AAAs) or regional brokerages and community developmental disabilities programs (CDDPs) that arrange services for people with developmental disabilities. SPD reimburses Transfer AAAs for a staffing level of 783.17 FTE. Regional brokerages providing services to persons with developmental disabilities are reimbursed for a staffing level of 230.63 FTE, and CDDPs are reimbursed for a staffing level of 522.50 FTE.

<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 are employees of the client 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, and enhanced residential care. 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.

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. Eligibility is also based upon income and assets. Clients may have incomes up to 300% of the Supplemental Security Income (SSI) grant, or $2,022 per month for an individual.

Medicaid law requires states, at a minimum, to provide nursing facility care. Since the 1980s, however, Oregon has operated its long-term care program under a 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. In the mid-1980s, Medicaid long-term caseloads were about evenly divided between community-based care and nursing facilities. As of June 2011, however, nursing facilities represented only an estimated 17.2% of the overall 28,539 Medicaid long-term care cases; in-home cases made up 38.8%; and community-based facilities were 44%.

Oregon Project Independence (OPI) provides in-home services to about 2,000 Oregonians each month. To qualify, clients must be 60 years of age or older, or have Alzheimer's or other related dementia, and be assessed as service priority levels 1 through 18 (a broader range than the levels 1 through 13 served in Medicaid long-term care). Those with incomes over 100% of the federal poverty level pay all or part of the cost of services.

Medicare Buy-In Programs provide payments for Medicare beneficiaries who meet income guidelines. The state pays the Medicare 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. SPD expects to make payments for a monthly average of over 105,000 cases in the 2011-13 biennium.

SPD is the state administrator of the ***Older Americans Act (OAA)***, a federal program targeted to people 60 years of age 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. Over 323,000 Oregonians receive OAA services each year.

The ***Oregon Supplemental Income Program (OSIP)*** provides special needs cash payments for items such as prescription drug copayments, non-medical transportation, or one-time emergency payments, for low-income aged and disabled individuals receiving federal Supplemental Security Income (SSI) benefits though the Social Security Administration.

<u>Services for People with Developmental Disabilities</u>
DHS offers a wide array of services for people with developmental disabilities. Oregon no longer has an institutional facility for persons with developmental disabilities, so all clients are served in the community. Most of these services are administered under Medicaid waivers similar to the Home and Community-Based Care waiver for seniors and people with physical disabilities. 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.

Community developmental disability programs at the county level 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. This budget 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. Clients may receive services from more than one category and require services from different categories at different points of their lives depending upon their physical condition, age, and ability to function.

- ***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.
- ***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 or supported living services 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. Clients receiving comprehensive services may also receive diversion services (to prevent a crisis) or transportation if needed.
- The ***state operated community program*** provides 24-hour community residential care for 138 people who have intensive support needs because of medical or behavioral conditions. The 29 group homes are operated by state employees. Those positions and FTE are included in this long-term care budget.

Budget Environment

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. Oregon's ability to maintain current services is problematic, with ongoing growth in the number of Oregonians who receive those services and increasing costs to provide quality care on one side, and limited resources on the other. This challenge is exacerbated by recent federal health care reform, which even more significantly limits the options for controlling costs in Medicaid-funded programs.

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. Long-term care caseloads for seniors and people with disabilities are forecast to grow 4.4% during the 2011-13 biennium, from an average of 27,866 in the 2009-11 biennium to 29,103 in the 2011-13 biennium. The growth is attributed to the economic downturn, which makes it more financially difficult for individuals and families to care for seniors at home, as well as demographic and program changes. In developmental disability services, demand is projected to increase 10% from the 2009-11 level, growing from 19,050 to 20,954 on average for the 2011-13 biennium.

In addition to population growth, provider reimbursement is a major driver in SPD program costs. Adequate provider reimbursement assures access for clients, and allows providers to operate effectively with an appropriate number and skill level of staff. Inadequate reimbursement puts access and services at risk. SPD's reimbursement rates have been set through a variety of methodologies. In the APD system, reimbursement rates are based on a mix of where clients live and the extent of individual client needs. For example, the rates DHS pays nursing facilities for services are set in Oregon statute, which establishes the reimbursement level at the 63rd percentile of audited allowable nursing facility costs. (This statutorily-required reimbursement level was temporarily changed for the 2009-11 biennium, and again for the 2011-13 biennium, due to budget constraints.) Community-based provider rates such as those for assisted living facilities and residential care facilities are tiered based upon client impairment. In-home service caregivers and adult foster home rates are now subject to collective bargaining. In the DD program, SPD is in the middle of a federal Real Choice Systems Transformation grant to implement the ReBAR project, which is a rate model that uses a standardized client needs assessment to set provider rates for adult residential services.

The Legislature approved wage increases for the 2007-09 biennium for most SPD providers to help assure continued access to services. Rates more typically increase over time using inflationary adjustments, although there have been no cost-of-living (COLA) increases for the past several biennia. In fact, some providers have had rates reduced as a means to control program costs overall, and others now face potential reductions later during the 2011-13 biennium.

The most direct way to control Medicaid costs over the long term is to reduce the level of need for Medicaid long-term care services. In response to past legislative direction, 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 calls for more community resources through local centers, restructured rates to support flexible, specialized and adequate community services, and connecting individual needs to reimbursement rates. However, no funding has been allocated to date to implement that plan. SPD has undertaken several pilot efforts for Aging and Disability Resource Centers (ADRCs), a longer-term strategy to reduce costs by providing early information, referral, and assistance services and supports for long-term care to all individuals and families.

For services to Oregonians with developmental disabilities, 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 was 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. As of July 2009, anyone needing support services is to be enrolled within 90 days after becoming eligible. The legal agreement ends June 30, 2011, although the system of support services for Medicaid-eligible adults and the use of regional brokerages to provide those services will continue (HB 2600).

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for SPD Programs is $1,043.7 million General Fund and $3,108.1 million total funds, with 660 positions (657.68 FTE). The Programs budget is 24.3% General Fund higher, but 5.1% total funds less, than the 2009-11 legislatively approved budget. The statewide supplemental ending balance adjustment reduced the SPD Programs budget by a total of $39.7 million General Fund. Other significant issues in the budget are outlined below.

To accommodate the projected caseload growth in programs serving the elderly and people with physical disabilities within the General Fund resources available, the Legislature approved a number of budget adjustments:

- A $6.6 million General Fund, $16.6 million total funds savings is assumed based on a lower, riskier long term care caseload forecast. The savings reflect a re-projection of costs based on the most recent actual caseloads, instead of the agency's official spring 2011 forecast level.
- New long-term care provider rate reductions – a $97.5 million General Fund, $264 million total funds reduction item in the Governor's budget – are restored for the first year of the biennium. For at least the 2011-12 fiscal year, providers will be reimbursed at the 2009-11 rates. However, the budget does anticipate a reduction of $51.5 million General Fund and $147.6 million total funds in long-term care provider costs in the second year of the biennium. The pricing is based on a 19% rate reduction for nursing facilities in the second year of the biennium; a 16% rate reduction for community-based care facilities in the second year of the biennium; and savings equivalent to a 14% rate reduction in home care worker costs. It is expected that the Legislature will review this budget issue during the February 2012 legislative session, with consideration of other cost savings or additional resources that might prevent or mitigate the reductions.
- In-home Instrumental Activity of Daily Living (IADL) service hours will be reduced beginning January 1, 2012. The $4.1 million General Fund reduction means an overall 5% reduction in authorized hours for in-home clients.
- Oregon Project Independence (OPI) is funded at $9.5 million General Fund. This is about 28% less than the $13.2 million total funds originally authorized for the 2009-11 biennium, but 2% more than the $9.3 million total funds anticipated in the final 2009-11 legislatively approved budget.

As noted earlier, the Developmental Disability programs expect to serve an increasing number of clients during the 2011-13 biennium. To support the caseload growth, the adopted budget includes the following adjustments:

- As in the Governor's budget proposal, the adopted budget anticipates using, in the second year of the biennium, $6,950,134 in Other Funds from the Developmental Disability (Fairview) Community Housing Trust Fund to support program services. The Other Funds will be matched where possible with federal Medicaid matching funds to support program services for individuals with developmental disabilities and their families. The community housing grant program will continue during the 2011-13 biennium, at reduced levels, as funding permits.
- Adult support services are eliminated for adults with developmental disabilities who are not Medicaid-eligible. Support services will continue to be available for adults who qualify for Medicaid, and for youth who are 18 to 21 years of age.
- The Alternatives to Employment (ATE) program and related transportation services for individuals with developmental disabilities who are served in comprehensive care settings are funded to continue at about 90% of the 2009-11 level.
- In-home supports for families of children with developmental disabilities who are at high risk of out-of-home placement are capped at 250 children and a monthly cost of $1,000.
- Family Support Program services are funded at $2 million General Fund, slightly more than half of previous funding, to prioritize families who are at risk for crisis, respite care, behavior support plans and adaptive equipment. An additional $600,000 General Fund is allocated to create a Family to Family network to help support families of children with developmental disabilities.
- The budget sets a $2.4 million General Fund, $6.4 million total funds efficiency target for the State Operated Group Homes for individuals with developmental disabilities, about a 7% funding reduction overall. The budget also eliminates three long-term vacant positions (3.00 FTE) in the State Operated Group Homes.
- A number of provider rate reductions implemented in the 2009-11 biennium will be continued with additional reductions during the 2011-13 biennium. As of July 2011, Community Developmental Disabilities Programs will have a 2% reduction in case management costs, all quality assurance staff will be eliminated, and overall administrative costs will be funded at 85% of equity. Similarly, for adult support services, there will be a 2% reduction in case management costs, brokerage quality assurance staff is eliminated, and overall administrative costs will be funded at 89% of equity beginning July 2011. The 6% rate reduction implemented in the 2009-11 biennium for comprehensive services providers will continue, with a further 4% reduction to take effect March 2012. Adult foster care provider rates will be reduced by 10% at October 2011; foster care providers serving children will continue the 6% reduction already in place, with a further 4% reduction planned October 2011. As with the long-term care provider rate issues, it is expected that the Legislature will review a number of these reductions during the February 2012 session.

SPD – Program Support and Administration

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	153,405,982	152,193,897	177,807,248	175,277,554
Other Funds	12,993,614	15,796,170	16,227,882	10,775,710
Federal Funds	206,357,846	226,582,943	259,933,363	249,613,656
Total Funds	**$372,757,442**	**$394,573,010**	**$453,968,493**	**$435,666,920**
Positions	1,324	1,410	1,589	1,376
FTE	1,156.17	1,369.30	1,548.44	1,361.74

Program Description

Program Support and Administration includes expenditures for the field staff that deliver SPD services, central policy and administrative functions, and 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.

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 (OAA) and Oregon Project Independence (OPI) services in most counties. Type A AAAs are typically private non-profit agencies. Staff are employees of the AAA.
- "Type B" AAAs are local government bodies, such as counties or councils of governments. "Transfer AAAs" are staffed by local government employees; in "Contract AAAs," services are provided through state employees supervised by the county. Both administer Medicaid, cash assistance, and Supplemental Nutrition Assistance Program (SNAP/ food stamps) services, and OAA and OPI programs.
- In Type A AAA areas, local SPD offices administer Medicaid, cash assistance, and SNAP services.

Local SPD office staff are part of this budget. The budget 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.

Supplemental Nutrition Assistance Program (SNAP/food stamps) eligibility staff are part of the SPD Program Support and Administration budget; however, the SNAP benefits expenditures are part of the Children, Adults and Families (CAF) budget.

The Disability Determination Services (DDS) program assesses clients' eligibility for Social Security Act claims for disability insurance (SSDI) and Supplemental Security Income (SSI). Staffing for the DDS program is 100% federally funded.

The program offices include the Office of Senior and Disability Services, the Office of Licensing and Quality of Care, the Office of Federal Resource and Financial Eligibility, and the Office of Developmental Disability Services. 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.

Budget Environment

Over the past several years, DHS has contracted for staffing studies to review current workload and staffing needs. In SPD, these studies looked at SNAP 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. DHS requested more staff and funding to implement the new workload standards in both 2009-11 and 2011-13 budget development, but without additional funding, staffing remains significantly below the recommended levels both for state offices and the AAAs. These staffing levels are even more challenging in the face of statewide reductions limiting employee compensation and mandating unpaid furlough days, management actions to achieve budget savings through position vacancies and hiring freezes, and continued growth projected in program caseloads and abuse investigations.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for SPD Program Support and Administration is $175.3 million General Fund, $435.7 million total funds, and 1,376 positions (1,361.74 FTE). This is 15.2% General Fund and 10.3% total funds more than the 2009-11 legislatively approved budget. Included in the budget is a $33 million General Fund and $69.3 million total funds transfer of part of the revenues and expenditures of the old DHS Administrative Services Division to this budget.

The budget also rolls up the June 2010 allotment reductions into the 2011-13 biennium, eliminates standard inflation increases, and adjusts State Government Service Charges. Personal services costs, tied to both compensation and benefits costs, reflect the Governor's 5.5% across the board reduction from the original projected costs. This assumes that final negotiated decisions on employee compensation will yield the 5.5% savings; if not, the agency will need to identify other budget resources or reductions as an offset. The statewide reductions approved by the Legislature are reflected in the budget with a $2 million General Fund reduction in services and supplies, and a $4.4 million General Fund supplemental statewide ending balance adjustment distributed across-the-board. The budget also eliminates 24 long-term vacant positions (21.52 FTE).

No staffing is added for mandated caseload growth in the Medicaid long-term care program or in developmental disability services programs. The Governor's budget proposed adding $9.1 million General Fund, $6.5 million Federal Funds and 102 positions (101.00 FTE) to improve staffing levels for Eligibility Determination and Adult Protective Services in both AAAs and the state offices. The adopted budget does not include this funding or additional positions. Instead, the agency is expected to fill its field services positions that were held vacant during the 2009-11 biennium to achieve budget savings (at February 28, 2011, SPD had 146 vacant field service positions). The agency reports that when the positions are filled, SPD eligibility staffing levels will be at about 71% of the workload model, and Adult Protective Services staffing will be at about 62% of the workload model. The AAAs are funded at 85% of the comparable state office costs (equity level) through February 2012; without additional resources, the equity level would drop to 83.75% for the rest of the biennium.

The budget adds $1.8 million General Fund and two positions (1.50 FTE) to support training for workers and consumers, and development of a registry for home care workers and personal support workers, as directed in HB 3618 (2010). Funding to support HB 3650 (2011) is also included, at $960,103 General Fund and two positions (1.34 FTE), for a community health worker/personal health navigator training and certification program.

DHS/Central and Shared Services – Program Area Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	22,539,145	26,695,116	27,053,308	25,856,837
Other Funds	142,019	254,148	96,264,666	98,395,689
Federal Funds	17,685,738	19,422,618	9,372,315	8,902,857
Total Funds	**$40,366,902**	**$46,371,882**	**$132,690,289**	**$133,155,383**
Positions	659	639	630	648
FTE	634.79	616.36	611.46	628.00

NOTE: The 2007-09 and 2009-11 columns above include positions and FTE, but not the related, non-add Other Funds expenditures, for the DHS Shared Services staffing that is part of the 2011-13 budget.

Summary Description

The Department of Human Services' (DHS) Central and Shared Services is the new model for administrative functions that support DHS and the Oregon Health Authority (OHA) created in HB 2009 (2009). This budget structure includes Central Services supporting DHS only, and Shared Services supporting both DHS and OHA.

Central Services include functions that are housed separately in each agency because they are directly related to policy and program in the agency, such as the agency director's office, communications, portions of budget and human resources, the Governor's Advocacy Office, and debt service. For DHS, central services other than debt service make up 13.4% of the overall Central and Shared Services budget. Debt service for the new child welfare information system (OR-Kids) and Self Sufficiency Modernization projects makes up 13.4% of the total. The Central Services budget includes 69 positions (68.42 FTE).

Shared Services between DHS and OHA include information systems and information security, financial services, budget, human resources, facilities, and procurement, which will be housed in either DHS or OHA, but which will provide services to both agencies. Joint governance and service-level agreements will define the relationship between DHS and OHA for these shared services. In the 2011-13 budget, DHS' Shared Services includes the Budget Center; Office of Forecasting, Research and Analysis; Office of Financial Services; Human Resources Shared Services; Office of Facilities Management; Imaging and Records Management Services; Office of Contracts and Procurement; Office of Investigations and Training; Internal Audits and Consulting Unit; Office of Payment Accuracy and Recovery; the Office of Continuous Improvement; Publications and Design Section; and Shared Services administration. The $97.5 million in Other Funds for these services is 73.2% of the Central and Shared Services budget. The staffing level for DHS' Shared Services is 579 positions (559.58 FTE).

Direct charges and services for central government assessments and usage charges are not part of this budget structure. Those are part of the Program Support and Administration budgets in the Children, Adults and Families and Seniors and People with Disabilities program areas.

Revenue Sources and Relationships

The 2011-13 legislatively adopted budget is 19.4% General Fund, 73.9% Other Funds, and 6.7% Federal Funds. DHS Central Services are funded with a mix of General Fund, Other Funds, and Federal Funds, depending on the services provided. Federal funding is subject to a federally approved cost allocation plan that charges programs for the services received. The Shared Services funding is all Other Funds, based on revenues received from other parts of DHS and from OHA for purchased services. This Shared Services structure did not exist before the 2011-13 biennium, so this Other Funds revenue shows up only in the 2011-13 budget numbers above.

Budget Environment

The Central and Shared Services model is new for the 2011-13 biennium. The Shared Services structure was designed to help ensure that administrative services are provided cost-effectively without duplication of resources between DHS and OHA. The budgets for Central Services, Shared Services, and direct charges in DHS and OHA were built to be essentially equivalent to the previous DHS Administrative Services Division, which is eliminated in the 2011-13 budget. As a result of the Shared Services model, however, the Other Funds expenditures for those services are a budget double-count (technically known as "non-add" funding) of the payments made by the DHS and OHA program areas for the services.

DHS and OHA have allocated staff and functions between the DHS and OHA Shared Services budget based on extensive review and discussion of where the services are best placed. Once the model is fully operational, other adjustments could be needed between the two Shared Services budgets and other parts of DHS and OHA.

Since 2008, DHS has made an on-going effort to improve its business operations and service delivery through its department-wide transformation initiative. It cites cost savings of over $100 million to date, and improved customer service and quality, through 35 initiatives throughout the Department. Examples in Shared Services include streamlining financial operations, automated medical application document processing, and improved processing of fingerprints and background checks. This continuous improvement work has achieved positive results, but cannot be expected to fully offset the impact of funding reductions in Central and Shared Services for both DHS and OHA.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $25.9 million General Fund and $133.2 million total funds is 3.1% General Fund less, but almost three times total funds more, than the estimated comparable 2009-11 legislatively approved budget. As noted above, however, the 2009-11 total funds budget number does not include the non-add Other Funds expenditures that will support the DHS Shared Services staffing. The staffing and those expenditures were previously part of the DHS Administrative Services Division budget.

The legislatively adopted budget includes adjustments made in the Governor's budget to carry forward the General Fund allotment reductions taken in the 2009-11 biennium, to eliminate any inflationary increase, and to reduce the original projected growth in personal services costs by 5.5%. The budget also anticipates $441,245 General Fund and $5.2 million total funds savings from unidentified service reductions. The bulk of the reductions will be in shared administrative services, with specific reduction actions to be determined by the DHS/OHA Joint Operations Steering Committee. The Legislature directed statewide General Fund reductions in all agencies of 6.5% in services and supplies, and 3.5% across-the-board for a supplemental statewide ending balance, which reduced the Central Services General Fund budget by $100,949 and $939,568 respectively. Other reductions were made based on lower Secretary of State audit charges, Department of Administrative Services assessments, and State Data Center charges.

Of the $25.9 million General Fund total, $17.8 million General Fund is earmarked for debt service on information technology projects. This is more than double the $6.6 million General Fund debt service for the 2009-11 legislatively approved budget. The 2011-13 amount reflects debt service obligated for financing the OR-Kids project, which is now scheduled to implement on August 29, 2011, and debt service obligated and projected for on-going work on the Self-Sufficiency Modernization project.

The adopted budget restores $2.3 million Other Funds and 19 positions (17.04 FTE) to correct a double-counted reduction in Shared Services staffing taken in the Governor's budget. It abolishes three positions and establishes two new positions for the DHS agency director and executive assistant, for a net reduction of one position (0.50 FTE). The original positions were placed in the Oregon Health Authority's budget when the separate budgets were developed. Although the Legislature made no other position adjustments in this budget, other adjustments are expected after the agency reviews actions that are needed to align the Shared Services budget and staffing levels with the new service delivery model. DHS and OHA are to report back on any proposed changes in the fall of 2011 after this review is completed.

Long-Term Care Ombudsman – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	947,535	1,084,316	0	1,753,933
Other Funds	1,769,012	1,932,156	2,449,877	583,121
Total Funds	**$2,716,547**	**$3,016,472**	**$2,449,877**	**$2,337,054**
Positions	11	11	11	11
FTE	10.00	10.50	10.75	10.75

Agency Overview

The Office of the Long-Term Care Ombudsman (LTCO) is a federally-mandated consumer protection program under the federal Older Americans Act. The LTCO supports a network of certified volunteers to investigate and resolve complaints for those who live in Oregon's nursing facilities, residential care facilities, assisted living facilities, and adult foster homes. Agency staff give 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 case is referred to local adult protective services agencies for investigation. The LTCO also advocates for system change to promote and protect the rights and interests of long-term care facility residents.

Revenue Sources and Relationships

Through the 2009-11 biennium, most of the LTCO's General Fund has been used to match federal Title XIX Medicaid and Older Americans Act (OAA) funds through the Department of Human Services (DHS). The budget reflected both the General Fund sent to DHS and, as Other Funds, both the General Fund and matching Federal Funds returned from DHS. However, the federal Centers for Medicare and Medicaid Services (CMS) has notified DHS it will no longer allow Oregon to claim federal Medicaid administrative funds for LTCO costs. For the 2011-13 biennium, then, the Other Funds reflect the pass-through of only OAA funding from DHS.

Budget Environment

Demand for ombudsman services is directly related to the number of long-term care facilities and clients. In 2008, Oregon's long-term care system had 42,362 beds in 2,166 licensed facilities. In 2010, there are 42,590 licensed beds in 2,274 licensed facilities. This system is expected to continue growing as the population ages.

The number of certified volunteers providing ombudsman services is constrained by the number of LTCO staff available to provide training and technical assistance. Two new Deputy Long-Term Care Ombudsman positions were added in the 2007-09 budget, and the 2009 Legislature shifted staffing and resources to improve the agency's capacity to respond to complaints, close cases, and increase the number of facility visits. However, staffing and volunteer levels remain less than optimal. The agency reports that during 2010, an average of 150 certified ombudsman volunteers, making about 69 visits per volunteer, were able to visit only about 50% of all facilities. Visits were made to almost 99% of nursing homes and 89% of residential care and assisted living facilities, but only about 36% of adult foster homes. For 2011-13, the LTCO expects to have more volunteers and will focus on visiting more adult foster homes to improve residents' access to ombudsman services and support.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $1.8 million General Fund is 62% more than the 2009-11 budget of $1.1 million General Fund, largely due to the use of General Fund to replace Medicaid funds no longer available to the agency. The Governor's budget proposed increasing long term care facility licensing fees as a new funding source for the LTCO, but the Legislature rejected that proposal. The $2.3 million total funds budget is 22% less than the $3 million total funds budget in 2009-11; however, if adjusted for the Other Funds double-count caused by the transfer of funds for federal match, it is effectively about 8% more than in 2009-11.

The budget redirects funds to add 0.25 FTE to an existing Data Coordinator position to help handle increasing numbers of both volunteers and complaints. Statewide General Fund reductions include 6.5% in services and supplies ($28,530), and 3.5% across-the-board for a supplemental statewide ending balance ($63,666). Other reductions, totaling $1,429 General Fund and $183 Other Funds, were made based on lower Secretary of State audit charges, Department of Administrative Services assessments, and State Data Center charges.

Psychiatric Security Review Board – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	1,045,916	1,263,622	1,705,611	2,105,264
Other Funds	0	146,818	2,056	176,056
Total Funds	**$1,045,916**	**$1,410,440**	**$1,707,667**	**$2,281,320**
Positions	5	8	8	12
FTE	5.00	6.89	8.00	11.76

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. Effective 2007, the Board's jurisdiction was expanded to include juveniles found "responsible except for insanity" who have a serious mental condition or who present a danger to themselves or others. The duties of the Board were again expanded by HB 2853 (2009), which requires PSRB to process relief petitions and hearings for persons barred from possessing a firearm due to a mental health determination, including civil commitment or a finding of guilty except for insanity.
The ten-member board is appointed by the Governor and consists of a five-member adult panel and a five-member juvenile panel.

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 Oregon Health Authority; 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.

Revenue Sources and Relationships

Most agency operations are funded with General Fund. Federal grant funding passed through from the Department of State Police helps to fund the Gun Relief program.

Budget Environment

Adult caseload growth has slowed recently, remaining flat at about 750 clients from 2007 through 2009. Adults on conditional release to community-based programs has also stabilized over this same period, after increasing 44% between 2003 and 2007. Adults on conditional release require monitoring by agency staff, regular reporting, and frequent contacts with case managers. Although fewer cases have come before the juvenile panel than was originally expected, the volume is expected to increase over time. In addition, 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 handles by the agency's staff.

In 2008, the Department of Administrative Services reviewed PSRB's workload issues, and concluded that three new positions were needed in order to allow the agency to keep up with the demands of the adult and juvenile hearings. Those positions were not funded in their 2009-11 budget, and the agency requested the positions again for 2011-13. The agency is currently hearing adult cases within the statutory time limits only 63% of the time. This in turn can have a direct impact on costs, as patients are held longer in the Oregon State Hospital.

Legislatively Adopted Budget

The legislatively adopted budget for the Board is $2,281,320 total funds, which represents a 62% increase from the 2009-11 legislatively approved level and a 34% increase over the Governor's budget. The adopted budget includes the addition of two staff to address general agency workload demands. Other Funds limitation was increased to recognize the federal grant revenues the agency expects to receive through the Department of State Police for the Gun Relief Program. The adopted budget does reflect standard reductions to continue allotment reduction savings from the 2009-11 biennium, the elimination of inflation, a reduction in compensation, and an additional 6.5% reduction to services and supplies. It also includes the 3.5% supplemental ending balance adjustment which represents a total of $62,514 General Fund. This adjustment is subject to restoration to the agency's budget in February 2012 depending on the state's overall fiscal situation.

The Legislature passed SB 420, which changes the jurisdiction of persons found "guilty except for insanity" in certain circumstances. PSRB will maintain jurisdiction over offenders who committed Tier 1 crimes (more serious crimes), while the Oregon Health Authority takes over jurisdiction of offenders at the Oregon State Hospital who committed Tier 2 crimes (less serious crimes). Once a Tier 2 offender is conditionally released from the State Hospital, jurisdiction transfers to PSRB. Workload for PSRB is expected to increase as a result of more clients on conditional release and the need for more hearings to determine appropriate release conditions. Funding of $382,222 General Fund was provided to PSRB to implement this bill, for two new positions and for increased hearings and attorney general costs.

Department of Corrections (DOC) – Agency Totals

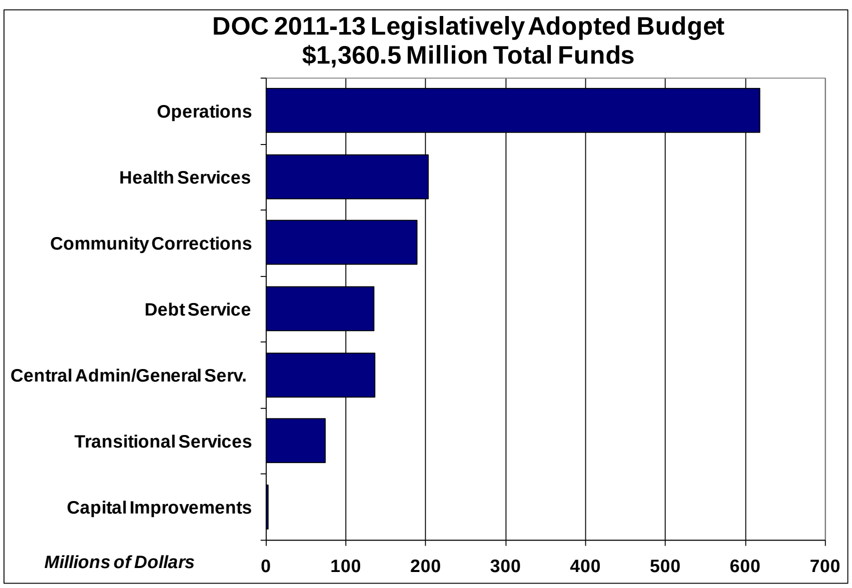
	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	1,258,729,939	1,208,328,818	1,403,994,352	1,324,785,417
Other Funds	82,826,944	88,119,943	31,237,396	27,563,757
Federal Funds	17,625,085	115,458,346	6,171,725	6,908,809
Other Funds (NL)*	0	214,025,379	0	0
Federal Funds (NL)	0	598,089	1,262,826	1,262,826
Total Funds	**$1,359,181,968**	**$1,626,530,575**	**$1,442,666,299**	**$1,360,520,809**
Positions	4,782	4,734	4,482	4,511
FTE	4,662.08	4,618.20	4,536.57	4,420.74

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

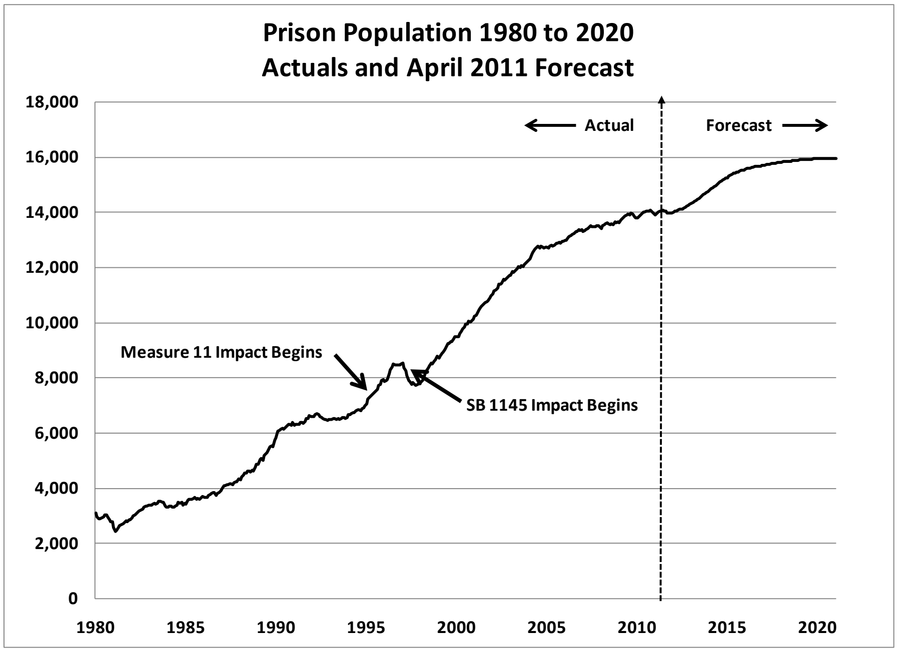
Agency Overview

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 the April 2011 forecast with adjustments for changes in sentencing, implementation of Ballot Measures 57 and 73, and other changes that affect the prison population made by the 2011 Legislature. 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. Funds are provided to counties for the costs of supervising these offenders.

The 2011-13 legislatively adopted budget is $1,360.5 million total funds; with 45.4% for the operation, housing, and security of inmates; 15% for health and mental health services; 5.5% for transitional services like substance abuse treatment and education; 13.9% for community corrections programs; 9.9% for debt service; and 10% for general support services and administration.



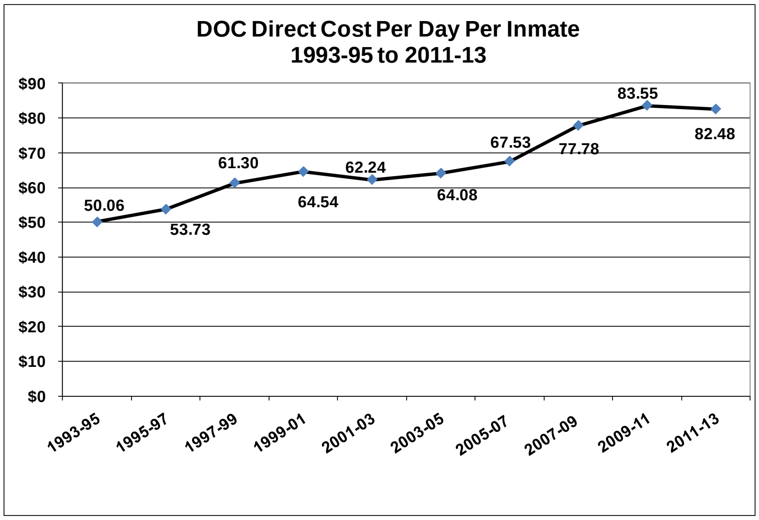
The most significant cost driver for the DOC budget is the number of incarcerated offenders in the prison system. The graph on the next page shows the growth in the actual and projected prison population, increasing from roughly 3,000 in 1980 and 7,000 in 1995 to almost 16,000 by July 2018. This expected increase of more than 160% since 1990 has resulted in a large construction program to expand the number of beds in the system and a growing number of staff to manage the inmate population. The Department of Administrative Services' Office of Economic Analysis prepares the Prison Population Forecast every six months as well as an offender forecast for the Community Corrections program. Between legislative sessions, DOC rebalances within its budget if forecasts estimate additional changes in the prison population.



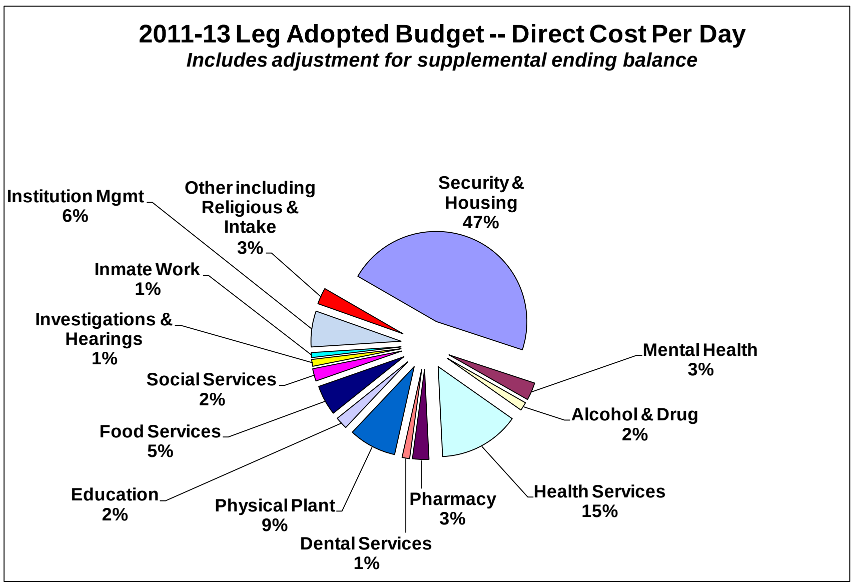
The passage of Ballot Measure 11 (BM 11) created the need to increase the building program. The increases in the number of inmates due to BM 11 were not so much due to the growth in the number of offenders entering the system but to the length of time BM 11 offenders spend in prison. SB 1145 also affected the prison system by transferring the responsibility for those sentenced to 12 months or less to counties. This law 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 (BM 57) passed in November 2008 changing the sentencing of certain property and drug related crimes. The 2009 Legislature altered the implementation dates for BM 57 but long-term it should have a similar impact as how it was passed by the voters. It is estimated that approximately 450 inmates will be added to the prison population by July 2013 as a result of BM 57 and growing to a total additional population of almost 1,000 by 2015. Other sentencing changes are projected to have an impact on the prison population. For example, the earned time provisions passed in 2009, and altered during 2010, are projected to reduce the prison population by over 300 early in 2011-13; but the impact is estimated to decrease to less than 25 monthly by the end of 2017. It should be noted that the future numbers are projections based on a number of factors that will likely change as time passes and therefore the estimates will also change.

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.

Ballot Measures and Time Frames	Number in Prison as of 6/11	Steps to Change Release Date
Non Measures 11 and 4 inmates whose crimes were committed prior to 12/99	469	Simple majority of Legislature
Measures 11 and 4 inmates whose crimes were committed prior to 12/99	951	Two thirds majority of Legislature
Measure 74 offenders whose crimes were committed after 12/99. Includes Measure 11 and 4 inmates after 12/99	11,783	Requires court resentencing or constitutional change



One measure that many states and other jurisdictions use is a "cost per day" calculation which is based on the costs of incarcerating the prison population divided by the number of inmates. Costs such as community corrections grants, capital construction, and start-up costs are not part of this calculation. In the past DOC has calculated an average "direct" cost per day which measures about 80% of the total costs of incarcerating an offender at a DOC facility and includes costs associated with security, health care, food, and other items which generally vary as the total number of inmates change. For the 2011-13 legislatively adopted budget, the direct cost per day is $82.48 and includes the downward adjustment for the supplemental ending balance. Staff costs are the primary factor for this figure so staff intensive functions like security and housing make up large shares of the total. Its various components are detailed in the figure below.



What this figure does not include is the debt service for the agency's facilities ($11.01 per day) and the department-wide costs of administering the agency including the overall management, state government service charges, financial and personnel staff, information systems costs, and a variety of other costs not directly tied to the number of inmates ($11.84 per day). These cost-per-day figures are "snapshot" costs and will change depending on the number of inmates and changes in the budget during the biennium. The above measures are averages across the entire DOC system. The cost per day varies significantly from institution to institution due to a number of factors including age of facility, seniority of staff, size of the population, characteristics of the population, programming at each facility, and the security level. For the 2011-13 legislatively adopted budget, the individual direct cost-per-day varies from less than $64 at South Fork Forest Camp and Mill Creek to a high of over $103 at Shutter Creek.

DOC has held off opening the Deer Ridge medium facility since its estimated direct cost per day is significantly higher than alternatives currently available (emergency or temporary beds). The initial beds at a newly opened facility are generally higher as the fixed costs are spread among fewer inmates until the full capacity is reached. This is why using the marginal cost of the next bed is important. During the 2011 legislative session, DOC and the Legislative Fiscal Office started to use an estimate of a marginal cost when pricing bills instead of the direct average cost which had been previously used. These marginal costs started at roughly $22 per bed day for the lowest cost emergency bed and increased from that amount as emergency beds were committed and the next least cost beds were identified. The major variant for this marginal cost was whether the opening of a set of emergency beds involved hiring new staff or not.

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).

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for the Department of Corrections (DOC) of $1,360.5 million total funds is 16.4%, or $266 million, less than the 2009-11 legislatively approved budget of $1,626.5 million. After factoring out one-time debt refinancing spending and capital construction, the agency's total funds budget is $6.4 million, or less than one half of 1%, greater than the 2009-11 legislatively approved budget. The 2011-13 General Fund budget of $1,324.8 million is $116.5 million, or 9.6%, greater than the 2009-11 budget. This growth is primarily driven by the need to backfill over $103 million in one-time federal funds used in 2009-11. After factoring out this impact, the General Fund change would have been minimal for the period. Compared to the 2011-13 budget proposed by the Governor, the total funds budget is $82.2 million less, or 5.7%; and the General Fund budget is $79.2 million less, or 5.6%. Major changes for the 2011-13 DOC budget include:

- Many of the 2009-11 allotment reductions are continued, including the closure of a 176 bed minimum security facility in Salem, elimination of General Fund work crews, reduced staff training resources, and central office staff eliminations saving approximately $25 million General Fund.
- A net reduction of over 220 positions was taken based on program reductions, including the allocation reductions listed above, and after a review of vacant positions and identification of efficiencies. The Governor's budget double counted the delay in opening the Deer Ridge facility so 198 positions (72.61 FTE) had to be added back to the level proposed in the Governor's budget.
- The Governor's budget proposed approximately $16 million in reductions for non-mandatory alcohol and drug treatment, work based education, and cognitive programs, but the Legislature decided to restore $11 million of these reductions.
- The budget for Community Corrections is almost $21 million less than the amount in the 2009-11 legislatively approved budget; but it is primarily driven by a $39 million change in the forecast reflecting a smaller estimated population and a change in the mix of the offender population. The Legislature did continue two sentencing changes from 2009-11 biennium which provided savings of almost $11 million, including a 60-day limit on the time offenders sentenced to felony probation may be sanctioned.
- The legislatively adopted budget did not accept all of the sentencing changes as proposed by the Governor including changes to certain Measure 11 crimes and the implementation of a system of earned time similar to the federal government. In addition, the 2011-13 DOC budget assumes the "re-start" of the increased sentences under Ballot Measure 57 effective January 1, 2012, which adds approximately $2.5 million to the budget.
- Ballot Measure 73 penalties were altered by the Legislature so that the presumed sentence is served in a local jail instead of prison. The net savings of this action is roughly $4 million with savings (growing in future biennia) in prison operations offset by a $12.6 million General Fund addition to the Community Corrections budget for the reimbursement of county jail costs.
- There remains a $28 million General fund undesignated reduction that the agency will have to incorporate in its spending plans.

Included in the 2011-13 legislatively adopted budget were common reductions taken across almost all agencies For DOC these "standard" reductions totaled over $116 million General Fund. Over $48.1 million of this represents the amount reduced for the supplemental ending balance including $5 million for debt service. All or part of this amount may be added back later in the biennium depending on economic conditions. During the development of the Governor's budget, and later accepted by the Legislature in the final 2011-13 budget, were reductions of $47 million General Fund accounting for a 5.5% reduction to personal services assuming changes for employee compensation. If final negotiated decisions on employee compensation do not yield the 5.5% assumed savings, the agency will need to identify additional savings. Also proposed by the Governor and accepted by the Legislature was a $14.9 million reduction through the elimination of the standard increase for inflation. In addition, another $7.2 million was cut from services and supplies categories.

DOC – Operations

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	604,436,503	518,508,512	635,710,926	609,299,298
Other Funds	10,225,666	15,680,755	11,057,285	8,997,797
Federal Funds	10,054,075	103,784,840	0	5,904
Total Funds	**$624,716,244**	**$637,974,107**	**$646,768,211**	**$618,302,999**
Positions	3,597	3,443	3,197	3,283
FTE	3,517.87	3,383.15	3,272.26	3,244.90

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, ($7.1 million); sale of items produced by inmate work and training programs ($1.5 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 2007-09 budget included a total of $16.5 million in Federal Funds from the federal State Criminal Alien Assistance Program (SCAAP) to offset General Fund needs for incarceration of illegal aliens – $10.1 million in Operations and $6.4 million in Health Services. This amount only funds a portion of the total costs of incarcerating illegal aliens. For 2009-11 and 2011-13, the SCAAP funds were used in the Health Services budget. The large increase in federal funding for 2009-11 is due to the $103.8 million of one-time federal stimulus funding used in this budget which requires General Fund backfill for 2011-13.

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. This unit's budget is primarily used in one of the facilities list below and is based on the number of beds active, and the personnel, fuel, food, maintenance, and other costs for the facilities.

Department of Corrections Facilities
Active Beds During 2011-13

Existing Facilities	Location	Primary Security Level	Permanent Capacity	Active Emergency Beds
Coffee Creek Correctional Facility	Wilsonville	Women's/Intake	1,683	57
Columbia River Correctional Institution	Portland	Men's Minimum	553	40
Eastern Oregon Correctional Institution	Pendleton	Men's Medium	1,659	108
Mill Creek Correctional Facility	Salem	Men's Minimum	240	50
Powder River Correctional Facility	Baker	Men's Minimum	286	28
Oregon State Correctional Institution	Salem	Men's Medium	894	
Oregon State Penitentiary	Salem	Men's	2,209	98
Santiam Correctional Institution	Salem	Men's Minimum	440	
Shutter Creek Correctional Institution	North Bend	Men's Minimum	316	
Snake River Correctional Institution	Ontario	Men's Medium	3,064	210
South Fork Forest Camp	Tillamook	Men's Minimum	204	
Two Rivers Correctional Institution	Umatilla	Men's Medium	1,802	120
Warner Creek	Lakeview	Men's Minimum	406	
Deer Ridge Correctional Institution	Madras	Men's	657	116
Minimum Facility at Oregon State Penitentiary	Salem	Likely Women's		

Notes: *Deer Ridge has a planned total capacity of 1,880 but only the minimum facility is planned to be occupied for 2011-13.*

There is also additional unused capacity at the currently closed minimum facility at the Oregon State Penitentiary (176 beds), Shutter Creek (50 bed expansion unit), and additional emergency beds at various facilities (120 beds).

The Department completed one new mixed minimum and medium security level complex – Deer Ridge in Madras – in September 2007; but has only opened the minimum facility at this time. The agency has delayed opening the medium facility because of the start-up costs and more expensive operating costs, relying on the use of temporary or emergency beds to meet the inmate growth. As of now, the medium facility is not scheduled to open until early in the 2013-15 biennium. The next facility scheduled to come on line is one in Junction City, but at this time construction has not begun other than planning/design work along with limited infrastructure and site work.

DOC has depended on the use of what the agency calls temporary or emergency beds to meet its capacity needs for many years. These beds are generally additional beds in dormitory-like settings in minimum security facilities or additional beds in what had been single bed cells. In a few cases, a new unit has been added in space that had been originally designed for another purpose. DOC states that it has generally reached the limit for double occupancy cells in its 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. Under the current population management plan, which the agency uses to determine what units and when they should open, it is anticipated that 827 emergency beds will be used during 2011-13. Short-term work camp beds may also be added as forest related work becomes available. The terms emergency and temporary are 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 near 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 has been limited to publically owned and operated beds, not those at privately owned and operated prisons.

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. 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. In its initial planning, DOC considered this type of facility for the Junction City site.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for this division of $618.3 million total funds is 3.1%, or $19.7 million, less than the 2009-11 legislatively approved budget. The 2011-13 General Fund budget of $609.3 million is $90.8 million, or 17.5%, more than the $518.5 million 2009-11 budget. This large General Fund increase is due to the need to backfill over $103 million in one-time federal funds available in 2009-11. Without this backfill, there would have been a $22 million reduction in General Fund resources between the two budgets. The Governor's 2011-13 total funds budget is almost $30 million greater than that approved by the Legislature while the Governor's General Fund budget is $26.4 million larger. This reduction in the budget for this division is attributable to a number of items including:

- A number of cuts taken as part of the allocation reductions during 2009-11 are "rolled-up" for an entire biennium for a total reduction of $23.5 million General Fund and 118 positions. These reductions included the closure of the 176 bed minimum security facility at the State Penitentiary in Salem, suspension of all non-mandatory staff training, elimination of all General Fund work crews, reduced number of safety managers, and the implementation of charging of inmate accounts for processing.
- This budget also assumes the increased use of temporary beds as mentioned above which allows for further delay of the opening of the medium security facility at Deer Ridge (Madras) saving $4.9 million General Fund and eliminating the need for 158 positions.
- Ballot Measure 57 is scheduled to "restart" January 1, 2012 which will again increase the inmate population later in the 2011-13 biennium leading to the need to add $1.4 million and 10 positions (1.40 FTE) to this division's budget. This budget also assumes a $500,000 General Fund savings by accelerating the transitional release program the agency all ready has authority to operate and a small impact ($47,274 General Fund) from the passage of HB 2940 which increases sentences for certain strangulation related crimes.

- A total of $2.1 million of General Fund savings are expected from the elimination of management positions including four designated positions (chief of security, superintendent of Powder River, and operations managers at Columbia River and Santiam) as well as the equivalent of five other mid-level managers across the agency. In addition, another 21 positions are eliminated after a review of vacant positions, most of which are related to work crews which have not been used for an extended period of time.
- There is also a $20 million undesignated General Fund reduction in this division which will have to be absorbed by the agency. This is in addition to the $22.1 million supplemental ending balance reduction and $4.3 million in cuts to the services and supplies budget.

DOC – Health Services

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	158,640,113	177,202,394	216,601,286	197,383,375
Other Funds	394,874	520,070	520,070	520,070
Federal Funds	6,405,825	10,827,748	6,001,048	6,001,048
Total Funds	**$165,440,812**	**$188,550,212**	**$223,122,404**	**$203,904,493**
Positions	550	603	582	559
FTE	517.83	556.06	569.73	524.72

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 that provides 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 37% of the total health services spending, a growing share of costs. 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
Total Funds

Budget Area	2005-07 Actual	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Legislatively Adopted
Physical Health Services	$ 84,369,498	$ 117,675,179	$134,205,742	$ 147,115,428
Pharmacy Services	21,499,234	23,510,047	26,066,577	26,700,757
Mental Health	19,444,602	24,255,586	28,277,893	30,088,308
Total	$ 125,313,334	$ 165,440,812	$188,550,212	$ 203,904,493

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. The Federal Funds are from the federal State Criminal Alien Assistance Program (SCAAP) to offset General Fund needs for incarceration of illegal aliens. This amount only funds a portion of the total costs of incarcerating illegal aliens.

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 implemented a number of initiatives to minimize costs including establishing a pharmaceutical formulary, bulk purchase of pharmaceuticals through a multi-state group purchasing organization, on-site direct contracts with physicians and clinics to reduce transport and security costs, and instituting consolidated or grouped trips to offsite facilities to reduce transport costs. In addition, DOC has contracted with a Third Party Administrator to provide a discounted provider network, case management for offsite care, and comprehensive medical billing support.

A recent mental health report prepared by DOC stated that up to 51% of the inmates have some form of mental or emotional problems. Not all inmates receive treatment and their needs vary significantly, but as of July 1, 2011, roughly 7,100 inmates were assessed as either benefiting from or needing some level of treatment. Of those, 4,584 received some kind of mental health service; about 3,300 were severely and persistently mentally ill; and over 240 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, and to 24% in 2011. 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 the more appropriate special mental health unit. 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. Because of a shortage of mental health professionals on the eastern side of the state, DOC has transferred many of the offenders with serious mental health issues to facilities in the Willamette Valley.

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. For the 2009-11 biennium, high-cost inmates accounted for 6% of the unique inmate outside visits and 43% of the outside visit costs.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for Health Services of $197.4 million General Fund is $20.2 million, or 11.4%, more than the 2009-11 legislatively approved budget. The total funds budget grows by $15.3 million, or 8.1%, over the same period. Federal funds play a smaller role in the 2011-13 budget as the amount of SCAAP funding declines. Compared to the Governor's budget, the 2011-13 legislatively adopted General Fund budget is 8.9% less (8.6% less for total funds). Major budget changes or issues include:

- Health care costs for DOC continue to show the same trends as overall health costs do. The agency will be challenged to keep pace with anticipated cost increases since $8 million General Fund was eliminated from the budget. The original budget development included $2.1 million in standard inflation and another $9.5 million in other inflation adjustments. The final legislatively adopted budget removed much of this amount by eliminating all of the standard inflation adjustment as well as taking another $5.6 million as part of the 6.5% reduction to services and supplies budget taken across almost all agency budgets.
- Over $10.4 million General Fund and 72 positions (66.50 FTE) were eliminated from the Governor's proposed budget. After review of vacant positions as well as what the anticipated prison population would demand in health care staff, these positions (health care professionals, managers, dental staff, pharmacy staff, and mental health staff) were identified for elimination. Unfortunately, 40 positions were added back to offset the double counting of the reduction for the delay of the Deer Ridge facility included in the Governor's budget.
- Since the Legislature did not agree with the Governor's continued delay in many of the Ballot Measure 57 increased sentences, $421,092 General Fund and 9 positions (2.46 FTE) were added to the amount proposed by the Governor.

The budget report for DOC's primary budget bill included a budget note instructing the agency to provide information to the Oregon Prescription Drug Program (OPDP) relating to purchases of drugs so the Program can compare costs of these purchases against what they might have been able to purchase them under OPDP. A report of this comparison is due to the Legislature by December 1, 2011.

DOC – Community Corrections

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	217,194,825	208,341,498	191,249,588	187,383,027
Other Funds	2,669,996	2,494,845	2,123,773	2,123,773
Total Funds	**$219,864,821**	**$210,836,343**	**$193,373,361**	**$189,506,800**
Positions	47	53	53	53
FTE	47.33	53.33	53.33	53.33

Program Description

The community corrections program provides funding to counties for administrating the community corrections program. DOC has taken over this responsibility for two counties – Douglas and Linn. 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.

Also included in this budget unit is the funding for reimbursing counties for the jail costs associated with the pre-trial and post-trial incarceration costs for Ballot Measure 73 offenders. For the 2011-13 legislatively adopted budget this amount is estimated to be $12.6 million. In addition, revenue from court fees and fines will be distributed to counties through this budget starting January 2012, but there is no initial Other Funds expenditure limitation included in the 2011-13 legislatively adopted budget.

The program is administered by the staff of the Transitional Services 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 Linn and Douglas county programs. For 2011-13, 46% of the amount distributed to counties will be distributed based on the need for felony probation, 30% for post-prison supervision and parole supervision, and the remaining 24% for the local control population. This is based on 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 from the 2009-11community corrections plans, 17 counties provided little or no local general fund/special levy contributions during 2009-11. 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 $26 million to the system for 2009-11. Statewide, local contributions (including the fee revenues) were estimated to have represented roughly 40% of the total funding in 2009-11 for the community corrections system, while the state grants represented 60% of the spending.

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, and local control (see table below). The number of community corrections cases continues to grow but there has been a decrease in the number of local control (felony offenders sentenced to one year or less) which has been a major reason for the decrease in the amount of funding flowing to counties under this program. For example, forecasts two years ago anticipated local control populations of over 1,000 but the estimates have since declined.

Community Corrections Forecast
April 2011 Forecast
Does not include Level 3 Sanctions

	Felony Probation	Parole & Post Prison Supervision	Local Control	Total
Oct 2010	17,385	13,450	633	31,468
July 2011	17,981	13,844	700	32,525
July 2012	18,456	14,119	898	33,473
July 2013	18,491	14,687	899	34,077
July 2014	18,363	15,158	899	34,420
July 2015	18,433	15,550	900	34,883

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 and was reflected in the 2009-11 budget. The 2009 Legislature passed a bill requiring the review of costs of supervision in 2012 and every six years after 2012. It is likely that the cost base for this program could increase as a result of this review.

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.

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. Funding for Drug Courts is uncertain at this time and that could affect the availability of treatment and services for this and related populations.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for Community Corrections programs of $187.4 million General Fund is $21 million, or 10%, less than the 2009-11 legislatively approved budget. This reduction is primarily due to a $38.9 million adjustment (before the impact of other adjustments described below) in the community corrections population forecast due to fewer offenders and a change in the mix of offenders to a lower cost and risk population. This budget assumes the continuation of two sentencing changes, including: (1) 60 day limit on jail time sanctions for felons sentenced to probation ($9.8 million General Fund savings); and (2) consistent policies for inactive post prison supervision between the Parole Board and local supervision ($1.1 million General Fund savings). Other factors included in the budget which lead to the decrease in General Fund include $5.2 million taken out for the standard inflation cut proposed by the Governor and $6.8 million removed for the supplemental ending balance which may or may not be restored during the biennium.

The budget also includes a $12.6 million General Fund increase for reimbursement payments to counties for pre-trial and post-trial incarceration costs for Ballot Measure 73 offenders. This reflects the policy change made by the Legislature which assumes that most Measure 73 offenders will serve their mandatory sentences in local jails and not a DOC prison facility. This provides long-term savings but requires the state to pay counties for the jail time. The reimbursement is based on a rate of approximately $93 per day. It is assumed that this $12.6 million in funds is a separate pool of funds and not included as part of the overall Community Corrections program established by SB 1145 (1995).

DOC –Transitional Services

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	40,495,288	58,102,050	75,623,829	64,924,325
Other Funds	11,367,671	9,082,931	9,038,775	9,038,762
Federal Funds	318,614	845,758	170,677	899,788
Total Funds	**$52,181,573**	**$68,030,739**	**$84,833,281**	**$74,862,875**
Positions	158	169	171	163
FTE	152.62	166.14	167.79	155.41

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), the interstate compact, jail inspections, religious services, sentence computation, inmate classification, victim services, and offender records. Beginning in 2009-11 the budget for this Division included funds for grants to counties to provide an alternative to incarceration for Measure 57 related offenders. The table below shows the resources allocated to the various programs.

Transitional Services Budget
Total Funds

Budget Area	2005-07 Actual	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Legislatively Adopted
Workforce Development	$ 17,919,387	$ 18,913,695	$ 19,354,531	$ 20,469,805
Alcohol & Drug Treatment in DOC Facilities	6,569,326	11,752,588	12,574,943	13,682,213
Community Alcohol & Drug Grants (Measure 57)	-	-	9,279,475	10,101,280
Religious Services	5,726,643	6,039,787	6,277,565	7,067,877
Offender Info & Sentence Comp.	8,054,719	8,879,572	9,327,206	10,313,993
Other Division Costs	5,648,093	6,595,931	11,217,019	13,227,707
Total	$ 43,918,168	$ 52,181,573	$ 68,030,739	$ 74,862,875

Revenue Sources and Relationships

Transitional Services are expected to receive $8.6 million in Other Funds for 2011-13 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 ($6.6 million);
- grant resources transferred in for alcohol and drug programs ($222,697); and
- resources transferred in for education programs from the Department of Education and the Department of Community Colleges and Workforce Development ($388,949).

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, a trend continued by the Governor as proposed in his 2011-13 budget.

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, and 53% have never worked in a legitimate job. 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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for Transitional Services of $74.9 million total funds represents a $6.8 million, or 10.1%, increase over the 2009-11 legislatively approved budget. The 2011-13 General Fund budget of $64.9 million represents a $6.8 million, or 11.7%, increase for the same period. The Governor's budget was $10.7 million General Fund larger than the budget approved by the Legislature. Major features of this budget include:

- With the closure of the 176 bed minimum facility at the State Penitentiary, $1.2 million General Fund in treatment and programming resources are eliminated. Even though these inmates were transferred to other facilities in the DOC system, treatment and programming resources did not follow them.
- While the Governor's budget eliminated all of the mandatory education, treatment, and other programming funds, the Legislature limited the reduction leaving roughly $11 million in the budget.
- The level of funding for Measure 57 related alcohol and treatment related grants to local communities remains at the 2009-11 level of $10 million General Fund, a $5 million reduction from the Governor's budget.
- To strengthen the chances of a released offender successfully integrating back into their community the legislatively adopted budget includes $1 million General Fund for grants to local programs for re-entry grants. There is a related budget note included in the budget report instructing DOC to design and implement a re-entry services pilot project.
- Twelve positions and $1.6 million General Fund are eliminated after a review of vacant positions and examination of efficiency options. These positions include correctional counselors and support staff.

DOC – General Services

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	41,512,215	42,015,424	52,192,042	49,042,840
Other Funds	12,425,343	7,488,400	7,208,046	6,467,477
Federal Funds	0	0	0	1,960
Total Funds	**$53,937,558**	**$49,503,824**	**$59,400,088**	**$55,512,277**
Positions	246	265	273	260
FTE	243.34	259.85	269.68	255.60

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

Budget Environment

Information Technology (IT) Services has responsibility for keeping existing automated systems running efficiently for over 6,100 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 resulting in a reduction in the level of service to both DOC and county programs. In addition to maintaining DOC applications, infrastructure, and desktops, IT Services is providing automated solutions in support of initiatives including Electronic Health Records, Correctional Case Management, and Security Threat Management.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $55.5 million total funds and $49 million General Fund represents an increase of 12.1% and 16.7%, respectively, from the 2009-11 legislatively approved budget. Much of the increase is driven by employee compensation increases, but 17 positions ($1.2 million General Fund) were eliminated through review of vacant positions and service related reductions. These positions included managers, supply specialists, accounting technicians, distribution center workers, and information technology related positions. One reason for the General Fund increase was the need to "true up" the funding of a number of accounting and other positions. In the past these had been financed with proceeds from certificates of participation (COPs) which are no longer available. A total of $1.3 million General Fund was required to backfill the revenue no longer available.

DOC – Central Administration, Human Resources and Public Services

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	67,432,528	72,255,647	88,018,403	80,237,252
Other Funds	1,822,762	3,667,137	1,289,447	415,878
Federal Funds	846,571	0	0	109
Other Funds (NL)	0	1,293,845	0	0
Total Funds	**$70,101,861**	**$77,216,629**	**$89,307,850**	**$80,653,239**
Positions	170	201	206	193
FTE	169.59	199.67	203.78	186.78

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 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 is built in the future. Recent reorganizational actions moved the Inspector General's function, including the hearings and investigation units, from Public Services Division to this unit. This section also includes the budgets for all of the central state government service charges for entire agency.

- The ***Public Services Division*** includes the functions relating to rules coordination, research and evaluation, and public information. Recently, new prison construction and community development was transferred from Central Administration to this unit.
- ***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 funding 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 Management Office from property easements and rental income.

Budget Environment

As the 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.

For the 2009-11 biennium, DOC hired approximately 1,630 employees (new hires), continuing a trend since 1995 as DOC has opened or expanded facilities, or added emergency beds. 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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $80.7 million total funds and $80.2 million General Fund represent increases from the 2009-11 legislatively approved budget of 4.3% and 11%, respectively. Some of this increase is due to increases in various state government service charges which represents almost one half of this budget, much of it tied to workers comp and other "insurance" related coverage. Eleven positions ($1.6 million General Fund) are eliminated after the review of vacant positions.

DOC – Debt Service

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	126,575,804	129,747,698	141,962,853	133,972,115
Other Funds	3,549,487	2,910,092	0	0
Other Funds (NL)*	0	212,731,534	0	0
Federal Funds (NL)	0	598,089	1,262,826	1,262,826
Total Funds	**$130,125,291**	**$345,987,413**	**$143,225,679**	**$135,234,941**

** 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 certificates of participation (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

There was $2.9 million Other Funds in the 2009-11 budget which represented unused balances in various capital financing accounts that were used to offset General Fund debt service. The Nonlimited Other Funds represented refinancing of existing COPs while the Nonlimited Federal Funds represent the use of "Build America" bonds where the federal government provides a subsidy for eligible projects.

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 future construction, if approved, will lead to increases in debt service costs in future biennia.

A portion of the debt service (approximately $14 million) 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. This capacity is equal to or close to the amount required to incarcerate 100% of the local control population in the 1990s; which is currently estimated at approximately 700, but projected to increase to about 900 by the end of the 2011-13 biennium. Overall, there is presently excess local jail capacity primarily due to local funding constraints.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for debt service of $134 million General Fund is $4.2 million, or 3.3%, greater than the 2009-11 General Fund legislatively approved budget. This understates the actual General Fund need for debt service payments since the budget was reduced by just under $5 million for the purposes of the supplemental ending balance. This amount will have to be restored or other sources within the DOC budget will have to be identified since debt service payments must be made to meet the state's obligations. This 2011-13 budget does take advantage of the federally subsidized Build America bonds to offset the need for General Fund payments. The legislatively adopted budget includes the $3 million General Fund downward adjustment from the Governor's budget to reflect updated debt service needs.

DOC – Capital Improvements

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	2,442,663	2,155,594	2,635,425	2,543,185
Other Funds	0	700,000	0	0
Total Funds	**$2,442,663**	**$2,855,594**	**$2,635,425**	**$2,543,185**

Program Description

These funds are used for deferred maintenance and asset protection projects. These projects must be less than $1 million 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. The $700,000 Other Funds in 2009-11 represents two projects which received funds through either the Oregon Department of Energy for a project at Eastern Oregon Correctional Facility or a sewer repair project at Deer Ridge.

Budget Environment

The Department owns approximately 279 buildings with over 5.2 million square feet of building space across the state. Much of this space is in newer facilities constructed over the past 15 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 $6.7 million in "Go Oregon" Stimulus funding to address critical projects. Even with this funding, at least an estimated $35 million in known maintenance needs still remain unfunded. 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 the list of known projects requires $11.1 million per biennium, significantly more than what has been budgeted in the past.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $2.5 million General Fund is 18% greater than the General Fund amount for the 2009-11 legislatively approved budget. The only adjustments made to this budget is the removal of the standard inflation adjustment, which is reflected in the Governor's 2011-13 budget, and a $92,240 reduction for the supplemental ending balance which is not part of the Governor's budget.

DOC – Capital Construction

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	40,371,145	45,575,713	0	0
Total Funds	**$40,371,145**	**$45,575,713**	**0**	**0**
Positions	14	0	0	0
FTE	13.50	0	0	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 $1 million 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 certificates of participation or 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 $40.4 million in 2007-09 budget represents $23 million for larger deferred maintenance projects, $10.6 million for the initial planning and development funding for the proposed Junction City site, and $6.7 million for "Go Oregon" projects approved by the 2009 Legislature. The $45.6 million included in the 2009-11 budget is for additional deferred maintenance projects and infrastructure and site work at the Junction City property. The Junction City related funding is limited to that work that must be done to move the state hospital project, which is co-located at the site, forward including sewer and water infrastructure, wetland mitigation, road access, other utilities, storm drainage, access road, and removal of some existing structures. Sewer and water related work will continue with the assumption that a prison will be built on the site sometime in the future.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget does not include any further capital construction authorization. Work continues at the site using limitation authorized in 2009-11. There is also limited amount of capital construction authorization for the state hospital in the Oregon Health Authority budget, but a review on the when the hospital will be completed is underway and the issue will be revisited during the February 2012 session.

Criminal Justice Commission – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	6,287,416	4,954,312	4,954,312	4,761,327
Other Funds	67,003	196,866	123,616	299,950
Federal Funds	178,872	12,513,937	12,512,260	12,512,069
Total Funds	**$6,533,291**	**$17,665,115**	**$17,590,188**	**$17,573,346**
Positions	7	10	11	10
FTE	6.08	9.50	10.50	9.00

Note: The Federal Funds increase between 2007-09 and 2009-11 is due to the transfer of a federal grant r program from the Department of State Police and federal stimulus funding.

Agency Overview

The Criminal Justice Commission (CJC) 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 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. The Federal Funds in the budget represent federal grant funds through the Justice Assistance Grants/Bryne Grants, much of which is one-time federal stimulus funds which will not be available after 2011-13.

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. The Commission has upgraded 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 complete studies such as 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.

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. Currently, the number of grants totals 14: 12 expansion grants and 2 new drug court programs. The grants were awarded to a variety of models including adult, juvenile, and family drug courts. Currently total drug court funding comes from a mixture of on-going program funds in OJD, grants from the Commission, substance abuse funding from the Department of Human Services via the counties, and from local sources. Reductions to the Judicial Department may affect the resources available for drug courts.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for the Commission of $17.6 million total funds represents a 0.5% decrease from the 2009-11 legislatively approved budget. General Fund resources total $4.8 million, a 3.9% decrease from 2009-11. The net change from the Governor's budget is minor. The budget assumes almost a $500,000 cut in drug court grants which represents the 24 month roll-up of cuts made during the allotment reductions in 2009-11. The Governor proposed taking another $279,676 General Fund from the drug court grant program which would have left this grant funding over $360,000 less than what was available for 2009-11. The Legislature did add back $400,000 General Fund to the grant program so overall 2011-13 resources are slightly over the 2009-11 level before the $177,370 taken for the supplemental ending balance There may be additional drug court funding available from unspent federal stimulus funding from 2009-11.

The legislatively adopted budget for 2011-13 assumes the reduction of funding for an Operations and Policy Analyst position of $127,600 General Fund (-0.50 FTE) which will affect the Commission's work with local governments and other functions of the agency. The Governor proposed moving the position responsible for forecasting prison and other populations for the Department of Corrections and Oregon Youth Authority from the Department of Administration Services (DAS) to the Commission. During the 2011 session, the Executive Branch pulled this request so that responsibility continues to lie with DAS's Office of Economic Analysis. It is assumed that CJC staff will continue to work with DAS and other agencies in these forecasts.

District Attorneys and Their Deputies – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	10,481,366	10,415,578	9,852,919	9,979,285
Total Funds	**$10,481,366**	**10,415,578**	**9,852,919**	**9,979,285**
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. There are two pay groups for DAs based on the population of each county. The number of pay groups has decreased; there were four groups before 2005-07. At the end of calendar year 2010 the annual salaries paid by the state were either $104,832 or $88,356. 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 75 in Multnomah County. The 2011-13 legislatively adopted budget does not include any funding for deputy district attorneys and other prosecution related costs and there has not been state resources for this purpose since 2007-09.
- The budget also includes funding for ***administrative costs*** for mandated central services costs. The vast majority of these expenses are related to coverage for tort liability and other insurance related purposes. In the past, a position (General Fund) has been included as part of the DOJ budget to provide support to the District Attorneys Association. The Association and DOJ are currently determining the future structure of this support relationship. The Department of Justice (DOJ) provides, at no charge, administrative and financial services on behalf of DAs.

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. There has been no state funding for this purpose since 1999-2001.

Budget by Program Area

	DA Compensation	Deputy Supplements	Administration	Total
2005-07 Actual	$ 8,130,215	0	$ 1,031,386	$ 9,161,601
2007-09 Actual	$9,053,268	$ 444,392	$ 983,706	$10,481,366
2009-11 Legislatively Approved	$9,143,857	0	$ 1,271,721	$10,415,578
2011-13 Current Service Level	$9,626,900	0	$763,301	10,390,201
2011-13 Legislatively Adopted	$9,264,864	0	$714,439	$9,979,285

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 (which appears to be the most recent) 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 increased since 2000.

In 2010 a majority of counties (23 out of 36) provided their DA an annual monetary supplement ranging from $8,000 to $50,348 to the salary paid by the state often based on recommendations of a local compensation committee. 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 at the end of 2010 ranged from $88,356 to over $155,000. 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 $77,196; and the top range of the Senior Assistant Attorney General classification at DOJ was $123,720.

There are a number of measures of workload for DAs and their offices including number of arrests for person, property, and behavior crimes; or the number of filings where a felony was the most serious charge. Many of these measures have fallen in the recent past as has the overall crime rate. While these are 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 or when there are few resources, 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.

The District Attorney offices receive additional state funding through the Department of Justice (DOJ) for the DA responsibilities in the areas of child welfare representation and juvenile dependency. The DAs play a major role in this area, often representing similar interests as the state. Starting in 2007-09 these payments 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 (end of 2010) had agreed to meet criteria set by DOJ in providing consistent services while some counties decided not to enter in the intergovernmental agreement and not receive any of the funds. The 2011-13 budget for the Department of Human Services includes $2 million total funds to be paid to counties for this purpose. Many DA offices also provide child support enforcement responsibilities and their counties receive federal matching funds through the Department of Justice for this purpose.

Legislatively Adopted Budget

The legislatively adopted budget for 2011-13 of $10 million General Fund is 4.2% less than the 2009-11 legislatively approved budget and 1.3% greater than the budget recommended by the Governor for 2011-13. The General Fund reduction from 2009-11 is primarily due to two factors – a $545,658 decrease in the charge for liability coverage through the Department of Administrative Services' Risk Management and a reduction of $362,054 for the 3.5% supplemental ending balance hold back included in the 2011-13 legislatively adopted budget. The major difference between the legislatively adopted budget and the Governor's budget (other than the supplemental ending balance adjustment) is the decision by the Legislature not to reduce the funding for compensation for District Attorneys by 5.5% as is the case for most other Executive Branch employees.

Department of Justice (DOJ) – Agency Totals

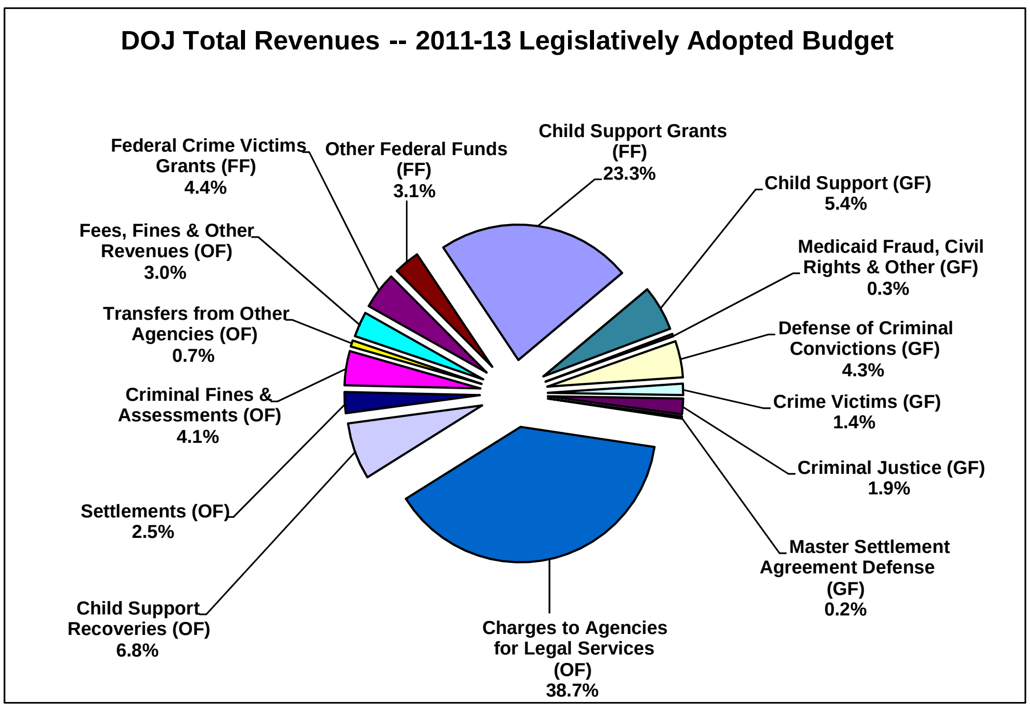
	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	49,089,856	51,826,586	57,936,559	53,992,283
Other Funds	212,129,591	220,351,243	220,424,143	225,622,550
Federal Funds	96,755,005	113,790,396	114,083,393	107,968,730
Other Funds (NL)	6,174,218	11,565,355	10,622,670	10,622,670
Federal Funds (NL)	15,083,540	15,857,750	15,285,103	15,285,103
Total Funds	**$379,232,210**	**$413,391,330**	**$418,351,868**	**$413,491,336**
Positions	1,331	1,348	1,322	1,290
FTE	1,303.85	1,328.28	1,312.55	1,270.80

Agency Overview

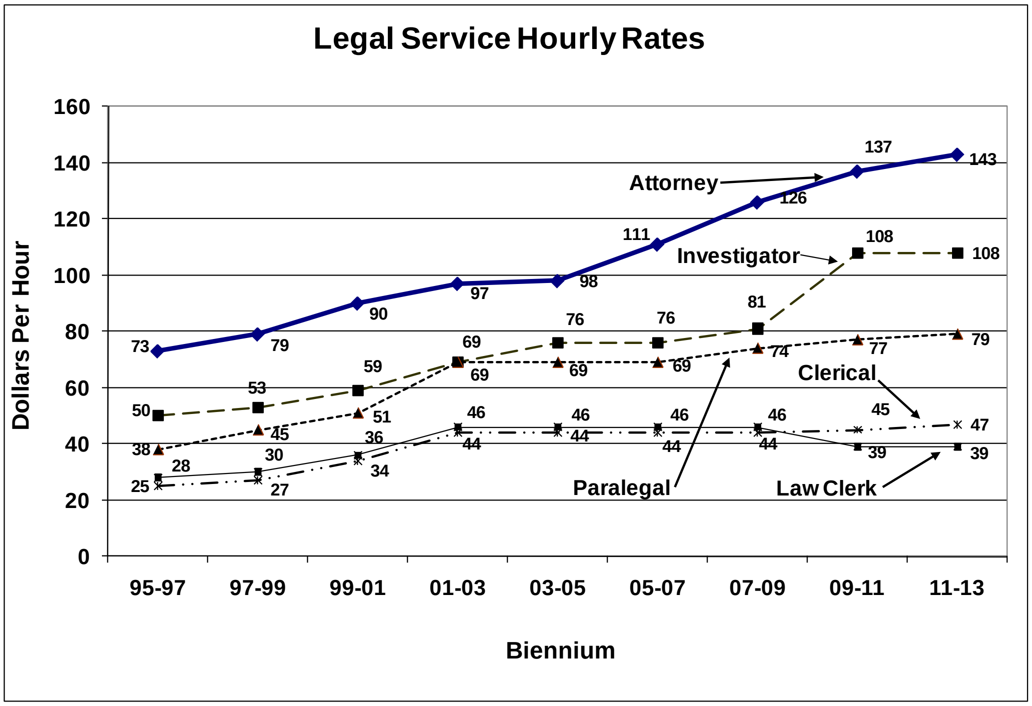
The Department of Justice (DOJ) is responsible for general legal counsel and supervision of all civil actions and legal proceedings in which the state is a party or has an interest. State statute places responsibility with DOJ for all the state's legal business that requires an attorney or legal counsel. 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 2011-13 biennium, the General Fund accounts for 13.1% of the legislatively adopted budget and is used primarily for the Child Support Program, Defense of Criminal Convictions, crime victims' programs, legal work for which no state agency can be billed directly (e.g., ballot measure related), and the law enforcement activities of the Criminal Justice Division. Expenditures funded with Other Funds sources of revenue make up 57.1% of the budget (including Nonlimited) and include charges to agencies for legal services, settlements, license and other fees, charges, and fines. Federal Funds (including Nonlimited) make up 29.8% of the budget and include the federal share of the Child Support and Medicaid Fraud programs, and crime victims' grants.



The chart above shows revenues by source which may be slightly different than expenditures by fund type. Almost 40% of the revenue is derived from the hourly charges to state agencies for legal advice, litigation, and other legal services. DOJ's 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 over 85% of the revenue) and other staff are shown in the graph below. The 2011-13 legislatively adopted budget assumes an attorney rate of $143 per hour, a 4.4% increase from the 2009-11 rate of $137 per hour. The ability to reduce these rates is limited since they are based on compensation rates already established and, in many cases, bargained. Based on final decisions on bargaining with employees, the rate may have to be reviewed early in the 2011-13 biennium.



Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for this agency of $54 million General Fund and $413.5 million total funds represents increases from the 2009-11 legislatively approved budget of 4.2% and 0.02%, respectively. Decreases from the 2011-13 Governor's budget are 6.8%, or over $3.9 million for General Fund; and 1.2% for total funds. Over $1.9 million of this General Fund decrease represents the amount reduced for the supplemental ending balance. All or part of this amount may be added back later in the biennium depending on economic conditions. Another $2.1 million General Fund in reductions is for the 6.5% decrease in services and supplies funding taken for most state agencies. During the development of the Governor's budget, and then accepted by the Legislature in the final 2011-13 budget, were reductions of $2.9 million General Fund ($6.1 million total funds) representing the elimination of basic inflation and other changes to services and supplies and another $1.1 million General Fund ($13.2 million total funds) accounting for a 5.5% reduction to personal services. Final decisions on employee compensation will depend in large part on negotiations with employee bargaining organizations; and if the settlements do not yield the 5.5% assumed savings, the agency will need to identify additional savings. Major changes for the 2011-13 budget include:

- There is limited funding in the legislatively adopted budget ($965,000 General Fund) to continue the defense of the state's position in legal actions challenging the Master Settlement Agreement (MSA) with tobacco companies. There is also a $2 million General Fund special purpose appropriation made to the Emergency Board to be used for this defense or for the Defense of Criminal Convictions program. The State receives over $150 million per biennium as a result of the MSA.
- The $17.4 million General Fund in resources for the Defense of Criminal Convictions (DCC) is $2.2 million less than the amount spent in 2009-11, with $600,000 of this reduction representing the amount reduced for the supplemental ending balance. Funding for this program has grown significantly in recent biennia, increasing from $12 million General Fund in 2005-07 to over $19 million in 2009-11.

- Crime Victims' programs funded through the Criminal Fines Account (CFA) revenue stream and General Fund resources are reduced by almost $3 million total funds, or just over 12%, from the 2011-13 current service level.
- General Fund resources have been added back into the 2011-13 budget to replace the one-time federal stimulus funding of almost $4 million used in 2009-11.

DOJ – Administration

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	0	0	1,500,000	289,500
Other Funds	24,599,331	24,021,100	24,137,428	24,051,123
Total Funds	**$24,599,331**	**$24,021,100**	**$25,637,428**	**$24,340,623**
Positions	117	115	109	109
FTE	114.81	113.50	107.69	108.19

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 Funds 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 1,300 employees; (3) operations staff providing facilities, purchasing, moving, and mail services at 24 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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for this unit of $24.3 million total funds is 1.2% greater than the 2009-11 approved budget and 5.1% less than the 2011-13 Governor's budget. Besides the general services and supplies and employee compensation adjustments common to all state agency budgets, this budget reflects the loss of 10 positions including an accountant, human resource analysts, information systems staff, and support staff. The authorized FTE was also reduced on two other positions. The Governor had included $1.5 million General Fund for two addiction prevention pilot programs which was a new initiative suggested by the Governor's Alcohol and Drug Commission. The Legislature did not approve these pilot programs. Funding of $289,500 was included for a grant to Project Clean Slate, which is a program to assist offenders in the Portland area to improve the skills necessary for employment.

DOJ – Appellate Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	15,867,826	17,474,054	18,486,257	16,796,727
Total Funds	**$15,867,826**	**$17,474,054**	**$18,486,257**	**$16,796,727**
Positions	67	63	63	59
FTE	65.64	62.19	61.95	57.49

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 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 1,000 civil and 3,000 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 decreased during the 2009-11 biennium reversing the trend seen in prior biennia. These numbers are driven by the number of convictions obtained by district attorneys and by the funding and staffing for the Public Defense Services Commission (PDSC). The PDSC projects an increase in the number of cases. If that projection is accurate, there should be a corresponding in the Division's cases with an approximately one year lag. The Division anticipates no significant change in the number of civil cases.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for this Division of $16.8 million Other Funds is $0.7 million, or 3.9%, less than the 2009-11 legislatively approved budget; and $1.7 million, or 9.1%, less than the 2011-13 budget proposed by the Governor. The decrease is primarily due to the lower workload attributed to the falling funding for Defense of Criminal Convictions (DCC) leading to the loss of seven positions. One position is added due to the passage of SB 42, which modifies the dispositional authority when a person is found guilty of a crime except for insanity.

DOJ – Civil Enforcement Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	2,026,521	2,937,931	956,768	1,888,518
Other Funds	42,436,350	49,410,659	51,114,803	54,882,643
Federal Funds	2,292,657	2,344,833	2,317,429	2,883,383
Other Funds (NL)		2,500,000	2,560,000	2,560,000
Total Funds	**$46,755,528**	**$57,193,423**	**$56,949,000**	**$62,214,544**
Positions	173	185	184	190
FTE	166.93	183.48	183.49	189.25

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 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 Department of Justice Protection and Education Revolving Account paid by companies and organizations that sign assurances of voluntary compliance for violations of consumer protection laws. 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. 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 unit's workload.

The Financial Fraud/Consumer Protection section anticipates a continued flow of consumer complaints, including that of Internet fraud. Consumer hotline calls totaled over 142,000 for the two year period ending June 2011, a 60% increase from the previous two years. The written and electronically submitted complaints totaled over 26,000 for the same period. Restitution to consumers between July 2009 and June 2011 totaled over $27 million.

The number of registered charitable organizations has increased from about 3,000 in the early 1990s to 16,785 as of June 2011. 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, the unit has average 120 investigations into charitable organizations. Nonprofit gaming organizations, numbering 717 (June 2011), are also monitored including screening applicants for licenses and insuring compliance with rules.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for this Division of $62.2 million total funds is 8.8% more than the 2009-11 legislatively approved budget; and 9.2% more than the 2011-13 budget proposed by the Governor. The General Fund budget is $1.9 million, or 35.7%, less than the 2009-11 budget primarily due to fewer resources directly appropriated to the Division for the defense of the Master Settlement Agreement (MSA). The 2011-13 General Fund legislatively adopted budget is almost double the Governor's budget because he did not include any resources for the MSA defense. There is $965,000 General Fund for this purpose in the legislative budget and the agency has access to another $2 million appropriated to the Emergency Board for this purpose and the Defense of Criminal Convictions program. Other changes to this budget include:

- The Civil Rights and Medicaid Fraud programs are reduced by a total of $290,581 General Fund but the lost General Fund for the Medicaid Fraud program is replaced by Other Funds limitation.
- Four new positions are established for the Medicaid Fraud program funded by recoveries and corresponding federal matching funds totaling over $750,000 generated by the investigations performed by the program's staff.

DOJ – Criminal Justice Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	7,314,834	7,716,086	7,288,331	7,460,744
Other Funds	10,373,702	11,570,319	8,938,458	10,266,522
Federal Funds	9,191,380	12,294,898	9,312,884	9,600,055
Other Funds (NL)	850,957	1,826,136	649,710	649,710
Total Funds	**$27,730,873**	**$33,407,439**	**$26,189,383**	**$27,977,031**
Positions	84	86	54	69
FTE	75.99	77.48	52.46	58.51

Program Description

The Division is organized into two sections:

- The ***District Attorney Assistance*** section assists the 36 District Attorney (DA) offices in criminal cases and matters relating to prosecution and law enforcement in their respective counties by providing trial and investigative assistance, technical-legal and prosecutorial advice and services, and legal education and training in criminal law and procedures. 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 has many functions including: oversight of the Oregon Internet Crimes Against Children (ICAC); participant in the Cooperative Disabilities Investigation Unit (CDIU); participant in the federal, state, and local High Intensity Drug Trafficking Areas (HIDTA) initiative; operates the Criminal Intelligence Unit (CIU), which provides analytical services to Oregon law enforcement and also maintains the Oregon State Intelligence Network (OSIN), the primary intelligence sharing network for Oregon law enforcement; hosts the Western States Information Network (WSIN) for Oregon which shares intelligence information among five western states; and manages the Oregon TITAN Fusion Center which provides intelligence services to law enforcement to combat terrorism in Oregon.

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. 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), and Marijuana Eradication ($936,855 Federal Funds). Most of these federal funds are passed along to local law enforcement agencies. The Division relies on federal grants to fund much of the Internet Crimes Against Children (ICAC) program. 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

In 2009, the Division had 233 open prosecutorial and/or investigative matters (not including tobacco and DPSST-related cases), and this number grew to 446 in 2010. The Division closed 227 cases in 2009 and 329 cases in 2010. The number of closed murder/homicide cases has increased from 8 in 2008 to 19 in 2010. Similarly, the number of closed RICO cases grew from 13 in 2009 to 50 in 2010 and closed sex crimes increased from 4 in 2008 to 13 in 2010.

The Internet Crimes Against Children unit also saw an increasing workload. Some of those increases can be seen in cyber tips from the National Center for Missing and Exploited Children and requests for assistance from various law enforcement agencies. Tips have risen from 212 in 2008 to 291 in 2009 to 473 in 2010. Forensic exams have risen from 311 in 2008 to 388 in 2009 to 636 in 2010. Future workload may change as the federal funding available in 2011-13 decreases.

The Criminal Intelligence Unit provided essential investigatory support to Oregon law enforcement, opening 358 Intelligence/Investigatory cases in 2009 (200) and 2010 (158). Cases opened covered a range of criminal activity from amber alerts, drugs, hate crimes, murders, cold case homicides, and terrorism; 110 pen registers were conducted, generating over 1.2 million telephone toll records. The unit is on track to exceed 2009 and 2010 numbers, already at 65 case requests in the first quarter of 2011. The program has taken responsibility for the operation of DA offices in a number of counties in past biennia as vacancies occurred.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget for this Division of $28 million total funds is $5.4 million less (16.3%) than the 2009-11 legislatively approved budget. This is primarily due to the decrease in the one-time federal funding available in 2009-11. The General Fund budget of $7.5 million is $225,000, or 3.3%, less than the 2009-11 budget. The difference between the Governor's proposed General Fund budget and the budget passed by the Legislature is in part due to additional General Fund resources for the Internet Crimes Against Children program. Federal grant resources which filled in some program gaps in 2009-11 are not available for 2011-13. Changes in the 2011-13 budget include:

- Twelve positions are eliminated ($749,798 General Fund, $1.6 million total funds) including research analysts, paralegal, attorneys, and managers. It is expected that these reductions will limit the number of investigations and other actions by the divisions in areas including financial fraud, organized crime prosecutions, public corruption, and referrals from other law enforcement agencies in the state.
- A total of 15 positions (5.06 FTE) are added to account for continuing grants relating to Internet child porn enforcement, Fusion Center resources, and funding left over from the one-time federal stimulus grants received during 2009-11. While 15 positions are added, they are for relatively short periods of time until resources are exhausted.
- The Legislature did backfill some of the one-time Internet Crimes Against Children federal grant resources by adding $814,423 General Fund and three positions (2.75 FTE).
- The statewide DUII attorney position is continued with ODOT funding to provide advice and training to local law enforcement ($296,882 Other Funds).

Overall, there is a net decrease of 17 positions (18.97 FTE) between 2009-11 and 2011-13.

DOJ – Crime Victims' Services Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	4,700,154	4,608,293	4,485,042	5,443,617
Other Funds	24,036,593	23,842,217	19,640,938	22,490,033
Federal Funds	16,096,665	18,988,057	15,986,513	17,557,532
Other Funds (NL)	1,483,647	3,155,252	3,230,978	3,230,978
Total Funds	**$46,317,059**	**$50,593,819**	**$43,343,471**	**$48,722,160**
Positions	33	36	35	37
FTE	29.87	33.98	33.56	35.65

Program Description

The Crime Victims' Services 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*** 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 local crime victims' assistance programs.
- 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 ***Domestic and Sexual Violence Services Fund*** was created 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 Fines Account or CFA ($16.3 million Other Funds). Crime victims programs also receive funding from punitive damages and restitution ($3.1 million Other Funds), and federal grant funds ($17.6 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, 478 in 2005-07 and 529 in 2007-09. For 2009-11, the monthly claim average was 535, a 44% increase over 2001-03.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for this Division of $48.7 million total funds is $1.9 million less (-3.7%) than the 2009-11 legislatively adopted budget, but $5.4 million (12.4%) greater than the Governor's proposed budget. The 2011-13 legislatively adopted General Fund budget of $5.4 million is 18.1% greater than the 2009-11 level and almost $1 million greater than the Governor's budget.

Funding through the Criminal Fines and Assessment (CFAA) revenue stream is reduced by $1.9 million or by over 10%. Compared to the current service level for 2011-13, the decrease is 12.6%, affecting four of the primary crime victims' programs including the Child Abuse Multidisciplinary (CAMI) program and the Criminal Injuries Compensation Account. The Governor's budget had reduced these programs as well as the Oregon Domestic and Sexual Violence Abuse program (ODSVA) by over 25%, but the Legislature had been able to restore roughly half of the cut. Additional General Fund resources ($600,000) were added back to the CAMI and ODSVA programs to limit their cuts from the current service level to 10%.

DOJ – General Counsel Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	44,395,167	43,501,457	44,526,499	44,563,379
Total Funds	**$44,395,167**	**$43,501,457**	**$44,526,499**	**$44,563,379**
Positions	163	158	145	146
FTE	160.29	157.95	144.95	145.39

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. DOJ asserts the legal work performed by this Division is becoming more complex. Areas where workload has increased include advice relating to health issues including developments in use of information technology, transition to the new Oregon Health Authority, and configuring services to the new Health Insurance Exchange. Other areas of growth include the Portland Harbor Superfund clean-up litigation and advising state agencies around budget reductions and resulting service levels. Areas of decreased workload include Ballot Measure 37 and 49 claims and legal advice for the Oregon University System as it takes on more responsibility for providing its own legal services.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for this Division of $44.6 million total funds is $1.1 million, or 2.4%, more than the 2009-11 legislatively approved budget and slightly greater than the Governor's proposed budget. The primary reasons for the increase over 2009-11 is the net rise in employee compensation even after the elimination of 12 positions. The budget includes a $2.1 million (9 positions) decrease assuming state agencies will reduce their demand for legal services. One position ($101,273 Other Funds) is added for the anticipated workload increase due to the passage of SB 420 which modifies the dispositional authority for persons found guilty of a crime except for insanity.

DOJ – Trial Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	22,564,471	24,816,549	25,805,112	26,349,208
Total Funds	**$22,564,471**	**$24,816,549**	**$25,805,112**	**$26,349,208**
Positions	98	106	99	102
FTE	96.34	104.92	98.28	101.15

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 five sections; (1) Commercial, Condemnation and Environmental Litigation (CC&E), (2) Criminal and Collateral Remedies (CCR), (3) Torts, (4) Employment Litigation, and (5) the Special Litigation Unit (SLU). 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 (DCC).

Budget Environment

In 2009, the Criminal and Collateral Remedies unit opened 760 state post-conviction and habeas corpus cases. For 2010, the unit opened 725 cases and had 922 cases pending continuing a trend of increasing cases that started a number of years ago. This workload could 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. Additionally, the case complexity has increased over the last several years due to increased active participation by the petitioners and counsel. This unit also handles mandamus cases and hearings before the Psychiatric Security Review Board.

Special litigation issues continue to increase in number and complexity. Many issues place the state at risk of losing a substantial amount of money. One such example involved the unit's successful defense of a challenge to Measures 66 and 67. In other cases, the unit's role is often to defend legislative policy decisions and their implementation by state agencies. In recent years, the unit's work resulted in upholding Oregon's Death with Dignity Act in state and federal trial court, successfully defending Oregon's domestic-partnerships legislation, continuing to represent the state's interest in ongoing federal court litigation over the proper management of Oregon's salmon under the Endangered Species Act and Indian treaties, and successfully defending the Secretary of State's determination that the judicial redistricting initiative did not qualify for the ballot.

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 and Employment Litigation Section has experienced an increase in financial exposure of cases based on amendments to the Oregon Tort Claims Act. 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 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. Medical malpractice claims by inmates have increased over the past few years.

After a significant increase in employment litigation (74% increase from December 2000 through May 2008), the number of cases are beginning to taper off. 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 CC&E Litigation Section has decreased slightly over the last biennium, when compared to the previous biennium with 27 cases in 2010. The number of cases relating to Measures 37 and 49 has substantially decreased due to the 9th Circuit's refusal to extend constitutional protection to persons holding Measure 37 waivers. Approximately fifteen cases are currently abated pending Oregon Appellate Court decisions on other issues related to Measures 37 and 49. Those decisions, if unfavorable to the state, will cause an increase in cases to CC&E.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for this Division of $26.3 million Other Funds is $1.5 million greater (6.2%) than the 2009-11 legislatively approved budget and $544,000 (2.1%) greater than the Governor's proposed budget. The budget was adjusted to reflect the agency-wide reduction in the funding for Defense of Criminal Convictions (DCC) by of $3.8 million, but, because of the shift in workload from the Appellate Division to this Division, the overall change in the DCC budget for Trial is relatively small ($396,853 and 3 positions). The only other change in the budget, other than the adjustments common to all state agencies, is a $568,930 increase in Other Funds resources (3 positions) to handle the increased workload due to the passage of SB 420 (not included in the Governor's budget). This bill provides for the Oregon Health Authority to handle some of the cases previously handled by the Psychiatric Security Review Board. The full effect on the workload is not known because the Oregon Health Authority has yet to institute rules and procedures for handling the partially transferred cases. This unit, however, will have to attend more hearings than at present because of SB 420.

DOJ – Child Support Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	15,599,323	16,977,835	25,290,464	21,548,273
Other Funds	27,856,151	25,714,888	27,774,648	26,222,915
Federal Funds	69,174,303	80,162,608	86,466,567	77,927,760
Other Funds (NL)	3,839,614	4,083,967	4,181,982	4,181,982
Federal Funds (NL)	15,083,540	15,857,750	15,285,103	15,285,103
Total Funds	**$131,552,931**	**$142,797,048**	**$158,998,764**	**$145,166,033**
Positions	596	596	633	578
FTE	593.98	593.78	630.17	575.17

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; 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 generally support 64.2% of the program costs (includes Nonlimited expenditures); General Fund covers 14.8%; and local funds and recoverables pay the remaining 19%. 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. For 2009-11, federal stimulus funding of almost $4 million was available to offset the need for General Fund, but those federal resources will not be available for 2011-13.

Budget Environment

The program serves roughly 225,262 families per year which is slightly less than 2009-11. In the past, the DA programs have provided services to approximately 18% of these families. The other 82% 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, $6.01 in 2008, $5.47 for 2009, and $5.14 so far in 2011. 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 2009-11 per FTE in Oregon is 306, with California averaging 172 and Washington at 273.

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. 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 Temporary Assistance to Needy Families (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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for this Division of $145.2 million total funds is $2.4 million, or 1.7%, less than the 2009-11 legislatively approved budget. The General Fund budget of $21.5 million is $4.5 million, or 26.4%, more than the 2009-11 budget. This larger General Fund increase is primarily due to the use of almost $4 million one-time federal stimulus funding used in 2009-11, but not available in 2011-13. Without this backfill, the General Fund budget would have increased by just over $600,000, or 3.6%.

The Governor's budget had included a $1.9 million increase in General Fund ($8.7 million total funds) and 37 positions, but the agency indicated to the Legislature that it did not require those resources to keep program levels at or near the level for 2009-11. The agency did raise concerns about the need for resources to improve its information systems, but the resources were needed elsewhere in the public safety agencies. Other than the changes to the Division's budget common to all state agencies, the only other major change was the elimination of 18 positions that had been or would be vacant. The agency determined that it could manage the Division's vacancies more effectively in the future. This saved $443,981 General Fund ($2.1 million total funds) and included 13 support positions, two managers, two case managers, and a training position.

DOJ – Defense of Criminal Convictions

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	19,449,024	19,586,441	18,415,954	17,361,631
Total Funds	**$19,449,024**	**$19,586,441**	**$18,415,954**	**$17,361,631**

Program Description

Defense of Criminal Convictions (DCC) is a budgetary unit used to track the cost of defending the state in cases in which sentenced offenders challenge their convictions or sentences. 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 as well as other areas where no agency or Division can be billed (see SB 420 discussion below).

Revenue Sources and Relationships

Criminal and capital appeals work is primarily financed by the General Fund.

Budget Environment

Funding for this program has increased significantly in recent biennia. In 2005-07, the budget for this program was just less than $12 million General Fund while at one time the projected need for 2009-11 had been estimated at over $28 million. The agency has been successful in managing the growth in the program 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.

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 is primarily due to the number of offenders in the correctional system. The full impact of recently passed ballot measures (57 and 73) have not affected the agency's workload yet and the full impact is unknown. These sentencing changes are more likely to affect the direct appeals cases more than the post conviction cases. These sentences are comparably shorter than a Measure 11 crime and offenders serving longer sentences are more likely to pursue all available avenues of appeal including post-conviction and federal *habeas corpus* challenges.
- 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 programs change, this can affect the number of appeals at the state level. The courts limit the amount of time that cases can be delayed. Timelines set by the Court of Appeals in the past few years had been met by DOJ and PDSC; and the court was considering tightening the timelines again, but has not at this point. This may be due to the court's own funding levels and workload.
- 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 Department receives few death penalty appeals during each biennium, these cases are very complex and time consuming. During 2009-11 five new death penalty cases began the appeal process. In addition, the first death penalty cases to reach the federal courts will continue to be actively litigated and further cases are expected to move from the state courts to the federal courts. Because these cases represent the first opportunity for the federal courts to review the Oregon's death penalty system, they are expected to be very costly to defend and take a lengthy period of time to complete. 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.
- The attorneys of the Appellate and Trial Divisions charge the DCC program for their work on these cases at the same rate as they charge other state agencies for legal work. Growth in this program in recent years has increased in part due to the increasing legal rate increasing from $98 in 2003-05 to the $143 rate planned for in 2011-13. This 46% increase over an eight year period is primarily due to employee compensation growth, the major factor in determining the legal rate.
- Whenever the U.S. Supreme Court issues significant rulings in the area of criminal law, there may be hundreds of state criminal convictions effected. Those significant rulings may require new appeals or new trials.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for the DCC program of $17.4 million General Fund is $2.2 million, or 11.4%, less than the 2009-11 legislatively approved budget. Caseloads have not necessarily dropped for this program, but both the Governor and then the Legislature made reductions to the program. These reductions include the services and supplies reductions taken across all state agencies. This type of reduction hits this program especially hard since all of its spending is in services and supplies, and the Trial and Appellate Divisions bill this budget unit for staff and other costs. Recognizing this and the fact that this funds a constitutionally mandated activity, the Legislature included a $2 million special appropriation to the Emergency Board for this program and the defense of the Master Settlement Agreement. It should be noted that the caseload and workload numbers for this program are estimates and can change based on a number of factors including average time spent on cases, the actual number of cases opened, the legal rate charged for the work on the cases, the impact of state and federal court decisions, and the actual number of staff attorney hours available to the program.

The Legislature did add just over $800,000 General Fund for this program for the new workload related to SB 420. This bill modifies the court's dispositional authority when a person is found guilty except for insanity of a crime. The Trial and Appellate Divisions will bill this budget unit for work done relating to this bill.

Military Department (OMD) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	24,068,731	22,901,757	24,624,329	24,068,435
Other Funds	126,912,134	125,248,508	107,548,338	125,448,360
Other Funds (NL)	0	1,172,024	0	0
Federal Funds	274,234,096	275,814,160	286,549,849	288,377,938
Federal Funds (NL)	0	1	0	0
Total Funds	**$425,214,961**	**$425,136,450**	**$418,722,516**	**$437,894,733**
Positions	517	540	508	493
FTE	473.95	487.60	461.96	448.30

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 serves 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, 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.

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.

In 2007, the Legislature established the Seismic Rehabilitation Grant Program, whose purpose is to reduce the exposure to Oregonians from earthquakes by providing public education and emergency services facilities with funds to retrofit existing facilities to meet seismic standards.

Revenue Sources and Relationships

Revenue for the Department comes from a combination of General Fund, Other Funds, and Federal Funds. 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 ($288.4 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.
- 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 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. Twenty-five 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. OEM and the CJSD receive Federal Funds for emergency management and disaster recovery, homeland security, and Chemical Stockpile Emergency Preparedness Program grant funds. Lastly, the budget includes $4 million of Other Funds for bond proceeds for the Capital Construction program.

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 $125.5 million. The preponderance of the revenue (approximately $81.9 million) is related to 9-1-1 emergency telecommunications surcharge revenues under OEM. Historically, however, 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 approximately $3.2 million before a $112,363 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, Oregon Youth Challenge Program receives Average Daily Membership (ADM) revenue from the Bend-LaPine School District totaling approximately $2 million.

Budget Environment

The Department has many competing priorities. 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) managing the 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 recruiting, training, and retention of guardsperson; and (c) the maintenance and construction of new and existing installations.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $437.9 million is $19.2 million, or 4.6%, more than the Governor's recommended budget and is $12.8 million, or 3%, more than the 2009-11 legislatively approved budget and includes 493 positions (448.30 FTE). The General Fund portion of the budget totals $24.1 million and is $555,894, or 2.3%, less that than the Governor's recommended budget and is $1.2 million, or 5.1%, more than the 2009-11 legislatively approved budget. The Other Funds totals $125.5 million and is $17.9 million, or 16.6%, more than the Governor's recommended budget and is $199,852, or 0.2%, more than the 2009-11 legislatively approved budget. Federal Funds totals $288.4 million and is $1.8 million, or 0.6%, more than the Governor's recommended budget and is $12.6 million, or 4.6%, more than the 2009-11 legislatively approved budget.

The Department's budget is comprised of $68.3 million personal services (15.6%), $96 million services and supplies/capital outlay (21.9%), $263.7 million special payments (60.2%), and $9.8 million debt service (2.3%).

The budget reflects a reduction of $1.1 million General Fund, $679,699 Other Funds, and $4.3 million Federal Funds for standard reductions that include: a 5.5% reduction to personal service; a 6.5% reduction to services and supplies; the elimination of the standard inflation increase; and an adjustment to state government service charges and assessments charged to most agencies.

The allotment reductions taken during the 2009-11 biennium were carried forward into the 2011-13 biennium, but were adjusted for 24 months of savings. This reduction totaled $1.1 million General Fund, $679,699 Other Funds, and $4.3 million Federal Funds (45 positions, 45.00 FTE).

The Legislature, using a combination of the Department's General Fund Debt Service savings, vacant position savings, fund shifts, and reductions to services and supplies, provided $2.1 million General Fund, $990,991Other Funds, and $871,611 Federal Funds (26 positions, 26.00 FTE) to restore various reductions, including a portion of the allotment reduction carry forward into the 2011-13 biennium.

The budget includes a supplemental statewide ending balance holdback adjustment of $861,852 General Fund. This reduction may be restored during the 2012 legislative session for the second year of the biennium depending on statewide economic conditions.

The Legislature asked the Department to respond to five budget notes. The first budget note directs the Department to report on its federally budgeted activities that occur outside the state budget. The second budget note directs the Department to submit a long-range strategic plan that includes both state and federally budgeted resources. The third budget note directs the Department to report on its Christmas Valley project. The fourth budget note directs the Department to comply with Legislative and Emergency Board direction to submit a 9-1-1 consolidation study. The final budget note pertains to a site adjustment for an Emergency Operations Center in Columbia County.

OMD – Administration

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	5,393,842	4,634,685	3,827,784	3,814,012
Other Funds	2,199,974	2,757,232	1,968,012	2,019,192
Total Funds	**$7,593,816**	**$7,391,917**	**$5,795,796**	**$5,833,204**
Positions	28	28	21	23
FTE	27.00	26.79	20.00	21.68

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 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.

Revenue Sources and Relationships

The program is funded with a combination of General Fund and Federal as Other Funds.

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $5.8 million is $37,408, or 0.6%, more than the Governor's recommended budget and is $1.6 million, or 21.1%, less than the 2009-11 legislatively approved budget and includes 23 positions (21.68 FTE). The General Fund portion of the budget totals $3.8 million and is $13,772, or 0.4%, less that than the Governor's recommended budget and is $820,673, or 17.7%, less that the 2009-11 legislatively approved budget. Other Funds totals $2 million and is $51,180, or 2.6%, more than the Governor's recommended budget and is $738,040, or 26.8%, less than the 2009-11 legislatively approved budget.

The program's budget is comprised of $4.6 million (79.2%) personal services, $1.1 million (18%) services and supplies, and $162,961 special payments (2.8%).

The allotment reductions taken during the 2009-11 biennium were carried forward into the 2011-13 biennium, but were adjusted for 24 months of savings. This reduction totaled $966,138 General Fund and $107,194 Other Funds (7 positions, 7.00 FTE). Of these amounts, $273,571 General Fund and $60,314 Other Funds (2 positions, 2.00 FTE) was restored using a combination of General Fund debt service savings, vacant position savings, fund shifts, and reductions to services and supplies.

The budget reflects a reduction of $330,217 General Fund and $100,940 Other Funds for standard reductions that include: a 5.5% reduction to personal service; a 6.5% reduction to services and supplies; the elimination of the standard inflation increase, and reductions to state government service charges and assessments.

The legislatively adopted budget provides $135,947 General Fund for Oregon Public Employees Retirement System retroactive pension contributions for employees returning from active military duty.

The budget includes a supplemental statewide ending balance holdback adjustment of $133,972 General Fund. This reduction may be restored later in the biennium depending on statewide economic conditions.

OMD – Operations

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	11,559,967	10,604,528	7,616,747	8,248,766
Other Funds	3,323,583	3,869,511	4,603,788	4,523,983
Federal Funds	92,805,036	96,127,794	100,899,267	96,387,205
Total Funds	**$107,688,586**	**$110,601,833**	**$113,119,802**	**$109,159,954**
Positions	397	420	393	374
FTE	356.80	369.21	347.96	330.30

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, Other Funds, and Federal Funds. The source of the Other Funds is primarily facility rental fees (approximately $3 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.

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $109.2 million is $4 million, or 3.5%, less than the Governor's recommended budget and is $1.4 million, or 1.3%, less than the 2009-11 legislatively approved budget and includes 374 positions (330.30 FTE). The General Fund portion of the budget totals $8.3 million and is $632,019, or 8.3%, more that than the Governor's recommended budget and is $2.4 million, or 22.2%, less that the 2009-11 legislatively approved budget. Other Funds totals $4.5 million and is $79,805, or 1.7%, less than the Governor's recommended budget and is $654,472, or 16.9%, more than the 2009-11 legislatively approved budget. Federal Funds totals $96.4 million and is $4.5 million, or 4.5%, less than the Governor's recommended budget and is $259,411, or 0.3%, more than the 2009-11 legislatively approved budget.

The program's budget is comprised of $48.8 million (44.8%) personal services, $60.1 million (55%) services and supplies/capital outlay, and $242,328 special payments (0.2%).

The allotment reductions taken during the 2009-11 biennium were carried forward into the 2011-13 biennium, but were adjusted for 24 months of savings. This reduction totaled $4.9 million General Fund and $738,874 Federal as Other Funds (38 positions, 38.00 FTE). Of these amounts, $1.9 million General Fund and $799,331 Federal Funds (23 positions, 23.00 FTE) was restored using a combination of General Fund debt service savings, vacant position savings, fund shifts, and reductions to services and supplies.

The budget reflects a reduction of $579,862 General Fund, $210,162 Other Funds, and $3.6 million Federal Funds for standard reductions that include: a 5.5% reduction to personal service; a 6.5% reduction to services and supplies; the elimination of the standard inflation increase, and reductions to state government service charges and assessments.

The legislatively adopted budget incorporates the following changes:
- Property improvements required by the City of LaGrande on leased property ($53,492 General Fund).
- Maintenance support for newly constructed Readiness Centers/Armed Forces Reserve Centers ($364,786 General Fund and $446,640 Federal Funds).
- Continuation of the Wildland Fire Management Program ($2 million Federal Funds, 9.50 FTE).
- Loan repayment for the Christmas Valley solar site ($42,911 Other Funds).
- Services and supplies for facility operation and maintenance, equipment refurbishment, and Kinglsey Field fire protection ($13.6 million Federal Funds).
- Established new positions and converted some existing limited duration positions to permanent full-time, to support a variety of functions including water treatment, facility rental, and airbase firefighting ($164,798 Other Funds and $1.4 million Federal Funds, 10.63 FTE).

The budget includes a supplemental statewide ending balance holdback adjustment of $89,024 General Fund. This reduction may be restored later in the biennium depending on statewide economic conditions.

OMD – Office of Emergency Management

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	2,599,037	2,076,376	2,543,612	2,077,804
Other Funds	94,723,244	111,933,843	98,447,177	112,206,831
Federal Funds	91,291,494	148,855,726	173,815,644	167,177,442
Total Funds	**$188,613,775**	**$262,865,945**	**274,806,433**	**281,462,077**
Positions	46	46	48	50
FTE	44.15	45.60	48.00	50.32

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 program within the Military Department.

OEM takes the lead in responding to emergencies across the state and coordinating 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 Industries (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 Account is not capitalized nor has the Department made any loans from the Account since they requested it be established.

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. The state's portion if funded 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 to be distributed quarterly according to statute for the following primary 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) 35% is transferred into the Enhanced 9-1-1 subaccount; and (3) the remaining balance is distributed to cities and counties.

Local governments use the revenue to partially fund the expense of approximately 49 Public Safety Answering Points (PSAPs) 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 than that of the Department's Oregon Youth Challenge Program, but with a budget that is 32 times larger.

All of Oregon's population is served by Enhanced 9-1-1 services that are provided from 49 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 the fall of 2011, after which the incinerator will be decommissioned.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $281.5 million is $6.7 million, or 2.4%, more than the Governor's recommended budget and is $18.6 million, or 7.1%, more than the 2009-11 legislatively approved budget and includes 50 positions (50.32 FTE). The General Fund portion of the budget totals $2.1 million and is $465,808, or 18.3%, less that than the Governor's recommended budget and essentially unchanged from the 2009-11 legislatively approved budget. Other Funds totals $112.2 million and is $13.8 million, or 14%, more than the Governor's recommended budget and is $272,988, or 0.2%, more than the 2009-11 legislatively approved budget. Federal Funds totals $167.2 million and is $6.6 million, or 3.8%, less than the Governor's recommended budget and is $18.3 million, or 12.3%, more than the 2009-11 legislatively approved budget.

The program's budget is comprised of $8.8 million (3.1%) personal services, $9.4 million (3.3%) services and supplies/capital outlay, and $263.3 million special payments (93.6%).

The budget reflects a reduction of $163,208 General Fund, $225,053 Other Funds, and $431,728 Federal Funds for standard reductions that include: a 5.5% reduction to personal service; a 6.5% reduction to services and supplies; the elimination of the standard inflation increase, and reductions to state government service charges and assessments.

The legislatively adopted budget incorporates the following changes:

- Seismic Rehabilitation Bonds ($7.5 million Other Funds) – Articles XI-M (Education) bonding authority for the Seismic Rehabilitation Program, which would be distributed to School Districts; debt service support for these bonds is a separate policy package detailed under the Debt Service Program.
- Seismic Rehabilitation Bonds proceeds carried forward from the 2009-11 biennium ($20.5 million).
- A new Private Community Liaison position to facility with disaster planning ($72,280; 1.00 FTE).
- Crisis management information sharing and data system operations center with staff ($927,578; 1.00 FTE).
- Temporary Presidentially declared disaster recovery support ($301,589 Federal Funds; 1.00 FTE).
- Search and Rescue position funding ($57,731 Other Funds; 0.40 FTE).
- Fund shift from Federal to Other Funds for an Information Specialist position in the Chemical Stockpile Emergency Preparedness Program, which is being phased-out.
- Restoration using 9-1-1 revenue of an Information Specialist position that was reduced in the Administration Program ($208,833 Other Funds; 1.00 FTE).

The budget includes a supplemental statewide ending balance holdback adjustment of $89,024 General Fund. This reduction may be restored later in the biennium depending on statewide economic conditions.

OMD – Community Support

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	1,644,943	0	223,687	200,805
Other Funds	2,452,024	2,413,243	1,736,998	1,736,981
Federal Funds	6,497,032	7,425,389	7,313,114	7,311,467
Total Funds	**$10,593,999**	**$9,838,632**	**$9,273,799**	**$9,249,253**
Positions	46	46	46	46
FTE	46.00	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, Other Funds, and Federal Funds.

On October 28, 2009, the National Defense Authorization Act for Fiscal Year 2010 (House Resolution 2647) was signed into law. Section 593 of the Act modified the matching fund requirement for the nation's National Guard Youth Challenge Programs by increasing the federal match rate to 75% and reducing the state match rate to 25%. The effective date of this change was October 1, 2009. The federal law change means that the OYCP is able to meet federal matching funds requirements exclusively with existing Other Funds, which is Average Daily Membership (ADM) revenue through the Bend-LaPine School District.

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $9.3 million is $24,546, or 0.3%, less than the Governor's recommended budget and is $589,379, or 6%, less than the 2009-11 legislatively approved budget and includes 46 positions (46.00 FTE). The General Fund portion of the budget totals $200,805 and is $22,882, or 10.2%, less that than the Governor's recommended budget and is 100% more than the 2009-11 legislatively approved budget. Other Funds totals $1.7 million and is essentially unchanged from the Governor's recommended budget and is $676,262, or 28%, less than the 2009-11 legislatively approved budget. Federal Funds totals $7.3 million and is also essentially unchanged from the Governor's recommended budget and is $113,922, or 1.5%, less than the 2009-11 legislatively approved budget.

The program's budget is comprised of $6.1 million (65.5%) personal services and $3.2 million (34.5%) services and supplies.

The budget reflects an increased Federal Funds match rate for the OYCP from 60% to 75%.

The budget reflects a reduction of $44,612 General Fund, $143,544 Other Funds, and $279,771 Federal Funds for standard reductions that include: a 5.5% reduction to personal service; a 6.5% reduction to services and supplies; the elimination of the standard inflation increase, and reductions to state government service charges and assessments.

The budget includes a supplemental statewide ending balance holdback adjustment of $7,829 General Fund. This reduction may be restored later in the biennium depending on statewide economic conditions.

OMD – Debt Service

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	1,457,991	5,586,168	10,412,499	9,727,048
Other Funds	964,617	766,885	112,363	270,100
Other Funds (NL)	0	1,172,024	0	0
Federal Funds (NL)	0	1	0	0
Total Funds	**$2,422,608**	**$7,525,078**	**$10,524,862**	**$9,997,148**

Program Description

The Debt Service Program provides the funding to make payments on principal, interest, and financing costs associated with the issuance of Article XI-Q bonds and previously issued certificates of participation, which 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 bonds to match National Guard Bureau Federal Funds when constructing, altering, or repairing National Guard installations. The percentage of state matching funds required varies by the type of installation. Bonds provide financing for federally non-allowable project costs, which for example include the cost of real property. Bonds also fund certain armory additions/alterations that are a 100% state responsibility.

The Department's 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.

The Debt Service Program is the largest General Fund program in the Department. In other words, the Department spends more General Fund on debt service than on its Operations, Emergency Management, the Youth Challenge, or the Administration Programs.

Revenue Sources and Relationships

The Department's debt service is funded with a combination of General Fund and Other Funds. For the 2011-13 biennium, only the Department's 2004-A COP issued for the Baker City Readiness Center is paid from Other Funds ($112,363). The source of Other Funds is statewide facility rental income.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $10 million is $527,714, or 5%, less than the Governor's recommended budget and is $2.5 million, or 32.9%, more than the 2009-11 legislatively approved budget.

The program's budget is reduced by $2 million of debt service savings, which was used to partially restore General Fund reductions in Administration and Operating program budgets.

The legislatively adopted budget incorporates the following changes:

- Seismic Rehabilitation ($618,000 General Fund and $114,000 Other Funds for cost of issuance).
- The Dalles Readiness Center ($43,737 Other Funds for cost of issuance; General Fund will not begin until the 2013-15 biennium as the bond(s) will be issued late in the 2011-13 biennium).

The budget includes a supplemental statewide ending balance holdback adjustment of $364,437 General Fund. This reduction may be restored later in the biennium depending on statewide economic conditions.

OMD – Capital Improvement

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	1,412,951	0	0	0
Federal Funds	608,676	607,250	4,521,824	4,521,824
Total Funds	**$2,021,627**	**$607,250**	**$4,521,824**	**$4,521,824**

Program Description

This program provides for capital improvements to existing facilities. Capital improvement projects are those with a total cost of $1 million or less. As discussed below, Major Construction projects total more than $1 million. 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 primarily Federal Funds, but may include General Fund. As noted, however, the Operations Program also has expenditures for capital improvement, which are General, Other, and Federal Funds. The last General Fund appropriation for the program occurred during the 2007-09 biennium when the Legislature, recognizing the importance of reducing the Department's deferred maintenance backlog, provided a $1.4 million General Fund appropriation. The program has also received during the 2009-11 biennium Federal Funds under the American Recovery and Reinvestment Act (ARRA).

Budget Environment

Capital improvement expenditures are used to address the Department's backlog of deferred maintenance, which is estimated at over $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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $4.5 million is unchanged from the Governor's recommended budget and is $3.9 million, or 644.6%, more than the 2009-11 legislatively approved budget. The increase is explained by the transfer of $3.9 million from the Operations to the Capital Improvement program.

OMD – Major Construction

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	23,248,692	3,507,794	680,000	4,691,273
Federal Funds	83,031,858	22,798,001	0	12,980,000
Total Funds	**$106,280,550**	**$26,305,795**	**$680,000**	**$17,671,273**

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 $215 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 bonds 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 various armories and properties. 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.

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 approximately 20 projects identified in the National Guard Bureau Long-Range Construction Plan, with estimated project costs estimated of over $700 million. Of that amount, the state would be required to pay approximately $105 million, or 15%, of costs. Federal Funds for capital construction continue to be highly competitive among states.

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. In order to make informed decisions, the Legislature needs from the Department a single, comprehensive, prioritized facility management/Capital Construction plan.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $17.7 million is $17 million, or 2,498%, more than the Governor's recommended budget and is $8.6 million, or 32.8%, less than the 2009-11 legislatively approved budget. Other Funds totals $4.7 million and is $4 million, 589.9%, more than the Governor's recommended budget and is $1.2 million, or 33.7%, more than the 2009-11 legislatively approved budget. Federal Funds totals $13 million and is a 100% increase from the Governor's recommended budget and is $9.8 million, or 43%, less than the 2009-11 legislatively approved budget. While the period-to-period change can be significant, the legislatively approved expenditure limitation for any Capital Construction project has a six-year duration.

Funding for the following two projects is included in the budget:

- ***The Dalles Readiness Center:*** $4,011,273 Other Funds (Article XI-Q Bonds) and $12,980,000 Federal Funds (National Guard Bureau) is approved for the continuing design and construction of a new readiness center. The facility is being planned to allow partnership opportunities with Columbia Gorge Community College.
- ***Christmas Valley site acquisition:*** $680,000 Other Funds (Developer Fees) is approved to acquire 2,296 acres as a training area for the development of a utility-scale solar project and a training site.

The Legislature approved the extension of the project expiration dates and expenditure limitations for the following previously authorized projects: The Dalles Readiness Center – design is extended to June 30, 2015; Christmas Valley – solar array panels, Camp Rilea – waste water treatment plant, Camp Withycombe – infrastructure upgrades, Boardman Multipurpose Training Range (formerly the "Boardman Bombing Range"), and the Washington County Readiness Center (formerly the "Hillsboro Readiness Center") are extended to June 30, 2013.

The Legislature also approved the sale proposal of the following armories: 1) Oregon City Armory, 2) Lake Oswego Armory, and 3) Tigard Armory and Field Maintenance Shop.

Board of Parole and Post-Prison Supervision – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	3,896,669	3,742,600	3,877,663	3,641,093
Other Funds	1,424	21,048	10,289	10,289
Total Funds	**$3,898,093**	**$3,763,648**	**$3,887,952**	**$3,651,382**
Positions	15	15	14	14
FTE	15.00	15.00	14.00	14.00

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 Board's role has changed as the number of offenders eligible for parole decreases and the number of offenders under post prison supervision increases. The number of offenders for whom the Board sets a parole dates has decreased from 5,300 in 1988 to about 1,700 in 2010. In contrast, the number of offenders being supervised in the community has increased 34% over the last decade; from 10,374 in 2000 to 13,899 in 2010. The result of this shift is the Board now holds fewer formal release date hearings, but has a significantly greater administrative workload involving release plans, revocations, warrants, and discharges.

Growth in the number of offenders under parole and post-prison supervision is expected to continue. Based on the forecast prepared by the Office of Economic Analysis (April 2011), this number is expected to grow by about 6% over the biennium, reaching 14,687 by July 2013.

Other factors affecting the Board's role and workload include: implementation of and changes in sentencing guidelines; increases in inmate and offender populations; increases in, and results of, inmate and offender judicial appeals; increases in victim participation in post-sentencing matters; and biennial statutory changes.

A recent court decision requires the Board to hold new hearings for approximately 30 prisoners; each hearing's sole purpose will be to set a prison term under the matrix system. No additional General Fund to cover the costs of these hearings was included in the budget, so it is likely the Board may need to request additional funding during the interim once expenses are incurred and budget impacts identified.

The Board frequently faces fiscal challenges related to Attorney General legal services and medical/psychiatric examination expenses. These costs continue to increase and are difficult to forecast or control. Legal expenses are particularly volatile as they are mostly a result of challenges to the Board's decisions by those individuals under the Board's supervision.

Legislatively Adopted Budget

The Board's 2011-13 legislatively adopted budget consists of $3,641,093 General Fund, $10,289 Other Funds, and 14 full-time positions. The total funds budget is a 3% reduction from the 2009-11 legislatively approved level and a 6.1% reduction from the Governor's recommended level. Along with eliminating inflation and reducing services and supplies by 6.5%, the adopted budget abolishes a position that assists with researching and preparing administrative review responses. The budget does not provide adequate resources to help the Board catch up on its backlog of administrative reviews. Currently the Board is about one year behind and receives approximately 30 review requests each month.

The budget also includes a 3.5% supplemental ending balance hold back of $135,718 General Fund. This amount is subject to restoration to the agency in February 2012 depending on the state's overall fiscal situation.

Department of State Police (OSP) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	215,083,395	216,671,712	139,002,319	216,465,576
Lottery Funds	6,669,667	7,223,958	6,680,937	6,653,450
Other Funds	153,784,453	94,772,462	185,797,572	93,439,786
Federal Funds	18,649,062	9,951,117	6,747,819	9,122,153
Total Funds	**$394,186,577**	**$328,619,249**	**$338,228,647**	**$325,680,965**
Positions	1,346	1,301	1,272	1,220
FTE	1,228.92	1,289.15	1,255.38	1,216.63

** The 2007-09 and 2009-11 information **does include** expenditures associated with the Oregon Wireless Interoperability Network or OWIN which was transferred to the Oregon Department of Transportation (ODOT) in the Spring of 2010. The discussion of OWIN is included in the narrative for ODOT. The figures above for 2007-09 include $1.9 million and $89.1 million total funds (most of it for capital construction) for OWIN. The 2009-11 figures include $3.5 million General Fund and $5.1 million total funds for OWIN which represents the OWIN spending prior to the transfer of the program to ODOT.*

Agency Overview

Functions of the Department of State Police (OSP) include patrol, criminal investigation, fish and wildlife law enforcement, forensic lab services, State Medical Examiner, criminal justice information, enforcement of tribal gaming laws and the Lottery, and the State Fire Marshal.

Legislatively Adopted Budget

The Department of State Police's 2011-13 legislatively adopted budget of $325.7 million total funds represents a $2.9 million (0.9%) decrease from the 2009-11 legislatively approved budget and the General Fund budget of $216.5 million is just $200,000 less than the 2009-07 legislatively approved budget. Compared to the 2011-13 budget proposed by the Governor, the total funds budget is $12.5 million (3.7%) less. The General Fund budget is over $77 million more than the Governor's budget, but this is driven primarily by the Governor's proposed funding of the Patrol Division with gas tax revenues which the Legislature did not adopt. The 2011-13 budget continues many of the 2009-11 allotment reductions including the decision not to fill the 49 new trooper positions that were never filled. Other major features of this budget include:

- The legislatively adopted budget reversed the proposal by the Governor to fund the Patrol Division with resources from the Highway Fund. This proposal would have required a voter approved change to the Constitution, and the Legislature added back $85 million General Fund to fund all of the Patrol Division other than the 49 eliminated trooper positions.
- Another funding proposal made by the Governor was rejected by the Legislature which would have substantially increased the fees for background checks, firearms checks, and other information requests made of the Identification Services unit. Instead the Legislature added $3 million General Fund to this unit's budget and used limited ending balance resources instead of raising fees.
- The Criminal Division is reduced by four sworn trooper positions – one in drug enforcement and three assigned to the counter-terrorism unit.
- The legislatively adopted budget assumes the closure of the forensics lab in Ontario, which still leaves five labs including Pendleton and Bend.
- Revenue shortfalls led to the loss of 15 trooper positions in the Patrol Division assigned to truck safety and four positions in the Fire Marshal's "Community Right to Know" program.

The 2011-13 OSP budget was also adjusted downward for statewide changes taken in most agencies which are shared across all of the OSP divisions. Over $7.8 million General Fund ($241,486 Lottery Funds) represents the amount reduced for the supplemental ending balance. All or part of this amount may be added back later in the biennium depending on economic conditions. During the development of the Governor's budget and later accepted by the Legislature in the final 2011-13 budget were reductions of $10.5 million General Fund and Lottery Funds accounting for a 5.5% reduction to personal services assuming changes for employee compensation. If final negotiated decisions on employee compensation do not yield the 5.5% assumed savings, the agencies will need to identify additional savings. Also proposed by the Governor and accepted by the Legislature was a $1.7 million General and Lottery Funds ($2.7 million total funds) reduction through the elimination of the standard increase for inflation. In addition, another $1.9 million General and Lottery Funds was cut from services and supplies categories by the Legislature.

OSP – Patrol Services

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	100,470,381	109,398,201	28,531,794	108,709,788
Other Funds	13,085,541	14,136,372	103,706,056	10,735,027
Federal Funds	77,137	840,694	329,448	829,448
Total Funds	**$113,633,059**	**$124,375,267**	**$132,567,298**	**$120,274,263**
Positions	525	525	511	461
FTE	434.16	519.88	496.75	459.50

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 Capitol Mall Security, Oregon State University, and the Dignitary Protection units.

Revenue Sources and Relationships

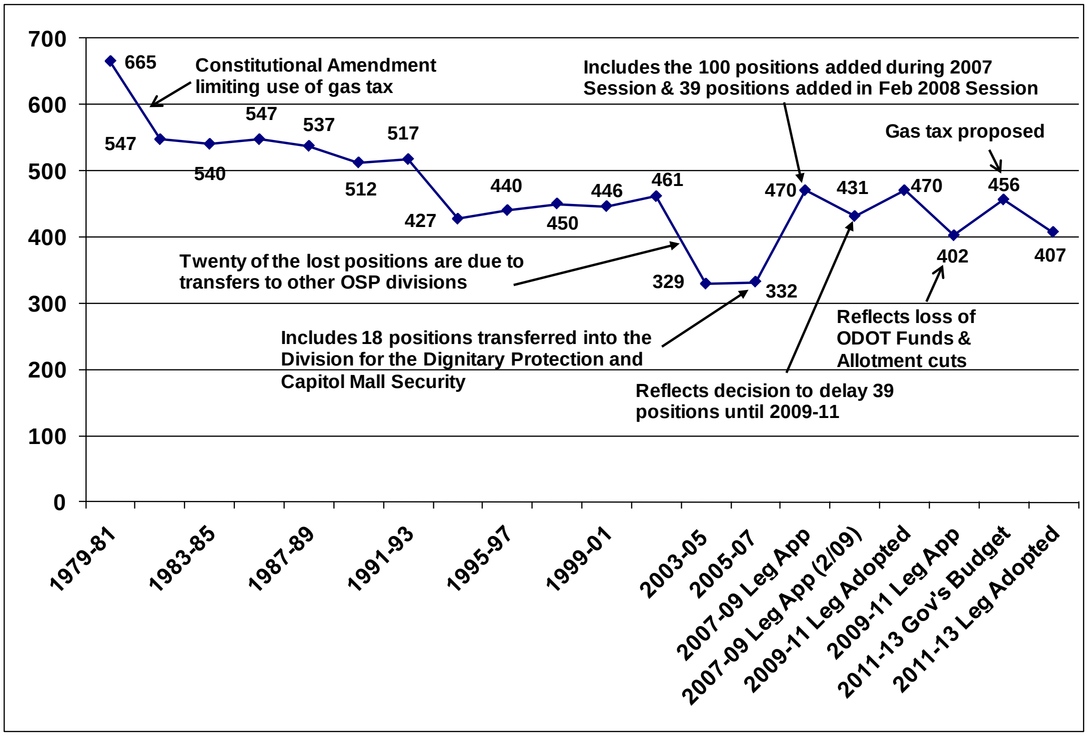
Other Funds revenues are received from the Department of Transportation for a variety of purposes (totaling $2.8 million) including traffic safety patrols in highway construction zones, snow-park enforcement, and DMV vehicle identification (VIN) inspections. Additional Other Funds sources include Oregon State University for campus security ($2.7 million), and the Parks and Recreation Department, including the State Fair ($520,000). Also included in the Other Funds for this Division is the Capitol Mall Security unit ($3.8 million) which is funded by the Legislative Administration Committee and the Department of Administrative Services. Federal funding for this Division includes 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 on the next page). By the end of 2007-09, the number was expected to grow to 470, but the hiring of the final 39 troopers was delayed until early in the 2009-11 biennium. In the 2011-13 legislatively adopted budget the number is at 407 reflecting both the continuation of the reductions taken during the 2009-11 allotment cuts and the decision not to fund troopers with the gas tax as proposed by the Governor for 2011-13. The number of 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 (10 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, the reduction in the number of troopers 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. In 2001-03, the decrease was due to state budget shortfalls and the need to fill other crucial holes in the State Police budget.

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 added in 2007-09 and 2009-11 were to 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 Department 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.

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.

In a 2010 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 8.0 troopers per 100,000 in Oregon (down from over 9.0 in 2008) with the remaining states ranging from 6.5 (Wisconsin) to over 39.0 (Delaware). The rate for surrounding states included Washington (9.9), Idaho (11.3), Nevada (15.8) and California (20.8). 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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for the Patrol Division of $120.3 million total funds and $108.7 million General Fund is $4.1 million (3.3%) and $689,000 (0.6%), respectively, less than the 2009-11 legislatively approved budget. The change from the 2011-13 Governor's total funds budget is a decrease of $12.3 million or 9.3%. Since the Governor proposed funding the Patrol Division for the last 18 months of the biennium with revenues from the gas tax, the General Fund change between the Governor's and the legislatively adopted budget is over $80 million. The Legislature did not agree with the Governor's proposal which would have required a voter approved change in the Constitution. Instead, the Legislature added back $85 million General Fund to fund the Division. Other changes in the budget passed by the Legislature for the Patrol Division beyond those common to all divisions include:

- The 49 trooper positions that were not filled in 2009-11 due to the allotment cuts were permanently eliminated in the legislatively adopted budget. The Governor proposed funding these 49 positions effective January 2012, but they would have been funded with gas tax revenues.
- The budget reflects the loss of 15 trooper positions ($3.2 million Other Funds) due to loss of Motor Carrier Safety Assistance Program (MCSAP) funding from the Oregon Department of Transportation. These federal funds provided resources dedicated for commercial truck inspections.
- Two additional canine units were added with the expectation that existing troopers would serve as the dogs' handlers.
- The Federal Funds expenditure limitation was increased by $500,000 to reflect the carry-over of federal funding from 2009-11 for the installation of mobile data terminals for roughly 100 patrol vehicles.

- One position (non-sworn) and additional vacancy savings were taken resulting in savings of $276,066 General Fund.

OSP – Criminal Investigation

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	26,355,718	26,912,606	29,354,242	27,993,616
Other Funds	4,581,550	4,341,653	4,542,689	5,055,371
Federal Funds	386,066	1,535,728	854,859	854,859
Total Funds	**$31,323,334**	**$32,789,987**	**$34,751,790**	**$33,903,846**
Positions	145	129	125	125
FTE	142.72	129.00	125.00	125.00

Program Description

The Criminal Investigation Division provides investigative services including assisting communities and local law enforcement through special investigations related to homicides, drug investigations, officer involved incidents, public official misconduct investigations, and child abuse investigations. 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, polygraph examinations, computer crimes, homicide incident tracking system (HITS), and crimes in state institutions. During 2009-11, detectives participated in 20 child abuse multi-disciplinary teams; 28 interagency major crime teams; 16 interagency drug task forces, and 12 interagency fire investigation teams. With the reductions in the 2011-13 budget, the participation in these groups could decrease.

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 ($435,000 Other Funds); arson/bomb investigation funding ($3.2 million Other Funds) from the State Fire Marshal in Fire Insurance Premium Tax revenue; and drug enforcement funding of $840,000 Federal Funds from the federal government.

Budget Environment

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

The number of investigators or detectives in the Division has been fluctuating during the past decade. The 2005-07 budget added eight further sworn positions specifically dedicated to addressing methamphetamine related crime. These positions were 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 Department 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 correctional and mental health institutions continues to grow with more than 27% of the caseload for the Division represented by this type of case. During the 2009-11 biennium, nine detective positions were eliminated with three in fraud and identity theft. Four more positions were eliminated in the 2011-13 budget.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $33.9 million total funds is $1.1 million (3.4%) less than the 2009-11 legislatively approved budget while the General Fund budget of $28 million is $1.1 million (4.1%) less than the

2009-11 budget. The 2011-13 legislatively adopted budget is also less than the budget proposed by the Governor – 2.5% less for total funds and 4.7% less for General Fund. The major reduction in the Division's budget other than those common across all divisions for the supplemental ending balance and employee compensation is the elimination of four detective positions. One eliminated position is in the drug enforcement unit while the other three positions are from the counter-terrorism unit. These three positions represent the majority of the five total positions that made up this unit, and their elimination will likely result in fewer investigations. It is expected that the liaison relationship with Federal Bureau of Investigation will continue with the remaining staff. The Other Funds limitation was increased by just over $500,000 for a grant to the bomb unit through the Office of Emergency Management.

OSP – Forensic Services and Medical Examiners

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	31,694,971	34,203,996	37,624,562	35,034,128
Other Funds	442,812	538,461	550,055	549,860
Federal Funds	1,955,779	2,390,571	1,908,289	1,908,289
Total Funds	**$34,093,562**	**$37,133,028**	**$40,082,906**	**$37,492,277**
Positions	136	135	135	132
FTE	132.45	135.00	135.00	132.00

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 currently located in Bend, Central Point, Ontario, Pendleton, Clackamas, and Springfield. Funding for one of the eastern Oregon labs was reduced for 2011-13, so the agency plans to consolidate the two eastern labs into one location. 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 in conjunction with the Department of Public Safety Standards and training (DPSST), trains and certifies all 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 the 36 counties, 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.

2011-13 Legislatively Adopted Budget

Program Area	General Fund	Other Funds	Federal Funds	Total	Positions	FTE
Forensic Services	$30,961,180	$299,058	$1,908,289	$33,168,527	123	123.00
Medical Examiner's Office	$4,072,948	$250,802	$0	$4,323,750	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). 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 scientific analysis 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 fell to 39 days. The turnaround time has increased again, and the agency is taking steps to reverse this recent increasing trend.

Because of past case acceptance restrictions and delays in case completion, an estimated 30% of potential casework is not even received by the Division and therefore not part of the backlog numbers. The requests for DNA testing continue to grow, in part due to the continuing increase in DNA requests for property crimes.

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 Forensics Division currently operates labs in six locations but plans to consolidate the two eastern Oregon locations into one location. 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 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.

Legislatively Adopted Budget

The combined 2011-13 legislatively adopted budget for these two units of $37.5 million total funds is $359,000 (1%) greater than the 2009-11 legislatively approved budget, while the General Fund budget of $35 million is $830,000 (2.4%) greater for the same period. The 2011-13 legislatively adopted budget is $2.4 million total funds less than the proposed 2011-13 Governor's budget, and the General Fund budget is $2.4 million less for the same period. The only significant reduction for these two divisions, beyond those common to all divisions, is the loss of three forensics positions which will likely result in the closure of the Ontario lab. The agency plans to consolidate the two eastern Oregon labs into one location in the near future. Total savings from both the positions and the lab closure is $623,934 General Fund. The elimination of the reimbursement payments to counties by the State Medical Examiner first made as part of the 2009-11 allotment cuts are continued. A budget note was approved which instructs OSP to submit a report to the Legislative Fiscal Office which compares the cost, workload and productivity of Oregon's medical examiner office with its counterparts in contiguous states.

OSP – Fish and Wildlife

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	5,661,682	2,284,067	2,561,574	2,419,963
Lottery Funds	6,669,667	7,223,958	6,680,937	6,653,450
Other Funds	17,336,501	21,036,539	22,221,786	22,313,951
Federal Funds	1,202,679	2,236,341	2,355,836	2,355,099
Total Funds	**$30,870,529**	**$32,780,905**	**$33,820,133**	**$33,742,463**
Positions	122	120	119	120
FTE	122.00	119.52	118.50	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 76/66) are specifically dedicated for this purpose.

Revenue Sources and Relationships

This Division receives its primary funding from the Oregon Department of Fish and Wildlife ($21.3 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 fell to less than 19% for 2007-09. Other major funding includes:

- Ballot Measure 76/66 Lottery Funds for enforcement of the Oregon Plan ($6.3 million Lottery Funds)
- Marine Board resources ($1.7 million Other Funds) for enforcement of boating laws
- Parks and Recreation Department funds for activities on the Deschutes River and for ATV enforcement ($600,000 Other Funds)
- Department of Environmental Quality payments ($224,000 Other Funds) for environmental investigations;
- revenue from a fee for shellfish-related enforcement ($530,000 Other Funds)
- National Oceanic Atmospheric Administration Joint Enforcement Agreements ($2.2 million Federal Funds)

Budget Environment

The increasing population is creating greater demands for fish and wildlife enforcement and protection services at a time when there is reduced growth in license and tag revenues being transferred from ODFW. The Division's budget was 75% funded from ODFW transfers in 1981-83, falling to 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. With the recent passage of Ballot Measure 76, the amount of Lottery Funds available to the agency has also decreased reducing the amount available for equipment (e.g., trucks, boats). The increasing population will also create greater demands for recreational use of parks, waterways, wilderness areas, and public lands. This will require further regulation and restriction on the usage of these resources with accompanying demands for law enforcement to ensure compliance.

The Fish and Wildlife Division staff performs basic law enforcement activities beyond their generally assigned responsibilities. They are available to Patrol and other divisions to support their functions. This is 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 Measures 76/66 Lottery Funds. Without this funding, the availability of this staff to perform these other functions would be limited.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for this division of $33.7 million total funds is $962,000, or 2.9%, greater than the 2009-11 legislatively approved budget. The General Fund budget of $2.4 million is $136,000, or 6%, larger than the approved 2009-11 budget. The Lottery Funds budget is $571,000, or 7.9%, less than the 2009-11 budget reflecting the lower amount of resources generated from the Lottery including the impact of the recently passed Ballot Measure 77. There is minimal difference in the 2011-13 budget passed by the Legislature when compared to that proposed by the Governor. One Lottery Fund position is eliminated because of the lower revenues, while two federally funded positions ($199,452) are continued as limited duration for at least another two years. These two positions perform activities under a contract with the National Oceanic and Atmospheric Administration or NOAA.

OSP – Administrative Services

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	41,144,720	34,421,759	34,680,277	33,768,320
Other Funds	1,347,600	8,088,699	8,128,741	11,941,902
Federal Funds	7,548,241	515,803	420,662	420,662
Total Funds	**$50,040,561**	**$43,026,261**	**$43,229,680**	**$46,130,884**
Positions	178	166	167	172
FTE	173.73	165.50	166.50	171.50

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

Other Funds revenues include grant reimbursement and revenues from limited charges for services. Almost all of the Federal Funds for 2007-09 was the result of the transfer of the criminal justice grant programs that were previously administered in the Criminal Justice Services Division. Starting in 2009-11, these grant programs were transferred to the Criminal Justice Commission.

Budget Environment

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 many new troopers authorized by the 2007 and 2009 Legislatures, the unit continued to have to rely on other OSP staff. The 2009-11 budget reduced the training unit by three positions. 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 fully 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 which explains some of the decrease in funding. OSP augments the 16-week course with eight further weeks of 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 have also been reduced, often at a rate greater than the core functions of the Department. These support functions include 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, and information management system-related staff. The 2005 and 2007 Legislatures added back positions to fill some of this gap, but not to the levels of pre-2001-03.

Legislatively Adopted Budget

The legislatively adopted 2011-13 budget of $46.1 million total funds is $3.1 million, or 7.2%, greater than the 2009-11 legislatively approved budget while the General Fund budget is $654,000 million, or 1.9%, smaller for the same period. Compared to the Governor's 2011-13 budget, the legislatively adopted budget is $2.9 million total funds, or 6.7%, larger while the General Fund is $912,000, or 2.6%, less. The increase in total funds is primarily due to the $1.6 million increase in Other Funds resources to offset General Fund central administrative costs for those programs which rely on Other Funds like Lottery, Oregon State University, and Capitol Mall Patrol units. Other Fund limitation was also increased by $1.3 million for communications related grants received in previous biennia, but not spent yet; and $1.8 million Other Funds limitation was added for the information management projects for replacing the Computer Aided Dispatch (CAD) system and the Records Management System (RMS). In addition, just under $1 million Other Funds was added to this Division's budget from the transfer of five (5.00 FTE) information technology positions from the Office of the State Fire Marshal. The only significant General Fund change to the budget, other than those common to most agency budgets including for employee compensation and the supplemental ending balance, is the offset of $1.6 million General Fund in central administrative costs with Other Fund resources mentioned above.

OSP – Law Enforcement Information Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	7,495,099	5,962,603	6,249,870	8,539,761
Other Funds	9,772,768	14,058,884	14,512,149	11,703,550
Federal Funds	257,067	1,651,402	395,907	2,270,978
Total Funds	**$17,524,934**	**$21,672,889**	**$21,157,926**	**$22,514,289**
Positions	102	106	100	100
FTE	100.59	101.00	99.50	99.50

Program Description

The Law Enforcement Information Division has two major responsibilities. First there is the Criminal Justice Information Section which maintains the Law Enforcement Data System (LEDS). LEDS connects law enforcement, criminal justice agencies, and other authorized users to centrally maintained files including data relating to wanted and missing persons, sex offenders, drug manufacturers, stolen vehicles, concealed handgun licenses, criminal records, restraining orders, and offenders under parole or probation supervision. LEDS also operates the Oregon Uniform Crime Reporting Program, which collects, processes, and distributes Oregon crime and arrest statistics; and provides Oregon data to the FBI for the national crime statistics program. The second major function is the Identification Services unit comprised of the Criminal History, Regulatory Compliance, Automated Fingerprint Identification System, and Firearms programs.

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 ($600,000). Other major sources of Other Funds revenue is from fees for Identification Services including open records checks of criminal histories, firearms, concealed gun, and employment and licensing background checks ($9 million).

Budget Environment

LEDS is challenged by possibly not having sufficient staff 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 in the past. 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 unit's core function of maintaining the state's criminal history repository is critical not only to the criminal justice community and law enforcement through positive fingerprint identification of reported arrestees; but to non-criminal justice users such as regulatory agencies making employment and licensing decisions, as well as the public. General Fund has been 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). The 2009 Legislature reduced the General Fund by $4.6 million eliminating almost all of the General Fund using various ending balance resources generated from the fees for a one-time backfill. The agency was instructed to return to the 2011 Legislature with an evaluation of its fee structure and what the level of fees would have to be for the entire program to be self sufficient. The agency presented its report along with a proposed fee structure to cover all costs of the unit without relying on any General Fund resources. The 2011 Legislature decided to not to raise fees and continue to rely on General Fund support.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $22.5 million total funds is $841,000, or 3.9%, more than the 2009-11 legislatively approved budget, while the General Fund budget of $8.5 million is $2.6 million, or 43.2%, more for the same period. Relative to the 2011-13 Governor's budget, the adopted total funds budget is 6.4% greater and the General Fund is 36.6% greater. The primary reason for the General Fund growth was the need to replace one-time Other Fund fee related resources with General Fund to avoid having to increase fees for background and other criminal history related checks. The Governor's budget proposed raising fees substantially for most programs in the Identification Services unit. The Legislature did not agree with this proposal; instead relying on limited available cash balances, reductions, and $3 million of additional General Fund to close the gap. This postpones the need for fee increases for 2011-13, but additional General Fund resources and/or fee increases will be required for 2013-15 to keep the program operating at adopted 2011-13 levels. The Legislature also added $1.9 million Federal Funds expenditure limitation for a National Instant Background Check System Act (NARIP) grant for work connected to mental health related checks and the Psychiatric Security Review Board. The Division will also receive a $200,000 Other Funds grant for equipment to improve the ability to share information with local public safety agencies.

OSP – Gaming

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	263,659	0	0	0
Other Funds	8,029,406	10,339,255	11,144,532	11,144,532
Total Funds	**$8,293,065**	**$10,339,255**	**$11,144,532**	**$11,144,532**
Positions	41	42	40	40
FTE	40.88	42.00	40.00	40.00

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 services ($6.6 million). Native American Gaming Tribes fund the Tribal Gaming Section activities ($3.7 million). The Vendor Investigation Section is funded by both the Oregon Lottery and vendors who conduct business with Oregon's Gaming Tribes ($800,000). License fees and a gross receipts tax partially fund the Oregon Athletic Commission regulatory activities ($225,000). Three-fourths of any ending balance for the Oregon Athletic Commission is sent to the Children's Trust Fund; however, the 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 Division monitors 4,700 lottery retailers and over 12,300 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 over 8,000 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. 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 its staffing, from relying less on sworn troopers to increasing the number of financial auditors.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $11.1 million total funds (all Other Funds) is $805,000, or 7.8% greater than the 2009-11 legislatively adopted budget. There is no change from the budget proposed by the Governor for 2011-13. The Department has had to augment Oregon State Athletic Commission revenues in the past with General Fund to keep pace with costs. The subsidy is in another part of the OSP budget and will likely amount to less than $20,000 for 2009-11. Depending on the number and size of regulated events, it is likely the agency will have to augment this program's budget again in 2011-13.

The most significant issue for this 2011-13 budget is the increase due to an assessment by the Risk Management Division of the Department of Administrative Services (DAS) of approximately $800,000 for the Tribal Gaming program. This was a significant increase from the previous biennium and is mainly due to personnel related actions, legal costs, and settlements dating back to incidents in 2005. Since neither the Tribal Governments nor their tribal gaming activities directly caused these costs, there was an issue who should incur these costs. The decision by the Legislature, on which the budget is built, is that the Tribal Gaming Organizations will be assessed for half of the costs while OSP will need to find the resources to pay for the remainder.

OSP – State Fire Marshal

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	58,468	0	0	0
Other Funds	18,948,677	20,888,296	20,991,564	19,995,593
Federal Funds	290,307	502,818	482,818	482,818
Total Funds	**$19,297,452**	**$21,391,114**	**$21,474,382**	**$20,478,411**
Positions	78	78	75	70
FTE	76.75	77.25	74.13	69.13

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 unit 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 forecast shows available revenues from the FIPT at $18.5 million Other Funds plus approximately $2.5 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.

Other Funds revenue supporting the State Fire Marshal programs include non-retail fuel dispensing fees ($650,000) for card lock enforcement, hazardous substance user fees ($2.9 million) for the Community Right to Know program, and petroleum load fees ($2.1 million) for the Hazardous Response Teams. The remaining revenue is generated from licenses and permits (relating to liquefied petroleum gas, and fireworks) totaling $900,000, and from an interagency agreement with the Department of Human Services for fire and life safety inspections of Medicare and Medicaid funded facilities ($200,000). 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 state 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 over 300 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 49 in 2008.

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 2009-11 these costs ($407,000) were reimbursed using FIPT. Use of the FIPT for this purpose in future biennia will have to be based on factors including the availability of FIPT resources and the amount of reimbursable fire costs.

Legislatively Adopted Budget

The legislatively adopted budget for 2011-13 of $20.5 million total funds is just under $1 million, or 4.3%, less than the 2009-11 legislatively approved budget. The change from the 2011-13 Governor's budget is similar, a 4.6% decrease in total funds. The most significant change in the budget from 2009-11 is the loss of fee revenue for the Community Right to Know program which registers and distributes information on the location of hazardous substances. The budget assumes a loss of $820,000 Other Funds in fee revenue, and four positions (4.00 FTE) for the program since no fee increase was approved. This will mean certain activities of the program will not be completed and the agency may return to the 2012 legislative session to request a fee increase. The budget for this Division does include a new Compliance Specialist ($107,427 Other Funds) for the Federal Health Care Survey program funded with FIPT resources to address workload issues and meet federal expectations in follow-up inspections. This budget also transfers five positions (5.00 FTE) and $989,295 Other Funds to the Administrative Services Division as part of the ongoing consolidation of information technology staff in the agency.

Department of Public Safety Standards and Training – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	10,979,575	11,360,288	11,366,106	10,968,292
Other Funds	36,677,979	35,479,059	35,483,437	33,836,196
Federal Funds	54,635	56,165	57,513	57,513
Total Funds	**$47,712,189**	**$46,895,512**	**$46,907,056**	**$44,862,001**
Positions	170	146	143	137
FTE	167.22	143.87	141.79	135.79

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 36,000 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, five weeks for local correctional 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. DOC trains their own correctional officers.
- 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 over 1,000 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 720 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 Salem 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.

The agency has regional offices in five locations – Central Point, Eugene, Bend, 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 Budget by Program Area

	Criminal Justice	Fire	Private Security	Administration and Support Services*	Memorial Fund
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 Actual	18,785,046	3,942,830	1,513,393	24,628,628	238,678
2009-11 Legislatively Approved	18,033,535	3,743,466	2,004,278	26,279,374	589,239
2011-13 Legislatively Adopted	17,415,321	3,991,118	2,026,612	23,418,994	245,761

** Debt service is included in the Administration and Support Services program and totals $11.6 million General Fund for the 2009-11 legislatively approved budget and $11 million in the 2011-13 legislatively adopted budget.*

Revenue Sources and Relationships

The primary revenue source for the ***Criminal Justice Training and Certification Program*** is the Criminal Fines Account or CFA (formerly the Criminal Fine and Assessment, or CFAA) funded by a variety of fines and assessments, including the unitary assessment, paid by offenders. Over $21 million of new CFA resources will be allocated for the entire agency for the 2011-13 legislatively adopted budget with the majority used in this program. There is over $2.8 million of projected CFA revenue carried forward from the 2009-11 budget. This program is also funded with polygraph examiner licensing fees and miscellaneous revenues ($17,024), a grant from the Oregon Department of Transportation ($383,077), and revenue from the 9-1-1 telephone tax ($497,517) for the 9-1-1 tele-communicators and emergency medical dispatchers training.

The primary revenue source for the ***Fire Training and Standards Program*** is $4.4 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 ($57,513). The ***Private Security/Investigators Program*** is funded primarily with licensing and certification fees ($2.1 million). The ***Administration and Support Services Program*** is supported with General Fund for debt service costs; CFA 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 CFA 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 36,000 "constituents" including over 8,000 law enforcement personnel, over 2,000 parole and probation officers, over 4,600 correctional officers and jailers, over 13,000 fire-related personnel, over 1,000 emergency tele-communicators, and about 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, has increased the demand for correctional officer and probation officer training.
- 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 5,800 students during calendar year 2009 and 7,600 during 2010. The Fire Program provided training to more than 26,000 students during the 2009 and 2010 calendar years.

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 composition of the 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 includes 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.

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 was $573,326; but the final expenditures for the biennium were $238,679. The 2009-11 budgeted resources were $589,239; final spending is estimated at just under $138,000. The actual limitation for 2011-13 was reduced to $245,761. There is no way to predict the number officers killed or injured in the line of duty. If this amount is not sufficient, the agency will have to return to the Emergency Board for resources and expenditure limitation.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for this agency of $44.9 million total funds is $2 million, or 4.3%, less than the 2009-11 legislatively approved budget. The difference between the 2011-13 legislatively adopted budget and the Governor's budget for the same period is similar since the Governor's budget was just less than $12,000 more than the 2009-11 approved budget. The General Fund budget for 2011-13 is $11 million and is all for debt service on the Salem facility. The only General Fund reduction was the $397,814 reduction for the 3.5% supplemental ending balance. This will have to be restored or other resources will need to be identified since the full debt service payment needs to be met. Agency-wide, almost $900,000 in services and supplies funding and $1.5 million in employee compensation resources (5.5%) were eliminated, actions taken in almost all state agency budgets. These services and supplies reductions and other reductions outlined below will challenge the agency in meeting its training responsibilities. Those portions of the budget supported by Criminal Fines Account (CFA) revenues represent those areas of the budget with decreases while those areas funded with fees and other revenues (Fire and Private Security) show slight increases.

The Criminal Justice Training and Certification Program's budget is reduced by over $600,000 from the 2009-11 budget and by over $2.3 million from the Governor's 2011-13 proposed budget. Reductions in the training area include the elimination of an Office Specialist and a Manager position. The elimination of these two positions and a position in the Administration and Support Services unit replace a proposal made in the Governor's budget to eliminate the three positions responsible for auditing the Department of Correction's training program for their correctional officers. The Legislature was concerned that, if eliminated, the state certification of these DOC correction officers would be jeopardized. In addition, another Office Specialist position and a student worker position are also eliminated. Total savings from these actions is $455,539 in CFA funds.

The Legislature reduced CFA funds by $1 million for providing basic law enforcement training. Based on the resources available in the final 2011-13 legislatively adopted budget, the agency proposes the same number of Basic Police classes as offered in 2009-11. Since it is difficult to predict the number of individuals who will apply for training, the agency will have to continue to monitor the number of applications for training to see if the allocated resources are sufficient to meet the training needs of local and state jurisdictions. The number of Basic Corrections classes has fallen because DOC established their own training program for correctional officers in their employment starting in 2009-11.

	Number of Weeks	**Actual 2007-09**	**Actual 2009-11**	**2011-13 Legislatively Adopted**
Basic Police	16	18	13	13
Basic Corrections	5	21	7	6
Parole & Probation	4	4	2	2

Changes to the Administration and Support Services program area include:
- Elimination of three positions including the Deputy Director, an Executive Assistant position in the Director's Office, and a Human Resources position, saving a total of $624,111 in CFA funds.
- Four positions are added to provide custodial services for the Salem facility. During 2009-11, the funding for these services were reduced by approximately 50% and the agency found the long-term upkeep and maintenance of the facility was jeopardized. After an analysis of continued and expanded use of contracted services vs. hiring of four positions, the use of state staff cost slightly less (based on bids of the current contractor) and the agency would have greater control of the maintenance.
- As part of the package to find alternative reductions to the elimination of the DOC audit function proposed in the Governor's budget (described above), an investigator position responsible for background checks is eliminated.

The budget for the Public Safety Memorial Fund was reduced from $589,239 in 2009-11 to $245,761 for 2011-13. While this amount seems like a significant cut, in reality it is line with the amount spent for this program in recent years. There was no additional allocation of CFA funds for the program, but there are sufficient carry-forward of these funds to meet this level of proposed spending. The Legislature made it clear that if additional funds were needed, DPSST could return to the Legislature in 2012 or to the Emergency Board.

Oregon Youth Authority (OYA) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	249,785,623	254,140,592	231,658,348	257,469,820
Other Funds	28,127,294	14,669,929	12,816,354	13,173,713
Federal Funds	26,415,309	31,443,386	34,246,428	31,107,231
Federal Funds (NL)	0	1	1	1
Total Funds	**$304,328,226**	**$300,253,908**	**$278,721,131**	**$301,750,765**
Positions	1,274	1,195	890	1,152
FTE	1,149.81	1,142.30	819.97	979.76

Note: 2009-11 Legislatively Approved FTE totals may differ from other Legislative Fiscal Office publications due to report timing

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. Typically, anywhere from 7% to 10% of the total budget comes from Federal Funds, and about 5% from Other Funds.

Federal Title XIX Medicaid reimbursements pay for part of the cost of out-of-home placements and treatment services, case management services, and services for paroled youth. Federal funding also helps pay for eligible residential treatment services; 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

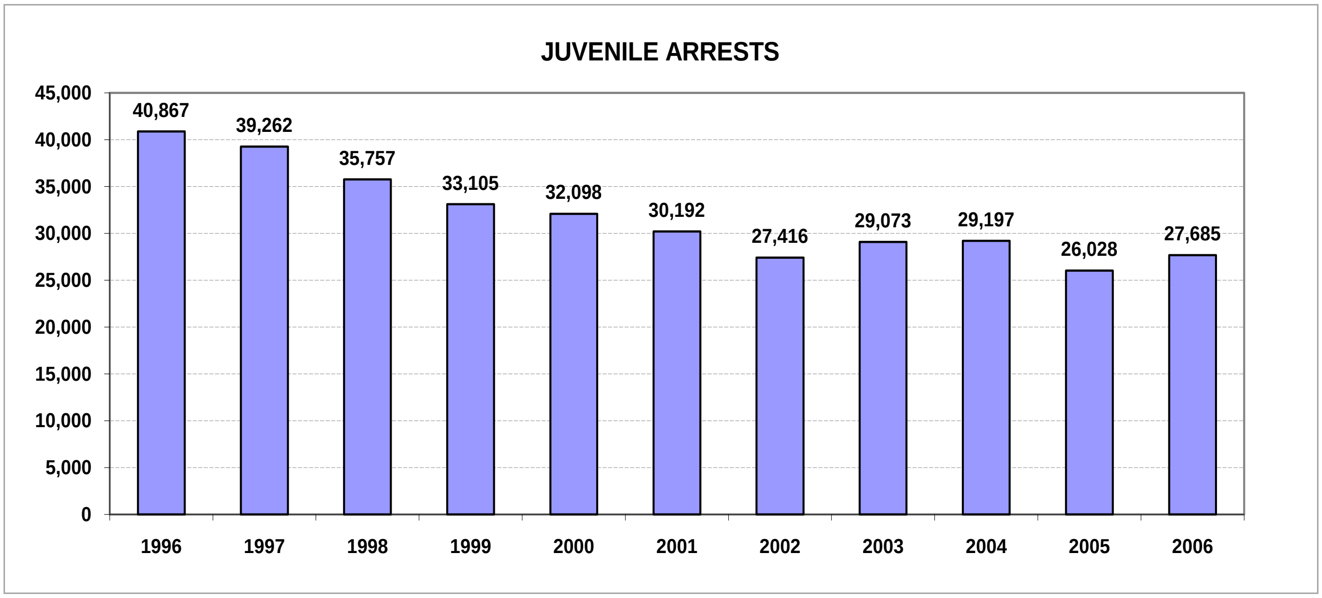
Federal funds for institution operations are very limited. OYA receives $2.9 million in federal nutrition program funds, and $0.1 million for Hillcrest's alcohol and drug treatment program. These are recorded as Other Funds.

The largest Other Funds sources are county contracts and youth trust fund reimbursements. The budget includes $3.6 million Other Funds revenue from counties to operate detention beds and $7.6 million Other

Funds from child support and other assets of the youth, who are billed for part of the cost of care provided in OYA out-of-home placements.

Budget Environment

As the chart below shows, total arrests for juveniles (excluding curfews and runaways) have primarily trended downward over the last decade. Juvenile arrests in 2006 (most recent data available) are down about 32% from the 1996, which was a historical peak. Over time, person and property crimes have declined while a greater percentage of arrests involve behavioral crimes such as traffic, alcohol, or drug law violations. Prior to 1996, behavioral crimes made up about 33% of juvenile arrests; in 2006, those crimes accounted for 60% of arrests.



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, capacity permitting. The close custody forecast includes three major groups: juveniles convicted in adult court under Measure 11 or waived under ORS 419C.340 (also referred to as DOC youth); Public Safety Reserve (PSR) youth committed for certain violent crimes, but too young for Measure 11 to apply; and youth committed for new crimes and parole violations as part of the county discretionary bed allocation. The community placement forecast covers youth committed to OYA and placed in residential treatment or foster care while on probation or parole.

Budget limitations in recent biennia have prevented the agency from operating enough beds to meet the forecasted demand. For example, on July 1, 2010, OYA's budgeted close custody capacity was 900 youth, but the OEA forecast was at 947 youth. The April 2011 forecast indicates close custody demand will increase slightly over the 2011-13 biennium, by about 1%, from 947 youth in July 2011 to 958 youth in July 2013. On July 1, 2010, OYA's budgeted capacity for community placements was 555; OEA forecast demand was 658. Based on its current forecast methodology, OEA expects community placement demand to hold steady at 658 placements through the 2011-13 biennium. The forecast advisory committee is currently exploring a methodology change.

OYA is dependent on General Fund to support core programs. Very limited reductions can be made without serving fewer youth. During the 2009-11 biennium, the agency's proposed allotment reductions brought this issue to the forefront. As a result – and due to concerns about eliminating close custody beds, staff layoffs, and facility closures – the Emergency Board allocated $5.4 million General Fund (between its September 2010 and December 2010 meetings) to the agency. Early in its 2011 session, the Legislature approved another $3.2 million General Fund (HB 5050) to continue to protect close custody beds and prevent staff layoffs through the end of the 2009-11 biennium. The additional resources also provided OYA more time to work with the Legislature, Governor, counties, courts, and other partners to develop a plan for reducing services in the 2011-13 biennium.

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 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 was 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.

Legislatively Adopted Budget

There is less than a 1% change between the 2009-11 legislatively approved budget and the 2011-13 legislatively adopted budget. This flat funding level means the agency will be serving fewer youth. However, the budget is an 8.3% increase over the Governor's recommended budget; a substantial increase that funds 275 more close custody beds than his recommendation. While close custody caseload projections continue to be underfunded in the 2011-13 legislatively adopted budget, the number of community placements authorized is at the current forecasted level of 658. Under the legislatively adopted budget, close custody capacity is funded at 750 beds, which is about 79% of the average population forecast level for the biennium of 954 beds.

The Legislature also kept direct county funding whole, restoring cuts recommended by the Governor in county Juvenile Crime Prevention funding and maintaining support for gang funding. The budget also includes a $1.7 million General Fund special purpose appropriation to the Emergency Board to address potential education-related budget issues.

Like other agencies supported by General Fund, the agency's budget was subject to standard actions taken to balance the statewide budget. These include the elimination of inflation, reductions in state government service charges, a 5.5% across-the-board reduction in compensation, and a 6.5% reduction from total services and supplies expenditures. The agency's budget was also reduced by $9.3 million General Fund for its portion of the supplemental ending balance hold back.

Program reductions and other budget adjustments are discussed in greater detail within each section of the analysis, as applicable.

OYA – Facility Programs

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	136,667,083	145,123,928	116,871,753	139,717,869
Other Funds	6,338,703	10,540,965	8,033,355	8,764,447
Federal Funds	106,723	21,367	20,616	20,538
Total Funds	**$143,112,509**	**$155,686,260**	**$124,925,724**	**$148,502,854**
Positions	1,008	945	654	910
FTE	896.44	903.51	585.93	740.43

Program Description

OYA operates close custody facilities across the state with varying levels of security and structure and a range of treatment services. The agency runs facilities at MacLaren in Woodburn, Hillcrest in Salem, Grants Pass, Warrenton, Burns, Tillamook, Florence, Corvallis, Albany, and La Grande.

The total of 750 beds budgeted for 2011-13 includes 650 beds in seven youth correctional facilities for more violent offenders; and 100 beds in three formal transition programs to help youth move successfully back into the community. MacLaren is the largest facility, budgeted at 186 beds for males and serving a variety of populations. Hillcrest, budgeted at 154 beds, 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 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 over 70% of offenders in its close custody facilities have been assessed as substance-abusive or dependent; about 62% of the males and 74% of the females met the psychiatric requirements for a mental health disorder (excluding conduct disorder).

Females represent only about 7% 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 allows specialized services for young women.

Legislatively Adopted Budget

The legislatively adopted budget is 4.6% below the 2009-11 legislatively approved budget and 18.9% above the Governor's recommended budget. The budget reflects removal of 150 beds from the agency's close custody budgeted capacity of 900 beds in 2009-11 and will require the agency to downsize and reorganize operations at Hillcrest, MacLaren, and Oak Creek, and the Young Women's Transition Facility (also housed at Oak Creek). No facilities are being closed and the agency is maintaining its statewide presence. The Community Programs budget includes an additional 103 residential placements/community beds, which should help the agency manage the reduction in close custody bed capacity. Lower risk offenders will be moved to residential placements or released.

The 750 close custody beds budgeted should accommodate more serious youth offenders but will limit beds available to counties for lower-level offenders (discretionary bed allocation). Over the 2011-13 biennium, about 300 discretionary beds are expected to be available; the OEA forecast projects demand of 500 beds.

Bed reductions are effective October 1, 2011 and will drive the elimination of 119 positions. While the reductions are concentrated at four facilities, impacts will be felt across the agency as changes may require youth and staff to move between facilities.

The Legislature also set $1.7 million General Fund in a special purpose appropriation in the Emergency Fund for education related expenses. Education services for eligible youth are supported by the state school fund, while vocational and other educational services for older youth are paid for within the OYA budget. Until bed closures have been completed, the agency will not be able to clearly identify the overall mix (younger versus older) of youth remaining and the type of associated educational services required.

Along with standard statewide budget reductions, the budget includes the elimination of 10 long-term vacant positions; Other Funds revenue previously used to support these positions is no longer available. The match rate on federal Medicaid dollars is adjusted to align with latest federal estimate of 62.7%.

This program unit's proportionate share of the supplemental ending balance hold back is about $5.1 million General Fund; failure to restore that funding will negatively affect the bed counts and program conditions described above.

OYA – Community Programs

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	73,980,167	68,654,477	76,780,859	80,524,209
Other Funds	3,888,800	3,218,514	3,953,012	3,579,279
Federal Funds	24,946,776	30,151,256	33,065,629	29,895,608
Total Funds	**$102,815,743**	**$102,024,247**	**$113,799,500**	**$113,999,096**
Positions	157	151	140	140
FTE	148.18	140.54	138.25	138.25

Program Description

Community Programs provide community-based supervision and services to youth offenders committed to OYA by the juvenile courts. Agency staff designs an individual reformation plan for each youth in OYA's custody. The Community Programs budget includes community 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 2011, OYA had 537 youth in the community on probation, and 485 youth 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.

Rates paid to BRS providers were first 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, providers see more youth with greater service needs. For 2011-13, funding and rates continue to be suppressed; the Legislature made a reduction in funding for contracted Behavioral Rehabilitative Services at a level equivalent to a 10% rate cut as a savings target. This change mirrors the adjustment for these same services in the budget for the Department of Human Services. Both agencies will work with the provider community to achieve the savings with a focus on improved management of the beds and expenditures.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is 11.8% above the 2009-11 legislatively approved budget and 0.2% above the Governor's recommended budget. While the budget does include standard statewide reductions and a decrease in funding for BRS providers, these are masked by increases in the program unit's budget.

About $19 million total funds (around $12 million General Fund) was added to the budget to buy an additional 103 beds, bringing the number of funded community placements beds up to 658 for 2011-13. This level matches OEA's demand forecast for community placements, however, that forecast does not account for any increased pressure on these beds resulting from the decrease in close custody bed capacity.

The Legislature restored Governor's budget reductions in county funding; the 2011-13 investment in juvenile crime prevention is set at $9.3 million General Fund and diversion at $7.9 million General Fund.

State support for gang prevention, intervention, and enforcement activities in Multnomah County is budgeted at just under $5 million General Fund, which is a 12% increase from 2009-11 service levels. The amount includes $1.1 million General Fund specifically designated for the East Metro Gang Enforcement Team.

About $2.7 million General Fund was added to backfill a temporary increase, affecting the 2009-11 biennium, in the Medicaid match rate under the federal American Recovery and Reinvestment Act of 2009.

This program unit's proportionate share of the supplemental ending balance hold back is $2.9 million General Fund; failure to restore that funding will most likely have a negative impact on the program investments described above.

OYA – Program Support

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	31,269,565	32,029,892	31,762,900	31,376,604
Other Funds	60,922	910,450	829,987	829,987
Federal Funds	1,361,810	1,270,763	1,160,183	1,191,085
Total Funds	**$32,692,297**	**$34,211,105**	**$33,753,070**	**$33,397,676**
Positions	109	99	96	102
FTE	105.19	98.25	95.79	101.08

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is 2.4% below the 2009-11 legislatively approved budget and 1.1% below the Governor's recommended budget. The budget includes standard reductions in compensation, inflation, services, supplies, assessments, and rates.

Positions are added to align with the caseload growth in Community Programs and about $200,000 General Fund is included to backfill one-time enhanced federal Medicaid match. The Legislature also added $55,000 General Fund to determine the feasibility of implementing a Title IV-E federal claiming system for local juvenile justice clients. The federal program funds the costs associated with foster care placements.

This program unit's proportionate share of the supplemental ending balance hold back is $1.1 million General Fund; failure to restore that funding will most likely have a negative impact on the agency's overall program support and delivery activities.

OYA – Debt Service

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	7,164,625	7,653,121	5,507,436	5,155,518
Other Funds	8,006	0	0	0
Federal Funds (NL)	0	1	1	1
Total Funds	**$7,172,631**	**$7,653,122**	**$5,507,437**	**$5,155,519**

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.

Legislatively Adopted Budget

The 2011-13 legislatively approved budget is set at a level to cover existing debt; no new debt is included in the budget. General Fund debt service on $9.2 million of additional COPs issued during the 2009 session (SB 338) is recorded in the Department of Administrative Services (DAS) budget.

This program unit's proportionate share of the supplemental ending balance hold back is $192,760 General Fund. Since debt service payments are not discretionary, failure to restore that funding will most likely result in an offsetting program reduction elsewhere in the agency.

OYA – Capital Improvements

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	704,183	679,174	735,400	695,620
Total Funds	**$704,183**	**$679,174**	**$735,400**	**$695,620**

OYA – Capital Construction

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	17,830,863	0	0	0
Total Funds	**$17,830,863**	**$0**	**$0**	**$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 $1 million. Capital Construction projects include land acquisition and new construction or major renovation projects costing $1 million 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.

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, and $2 million for deferred maintenance needs in OYA's facilities. The Capital Construction spending authority will be available through June 2013.

As part of the 2007-09 state economic stimulus package passed by the 2009 Legislature in SB 338, the agency received authorization to spend an additional $9.2 million Other Funds in COP revenue for various projects around the state. These include control room and HVAC renovations at Burns, Albany, LaGrande, and Warrenton. Also supported were significant facilities renovations at Albany, Corvallis, Hillcrest, and MacLaren (Woodburn) and the Youth Correctional Facility in Tillamook.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget includes the elimination of inflation, other standard reductions, and application of the statewide ending balance adjustment. This funding level should be able to cover the most critical projects needed to prevent building or system failure and allow for emergency improvements.

Business Development Department (OBDD) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	4,544,947	8,926,280	4,010,484	3,851,208
Lottery Funds	122,082,119	111,215,883	159,832,848	136,340,722
Other Funds	49,280,765	33,421,791	25,444,060	25,797,923
Federal Funds	24,544,245	41,581,438	32,781,618	50,172,649
Other Funds (NL)	191,356,719	262,282,996	267,871,020	237,302,188
Total Funds	**$391,808,795**	**$457,428,388**	**$489,940,030**	**$453,464,690**
Positions	131	129	130	131
FTE	131.00	127.26	128.50	129.37

Note: The agency and its budget structure were reorganized in 2009. As a result, the figures in the 2007-09 Actual column do not equal the sum of the numbers in the program area tables that follow. The above numbers for 2007-09 include expenditures in program areas that were dissolved after the agency reorganization. Those dissolved program areas are not separately presented below. Also, for purposes of historic continuity, the 2007-09 Actual column above includes the expenditures and positions associated with the Office for Minority, Women and Emerging Small Business, even though that Office was not actually transferred to OBDD until 2009-11.

Agency Overview

The Oregon Business Development Department (OBDD) provides economic and community development and cultural enhancement throughout the state, and administers programs that aid businesses and communities. The Oregon Business 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 and arts promotion; community development; and ports.

The Department has six budget program areas:

- The ***Shared Services/Central Pool*** program area includes central agency administrative services that support both the business development (Business, Innovation, Trade) and the community development (Infrastructure Finance Authority) programs. This program area houses 25% of the agency's employees, and is financed primarily with Lottery Funds.
- The ***Business, Innovation, Trade*** program area includes the staff, and the funding sources, used by the Department to provide support services, grants, and loans to assist businesses with job retention and creation, and to promote trade and innovation. This program area operates a variety of programs and uses a variety of funding sources. The largest of these programs are the Oregon Innovation Council (Oregon InC) Innovation Plan, and the Strategic Reserve Fund. The Business, Innovation, Trade program area is the agency's largest in terms of staffing, housing 43% of the agency's employees, and is primarily financed with Lottery Funds. Other Funds in its budget are primarily from loan repayments. Federal Funds support the Brownfields Program. In the 2011-13 biennium, the budget also supports $17.4 million Federal Funds for three federal grant applications.
- The ***Infrastructure Finance Authority*** (IFA) program area includes the staff and the funding sources used by the Department to provide grants and loans to assist communities with infrastructure development projects. Almost all of the expenditures in this program area are either special payments (loans, grants, or contracts) to local governments or non-profit organizations; or debt service on bonds the state has issued to finance these categories of expenditures. Expenditures, however, also include the Department's associated costs to administer the community development programs. This program area houses 25% of the agency's employees. The IFA is the only program area in the agency that does receive state support (i.e., Lottery Funds or General Fund). Expenditures are entirely financed with Other Funds and Federal Funds.
- 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. 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 to 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. This

program area houses 7% of the agency's employees. The Arts Commission is the only part of the agency budget that typically receives General Fund, which supports about 36% of expenditures. The remaining portions of the budget are financed by Other Funds (including donations to the Cultural Trust) and Federal Funds from the National Endowment for the Arts.

- The ***Film and Video Office*** is a semi-independent agency that receives pass-through Lottery Funds support in the OBDD budget to promote and support the film, video, and multimedia industries in Oregon. The Office is not part of the Department, and the Office's employees are not included in the agency employment count.
- ***Lottery Bond Debt Service*** is used exclusively for debt service payments on lottery revenue bonds. The funding source is almost entirely Lottery Funds, although bond interest earnings applied to pay debt service are categorized as Other Funds.

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 2009-11 budget reflected an agency reorganization that the Legislature approved during the 2009 session in HB 2152. The budget also reflected the Legislature's efforts to address the 2009-11 biennium General Fund/Lottery Funds budget shortfall. State support (Lottery Funds plus General Fund) in the agency budget totaled $118.2 million, a $15.5 million (or 11.6%) decline from the prior biennium level, after the funding reductions approved in the 2009 session to rebalance the 2007-09 biennium budget. Total Lottery Funds expenditures were reduced 12.1% from the prior biennium level, but this change was exclusively the result of a 24.7% increase in the cost of servicing debt on the Department's lottery revenue bonds. Excluding debt service and Lottery Funds passed through to the Oregon Film and Video Office, the level of Lottery Funds remaining for agency programs totaled $39.5 million and was down over 43% from the prior biennium.

Legislatively Adopted Budget

The legislatively adopted budget for the agency totals $453.5 million, and includes $140.2 million of state support (Lottery Funds and General Fund). The state support total is $20 million (or 16.7%) above the prior biennium level. Most of the state support, a total of $136.3 million, is financed from Lottery Funds. Total Lottery Funds expenditures are increased 22.6% over the prior biennium. Debt service expenditures on lottery revenue bonds, however, comprise $79.3 million (or 58%) of the agency's Lottery Funds expenditures. The debt service total represents a 12% increase over the prior biennium.

Lottery Funds expenditures for the agency's other operating and program costs, excluding debt service, are increased by $16.6 million (or 41.1%) over the prior biennium level. Because the 2009-11 biennium budget utilized one-time monies from the agency's Lottery Funds beginning balance to reduce the need for allocations from the Economic Development Fund, and because the beginning balance available in 2011-13 was not as large as in 2009-11, allocations of Lottery Funds for the agency's other operating and program costs, excluding debt service, are increased by 72.9% over the prior biennium level to finance the agency's approved expenditures.

All Lottery Funds expenditures, excluding debt service payments for lottery revenue bonds, are in the Business, Innovation, Trade (business development) program area, or in the Shared Services/Central Pool program area. The Infrastructure Finance Authority (community development) program area is financed exclusively with Other Funds and Federal Funds. General Fund is typically restricted to the Arts Commission, which does not expend Lottery Funds.

OBDD – Shared Services/Central Pool

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Lottery Funds	0	6,448,072	7,393,006	6,810,941
Other Funds	0	2,097,840	1,223,090	979,971
Federal Funds	0	9,258	0	0
Total Funds	**$0**	**$8,555,170**	**$8,616,096**	**$7,790,912**
Positions	0	32	32	32
FTE	0.00	32.00	32.00	31.25

Program Description

The Shared Services/Central Pool program area was established to reflect the reorganization of the Department in 2009. As such, there are no budget data available for this program area for biennia prior to this. The Shared Services/Central Pool program area includes agency administrative services that support both the business development (Business, Innovation, Trade) and the community development (Infrastructure Finance Authority) programs. With the Department's reorganization in 2009, the business development and community development programs operate under separate policy boards, but continue to share the services included in this program area.

The thirty-two positions and associated non-personnel costs include the ***Office of the Director*** (4.00 FTE), ***Employee Services*** (5.00 FTE), ***Fiscal and Budget*** (9.00 FTE), and the ***Policy and Planning Division (***14.00 FTE), which includes Strategic Initiatives, Information Technology, Marketing, and Public Affairs.

Revenue Sources and Relationships

Revenues for the 2011-13 biennium include $1.2 million in Other Funds, but the program area is primarily financed with Lottery Funds. The Other Funds include funds from the community development programs for administrative costs. The sources of these funds are primarily interest earnings on balances in the infrastructure funds (within the IFA) and loan repayments on infrastructure loans.

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 Oregon Business Development Commission have a major impact on staff workload, as did the additional workload generated by new programs, such as the Safe Drinking Water Revolving Loan program and expanded infrastructure program.

Legislatively Adopted Budget

The $6.8 million of Lottery Funds in the legislatively adopted budget is a 5.6% increase over the prior biennium level, but is 12.3% below the current service level. A primary cause for the Lottery Funds increase over the prior biennium is a shift of approximately $770,000 in expenditures from Other Funds to Lottery Funds. This represents the reversal of an opposite fund shift that was included in the agency's 2009-11 biennium budget. In 2009-11, the Legislature temporarily shifted a total of $10 million of Lottery Funds expenditures to Other Funds, by using monies in the Special Public Works Fund and the Water/Waste Water Fund to finance business development programs that were otherwise supported by Lottery Funds. Those two Funds are not typically used for that purpose, and are statutorily limited to supporting grants and loans for community development projects and to covering administrative costs of operating the community development programs. The 2009-11 budget directed that the $10 million of Other Funds expenditures in those programs be restored to Lottery Funds in the 2011-13 budget, and the 2011 Legislature honored that expectation. The $770,000 fund shift represents the portion of the Lottery Funds restoration in the Shared Services/Central Pool program area.

The all funds budget is 11.1% below the current service level. Position actions included eliminating a full-time, Lottery-funded vacant Program Analyst 4 position, and establishing a new part-time accounting technician position (0.25 FTE) related to passage of SB 766, which creates the Economic Recovery Review Council to expedite the permitting of industrial development projects. The newly-established position will be financed from permit fees (Other Funds).

The budget for the program area also includes standard adjustments that were approved in most agency budgets on an across-the-board basis. The reductions from current service level include a 5.5% reduction in personal services expenditures; the elimination of spending increases for inflation in services and supplies, special payments, and capital outlay costs; an additional 6.5% reduction in Lottery Funds expenditures for services and supplies; and a 3.5% hold back adjustment on Lottery Funds for purposes of establishing a supplemental statewide ending balance.

OBDD – Business, Innovation, Trade

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	0	4,617,717	0	0
Lottery Funds	0	32,759,377	61,129,751	49,051,845
Other Funds	0	14,631,214	8,481,949	9,162,082
Federal Funds	0	9,180,000	2,674,520	20,065,709
Other Funds (NL)	0	22,100,000	20,106,457	20,106,457
Total Funds	**$0**	**$83,288,308**	**$92,392,677**	**$98,386,093**
Positions	0	54	54	57
FTE	0.00	53.04	53.50	56.12

Program Description

The Business, Innovation, Trade (BIT) program area was established to reflect the reorganization of the Department in 2009. As such, there are no budget data available for this program area for biennia prior to this. The BIT program area houses the Department's business development initiatives that support business creation, recruitment, and retention; international trade; development of industrial lands; and initiatives to increase innovation in the Oregon economy and improve the state's economic competitiveness. The largest of these programs are the Oregon Innovation Council (Oregon InC) Innovation Plan, and the Strategic Reserve Fund. Other BIT programs include the Brownfields Redevelopment and Industrial Lands programs, the Industry Competitiveness Fund, and the direct business support programs including the Small Business Development Centers and the Office for Minority, Women and Emerging Small Business.

Revenue Sources and Relationships

Revenues for the 2011-13 biennium include $19 million in Other Funds and $20.1 million Federal Funds, but the program area is primarily financed with Lottery Funds allocated to support business development. General Fund was also provided during the 2009-11 biennium for Oregon Business Development Fund programs. The Other Funds revenues include interest earnings on business development funds and loan repayments, plus assessments that fund the Office for Minority, Women and Emerging Small Business. The decline in Other Funds from the prior biennium primarily reflects the discontinuing of the one-time transfer of $9.3 million of Other Funds revenues from the infrastructure funds that supported business development program expenses during the 2009-11 biennium.

Ongoing Federal Funds support the Brownfields Program. The 2011-13 biennium budget, however, added $17.4 million Federal Funds, and established three positions (3.00 FTE), for three federal grant applications. The three federal grants include: the State Small Business Credit Initiative (SSBCI) grant, the State Trade and Export (STEP) grant, and the Clean Cities grant. The SSBCI grant would provide up to $16,516,197 Federal Funds that the Department would use to enhance the Credit Enhancement Fund, Capital Access Program, and Oregon Business Development Fund programs. The STEP grant includes $375,000 of Federal Funds to expand the Oregon Trade Promotion Program. The Clean Cities grant provides up to $500,000 to support infrastructure development for electric vehicles. The expenditure limitation and position authorities were added with the understanding that the Department of Administrative Services would unschedule the expenditure limitation, pending award of the grants.

Budget Environment

The 2007 Legislature approved a 71% increase in Lottery Funds for distribution to businesses and non-profits over the 2005-07 biennium level. This resulted primarily from an increase in support for the Oregon Innovation Council's (Oregon InC) Innovation Plan, which increased from $7 million lottery funds in the 2005-07 biennium to $28.2 million in 2007-09.

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.

Legislatively Adopted Budget

The Business, Innovation, Trade program area was established to reflect the reorganization of the Department in 2009. As such, there are no budget data available for this program area for prior biennia. The $49.1 million of Lottery Funds in the legislatively adopted budget is a $16.2 million (or 49.7%) increase over the prior biennium level, and is 108% above the current service level. A primary cause for the Lottery Funds increase over the prior biennium is a shift of approximately $9.8 million in expenditures from Other Funds to Lottery Funds. This represents the reversal of an opposite fund shift that was included in the agency's 2009-11 biennium budget. In 2009-11, the Legislature temporarily shifted a total of $10 million of Lottery Funds expenditures to Other Funds, by using monies in the Special Public Works Fund and the Water/Waste Water Fund to finance business development programs that were otherwise supported by Lottery Funds. Those two Funds are not typically used for that purpose, and are statutorily limited to supporting grants and loans for community development projects and to covering administrative costs of operating the community development programs. The 2009-11 budget directed that the $10 million of Other Funds expenditures in those programs be restored to Lottery Funds in the 2011-13 budget, and the 2011 Legislature honored that expectation. The $9.8 million fund shift represents the portion of the Lottery Funds restoration in the Business, Innovation, Trade program area.

The all funds budget is 78.7% above the current service level. The primary reason for the large increase over the current service level is that funding for Oregon InC initiatives is always provided on a one-time basis, and therefore excluded from the current service level calculation. Therefore, although Oregon InC funding of $15.4 million in the 2011-13 biennium budget is less than the $16 million provided in 2009-11, the full $15.4 million represents funding above the current service level. Position actions included eliminating a part-time, Lottery-funded vacant administrative specialist position, and establishing two new half-time positions – one loan specialist position for implementation of SB 494 which made recent expansions of the Oregon Business Development Fund and Entrepreneurial Loan Fund programs permanent, and one program coordinator position (0.25 FTE) related to passage of SB 766, which creates the Economic Recovery Review Council to expedite the permitting of industrial development projects. The newly-established positions will be financed from Oregon Business Development Fund interest earnings, and from permit fees (both Other Funds), respectively.

As in the past, support for the Oregon InC Innovation Plan initiatives is approved on a one-time basis. The Joint Committee on Ways and Means directed that the Department will work with the Oregon Innovation Council to develop plans and timelines for the initiatives to achieve operational sustainability with decreased dependence on state funding. The Committee indicated that ultimately, each initiative should mature to gain independence from state support, and asked the Department to report on these plans and timelines during the 2012 session.

The budget supports continued funding for five of the six Oregon InC programs funded in the 2009-11 biennium. Funding for the Community Seafood Initiative was discontinued, and reduced funding for the Northwest Food Processors Innovation Productivity Center was provided with an understanding that this would be the last biennium of funding for that initiative. Funding for Drive Oregon, a new initiative to establish Oregon as a world leader in the design, manufacture and integration of ultra efficient vehicles, technology and charging infrastructure, was added at just under $1.2 million. Support for the six funded initiatives totals $15,440,000 Lottery Funds. This amount is equal to $16 million, the funding level for the Innovation Plan in the prior biennium, reduced by 3.5% as part of the standard 3.5% holdback of Lottery Funds, which was applied on an across-the-board basis, for purposes of establishing a supplemental statewide ending balance. Funding and the percent funding change for each individual initiative is shown in the table on the following page.

Oregon InC Innovation Plan

Lottery Funds

Program	2007-09 Legislatively Approved	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted	Biennial Change
Signature Research Centers					
1) ONAMI - Oregon Nanoscience and Microtechnologies Institute	$9,000,000	$5,656,500	$5,500,000	$5,018,000	-11.3%
2) OTRADI - Oregon Translational Research and Drug Development Institute	$5,250,000	$2,510,000	$3,500,000	$2,702,000	7.6%
3) BEST - Built Environment and Sustainable Technology Center	$2,500,000	$2,750,000	$4,500,000	$3,667,000	33.3%
Emerging Industry Initiatives					
4) OWET - Oregon Wave Energy Trust	$4,200,000	$3,013,500	$2,500,000	$2,412,500	-19.9%
5) Drive Oregon	$0	$0	$2,450,000	$1,158,000	NEW
Established Industry Initiatives					
6) Northwest Food Processors Innovation Productivity Center	$3,432,000	$1,620,000	$500,000	$482,500	-70.2%
7) Manufacturing Competitiveness Initiative (PSU/OMI)	$2,872,000	$0	$0	$0	Inactive
8) Community Seafood Initiative	$900,000	$450,000	$0	$0	-100.0%
Total	**$28,154,000**	**$16,000,000**	**$18,950,000**	**$15,440,000**	**-3.5%**

Other items of significance in the program area budget include:

- $9 million of Lottery Funds were added for the Strategic Reserve Fund, bring total funding to $15 million (prior to the across-the-board 3.5% holdback), a 138% increase over the prior biennium support level. The Department may allocate up to $4 million of this amount to the newly-created Business Retention and Expansion Program which provides business incentives for firms to establish 50 or more new full-time jobs in the state with compensation that averages at least 150% of the county or state average, whichever is less. Additionally, the firms must have 150 or more employees prior to expansion, and must operate in a traded sector industry.
- Lottery Fund support for Small Business Development Centers was increased by approximately 50% over the prior biennium level.
- $1 million Lottery Funds was provided on a one-time basis for identifying regional governance solutions to improve economic development opportunities and for developing a West Coast strategy to create jobs while reducing carbon emissions and the costs of doing business by retrofitting and redesigning the built environment.
- $300,000 Lottery Funds was provided on a one-time basis for a pilot project providing economic gardening services.
- $17.4 million of Federal Funds expenditures were added for three federal grant applications. The grants are described in the Revenue Sources and Relationships section above.

The budget for the program area also includes standard adjustments that were approved in most agency budgets on an across-the-board basis. The reductions from current service level include a 5.5% reduction in personal services expenditures; the elimination of spending increases for inflation in services and supplies, special payments and capital outlay costs; an additional 6.5% reduction in Lottery Funds expenditures for services and supplies; and a 3.5% hold back adjustment on most Lottery Funds for purposes of establishing a supplemental statewide ending balance.

OBDD – Infrastructure Finance Authority

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	0	8,405,417	7,220,305	7,317,177
Federal Funds	0	30,599,087	28,314,005	28,313,847
Other Funds (NL)	0	228,884,271	247,764,563	217,195,731
Total Funds	**$0**	**$267,888,775**	**$283,298,873**	**$252,826,755**
Positions	0	34	33	33
FTE	0.00	33.22	33.00	33.00

Program Description

The Infrastructure Finance Authority (IFA) program area was established to reflect the reorganization of the Department in 2009. As such, there are no budget data available for this program area for biennia prior to this. The Infrastructure Finance Authority program area houses the Department's community development initiatives that assist communities primarily through support of infrastructure improvements. The largest of these programs are the revolving fund loan and grant programs of the Special Public Works Fund and the Water Fund. Other IFA programs include the Port Revolving Loan Fund and Port Planning and Marketing Fund programs, the Safe Drinking Water Revolving Loan Fund program, the Main Street program, and the Community Development Block Grant program.

Revenue Sources and Relationships

Infrastructure Finance Authority program expenditures are not supported by Lottery Funds, although the state does issue lottery revenue bonds to finance a portion of these programs' costs. In these instances, lottery revenue bond proceeds are deposited into revolving loan funds and made available for infrastructure loans and grants, and for payment of administrative costs relating to IFA programs. The lottery revenue bond proceeds are in some cases used to match proceeds from Oregon Bond Bank bonds. The mixture of bond, loan, and grant funds increases OBDD's capacity for financing projects The expenditures of the bond proceeds distributed to localities as loans or grants are shown as Nonlimited Other Funds (and not as Lottery Funds). Expenditures for program administrative costs (typically financed from interest earnings on, and loan repayments of, the lottery bond proceeds, and not from the proceeds directly) are shown as Other Funds expenditures. Debt service costs on the lottery revenue bonds issued to provide these funds are paid with Lottery Funds, but those payments are shown in the Lottery Bond Debt Service program area, and not in the Infrastructure Finance Authority budget.

IFA 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 $37.2 million in interest income and $47.9 million in loan repayments from community and port infrastructure projects and business finance loans. Programs include the Special Public Works Fund, Water/Wastewater Funds, and Port Revolving Funds for the investment of proceeds from lottery-backed bond sales. Nonlimited Other Funds revenues also include $39.3 million for the Safe Drinking Water Revolving Loan Fund. These are federally-sourced funds that are transferred to the Department from the Oregon Health Authority. Federal Funds support the Community Development Block Grant program.

Budget Environment

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. In 2009-11, $17.5 million of lottery bond proceeds were added to the infrastructure funds. This amount was partially offset by a $10 million withdrawal of monies from those funds to support business development programs *in lieu* of Lottery Funds.

Legislatively Adopted Budget

The Infrastructure Finance Authority program area was established to better display how the Department is reorganized under HB 2152. As such, there are no budget data available for this program area for prior biennia. The 2011-13 biennium budget for the IFA includes three primary adjustments to the current service level:

- $10 million of Nonlimited Other Funds was added for the recapitalization approved for the agency's two primary infrastructure revolving loan funds, the Special Public Works Fund (SPWF) and the Water/Waste Water Fund. The budget includes $10 million of lottery bond proceeds for this purpose. To supply these funds, the state will issue a projected $11.1 million of lottery bonds in the spring of 2013. Approximately $1 million of these bond proceeds will be held in reserves and $106,207 will be allocated to the Department to pay costs of issuance (Other Funds). The remaining $10 million will be deposited into the infrastructure funds to provide loans and grants to local governments under the direction of the Infrastructure Finance Authority. The monies finance the planning, purchasing, and improvement of municipally-owned facilities such as water and sewer systems, road extensions, community buildings, or other facilities. The SPWF finances all of these types of projects; the Water/Waste Water Fund is restricted to instances where improvements are needed to comply with state or federal water quality standards. These funds will be used to finance approximately six additional projects during the 2011-13 biennium. The funding increases the estimated number of funded projects from 30 to 36 (or by 20%). The number of projects funded in future biennia will return to roughly the 30 per biennium level. Debt service costs on the lottery bonds issued to provide these funds are projected to total approximately $2 million per biennium, beginning in the 2013-15 biennium. The debt service will be paid from lottery revenues.

- $3.7 million of Federal Funds was added for the Housing Rehabilitation Program (HRP) that was transferred by the Emergency Board in September 2010 from the Oregon Housing and Community Services Department to OBDD. HRP is one component of the federally-funded Community Development Block Grant (CDBG) program. Prior to this action, OBDD, which administered the other CDBG programs in the state, would transfer the HRP moneys to Housing. In September 2010 the Emergency Board approved the transfer of the HRP to OBDD, which now is the sole state administrator of the entire CDBG program. The Development administers a community development program for the non-entitlement areas of the state (those local governments that do not receive a block grant directly from HUD) to develop livable urban communities. The HRP component of the program provides funding for home repairs for lower-income households. Individuals assisted are homeowners (rental properties are not eligible) addressing health and safety issues such as heating systems, roof repairs, plumbing, electrical, and structural problems. The repairs are provided with the promise of repayment by the homeowner, usually upon sale of the property.

- $191,324 Other Funds and one full-time position (1.00 FTE) were added to help with the implementation and oversight of Strategic Business Plans being developed by each of Oregon's 23 port districts. In 2009-10, the Department and ODOT developed a Statewide Ports Plan. The plan found that most of the ports are underfunded, which has resulted in significant issues with deferred maintenance, effective planning, and governance. The new position will assist ports in developing local strategic plans to address these concerns. The funding source is from earnings of the Port Revolving Funds.

The budget for the program area also includes standard adjustments that were approved in most agency budgets on an across-the-board basis. The reductions from current service level include a 5.5% reduction in personal services expenditures; and the elimination of spending increases for inflation in services and supplies, special payments and capital outlay costs (excluding Nonlimited Other Funds expenditures).

OBDD – Film and Video Office

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Lottery Funds	1,217,610	1,251,703	1,251,703	1,207,893
Total Funds	**$1,217,610**	**$1,251,703**	**$1,251,703**	**$1,207,893**

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. OBDD is responsible for the pass-through of Lottery Funds to the Office. The Office recruits film productions through its marketing efforts, provides assistance to productions 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 represented a 276% increase over the 2005 level.

Revenue Sources and Relationships

The state-funded portion of the Office budget is from Lottery Funds, which OBDD 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 four staff members. As a semi-independent agency, the office's employees are not considered state employees and are not included in the OBDD 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. Since then, funding has remained relatively flat.

Legislatively Adopted Budget

The legislatively adopted budget provides Lottery Funds support for the Office of $73,879 (or 5.8%) below the current service level. The budget eliminates spending increases for inflation in the special payment to the Office, and includes a 3.5% holdback of Lottery Funds for purposes of establishing a supplemental statewide ending balance.

The budget also includes a reduction to 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 credit against Oregon personal income taxes. Potential donors will purchase credit rights at auction. Existing law limited the amount of tax credits that could be awarded to no more than $15 million per biennium, but the Legislature reduced this limit to $13.5 million in 2011-13 and to $12 million per biennium thereafter. The limit had been $10 million per biennium prior to 2009-11.

OBDD – Arts

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	4,044,947	4,308,563	4,010,484	3,851,208
Other Funds	3,703,497	6,470,418	6,720,868	6,540,845
Federal Funds	1,170,645	1,793,093	1,793,093	1,793,093
Total Funds	**$8,919,089**	**$12,572,074**	**$12,524,445**	**$12,185,146**
Positions	9	9	11	9
FTE	9.00	9.00	10.00	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 OBDD in 1993.

The program also operates the Trust for Cultural Development (Oregon Cultural Trust). The Oregon Cultural Trust was established in 1999 to support the arts and culture of the state. The Trust is funded primarily by donations. Subject to certain restrictions and limitations, donors are eligible for a credit against Oregon income taxes for the full amount of their donations to the Trust. Since 2002, the Trust has received over $25 million of donations. The Trust also receives funds from the sale of Cultural Trust vehicle license plates. The Department of Motor Vehicles offers Cultural Trust license plates available for passenger vehicles. A surcharge of $30 per biennium is added to the regular vehicle registration fee. Revenues from this surcharge are transferred to the Cultural Trust, where they are used for marketing purposes.

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, from donations (including donations to the Cultural Trust), and from the surcharge on Cultural Trust vehicle license plates. 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. In 2009-11, the Commission also received an extra $306,700 of one-time federal stimulus funds from the National Endowment for the Arts made available under the American Recovery and Reinvestment Act.

About 74% of the Commission's expenditures are special payments, which are grants to non-profit programs and individuals that support the goals of the Arts Commission.

Budget Environment

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, prior to the funding reductions approved during the 2009 session to rebalance 2007-09 biennium budget, represented a 228% increase over the level appropriated to the Commission the prior biennium. In 2009-11, the budget included approximately $275,000 for Creative Oregon II, an expansion of the Creative Oregon Initiative approved in the prior biennium. With this funding included, total General Fund support in the 2009-11 biennium budget was increased 15.3% over the 2007-09 biennium level. The subsequent 2009-11 biennium General Fund allotment reductions reduced the increase over the prior biennium from 15.3% to 6.5%.

Legislatively Adopted Budget

The $3.9 million of General Fund in the legislatively adopted budget is a 10.6% reduction from the prior biennium level, and is 20.9% below the current service level. The all funds budget is 9.3% below the current service level. The budget retains staffing at the prior biennium level.

The budget for the program includes standard adjustments that were approved in most agency budgets on an across-the-board basis. The reductions from current service level include the roll-up of 2009-11 biennium General Fund allotment reductions, a 5.5% reduction in personal services expenditures, the elimination of spending increases for inflation in services and supplies, special payments, and capital outlay costs, an additional 6.5% reduction in General Fund appropriated for services and supplies, and a 3.5% hold back adjustment on General Fund for purposes of establishing a supplemental statewide ending balance.

OBDD – Lottery Bond Debt Service

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Lottery Funds	58,264,450	70,756,731	90,058,388	79,270,043
Other Funds	1,657,736	1,816,902	1,797,848	1,797,848
Other Funds (NL)	2,883,569	11,298,725	0	0
Total Funds	**$62,805,755**	**$83,872,358**	**$91,856,236**	**$81,067,891**

Program Description

The Lottery Bond Debt Service program includes debt service payments on all lottery revenue bonds that have been issued to support OBDD programs and certain lottery revenue bonds issued to finance legislatively-specified projects promoting economic development. Debt service on revenue bonds issued for the Oregon Bond Bank is included in Nonlimited Other Funds in the Infrastructure Finance Authority program area.

Budget Environment

Debt service is paid with Lottery Funds allocations. To minimize the size of the required Lottery Funds allocation, however, interest earnings on lottery bond reserves are also applied to pay debt service. Interest earnings are spent as Other Funds. Nonlimited Other Funds expenditures represent the refunding of previously-issued bonds. The State Treasurer restructured portions of the state's lottery bond debt in the spring of 2011 to delay debt service costs and increase lottery bond capacity for the 2011-13 biennium. As part of this restructure, the state refunded $11.3 million of lottery bonds issued for OBDD. These expenditures, which were financed from the proceeds of the restructured bonds, are shown in the OBDD budget as Nonlimited Other Funds.

The refunding of the OBDD Lottery Bonds reduced 2011-13 biennium debt service costs by $7.6 million. Debt service costs on lottery bonds are now projected to total $84.2 million in the 2011-13 biennium budget. This amount represents a 16% increase over the prior biennium level (this comparison excludes the one-time bond refunding charges in 2009-11).

Legislatively Adopted Budget

The legislatively adopted budget includes $81.1 million for debt service payments on outstanding lottery bonds. All payments are for bonds authorized and issued prior to the 2011-13 biennium. The $10 million of new lottery bond proceeds approved in the 2011-13 budget to provide additional capital to the Department's infrastructure revolving loan funds (the Special Public Works Fund and the Water/Waste Water Fund) do not generate debt service costs in 2011-13 because the bonds will not be issued until shortly before the end of the biennium.

The amount established in the budget is $3,152,044 less than projected the biennium debt service cost. This amount was held back as part of the standard 3.5% holdback of Lottery Funds, which was applied on an across-the-board basis, for purposes of establishing a supplemental statewide ending balance. The Legislature will need to adjust the funding level in this program to avoid default on the bonds.

Employment Department (OED) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended*	2011-13 Legislatively Adopted
General Fund	3,767,711	2,756,283	4,548,624	3,670,948
Other Funds	111,164,368	130,307,965	133,572,311	132,896,829
Federal Funds	269,413,795	323,607,099	266,850,356	273,883,188
Other Funds (NL)	2,299,142,910	3,087,207,680	1,768,948,096	2,077,281,096
Federal Funds (NL)	148,664,421	3,209,092,327	376,000,000	1,003,167,000
Total Funds	**$2,832,153,205**	**$6,752,971,354**	**$2,549,919,387**	**$3,490,899,061**
Positions	1,390	1,660	1,433	1,500
FTE	1,294.02	1,609.15	1,408.28	1,436.90

** The Governor's recommended budget proposed to transfer the current service level funding and staff for the Child Care Division to a new "Early Learning Council;" this policy option was not approved by the Legislature. For the purposes of providing a valid comparison, the Governor's Recommended Budget column includes Child Care Division funding at the level that was proposed for transfer.*

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*** balance is projected to be at $1.5 billion by the end of the 2011-13 biennium. 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 – estimated at $58.3 million at the beginning of the 2011-13 biennium – can and have been spent over multiple biennia, but only for expenditures relating to UI and Employment Services administration. The 2011-13 legislatively adopted budget level assumes expenditures of up to $23.3 million. The remainder of these funds will be expended in future biennia to supplement federal support – which is assumed to be decreasing – for business and employment services and unemployment insurance administration.
- 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 Legislature utilized $4.7 million from this source to balance the 2007-09 state budget. For the 2011-13 biennium, the Employment Department expects to take in and expend $7.1 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 2011-13 legislatively adopted budget assumes expenditures of $60.9 million, which may not be realized if revenues fall as a result of businesses laying off workers or closing because of the economic downturn.
- 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. In 2011-13, the Employment Department projects $5.6 million in collections, partially due to legislative approval of additional staff for these efforts.
- 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 2011-13 legislatively adopted budget assumes tax credits will generate $1.33

million in revenue for 2011-13, 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. This fund also includes the licensing fees from child care providers, which are assumed to be $978,454 for the 2011-13 biennium.

OED also receives Other Funds revenues from other state agencies for providing job placement services and conducting contested case hearings. The 2011-13 legislatively adopted budget includes 475.96 permanent and 35.00 limited duration full-time equivalent (FTE) 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 2011-13 biennium, an estimated $111.3 million will be distributed by the U.S. Department of Labor for administration of the Unemployment Insurance Program, and $20.1 million is expected for employment services provided under the Wagner-Peyser Act.
- The Trade Adjustment Act funds training and placement services for displaced workers. In 2011-13, $4.1 million is anticipated from this source for administration of the program.
- Veterans' placement services is assumed to amount to $4.75 million for 2011-13.
- Estimates of funding for Extended Benefits and Emergency Unemployment Compensation (budgeted as Federal Funds Nonlimited) are expected to amount to $700 million in 2011-13.
- Bureau of Labor Statistics funding for workforce and economic research is anticipated to be $2.7 million in 2011-13.
- ***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 $128.2 million will be received during the 2011-13 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.

The national recession which began in 2007(and "officially" ended in June 2009) and the resulting job losses have had a significant impact on the Employment Department's workload. The unemployment rate in Oregon continues to hover around 9.5%, slightly higher than the U.S. average. For the state fiscal year 2011, nearly 183,000 Oregonians had received their initial unemployment check, down from 223,937 in fiscal year 2010. However, this number remains significantly higher than pre-recession levels. Nearly half of the claimants had exhausted their regular benefits by the end of the 2011 state fiscal year, meaning they received UI benefits for at least 26 weeks. Federally funded Emergency Unemployment Compensation and Extended Benefits are anticipated to remain available to Oregon through the 2011 calendar year. As federal support for additional benefits and attendant administration expenses wane, the Employment Department anticipates a need for productivity improvements and possible program reductions due to a reduction in federal support. Demand for placement services will continue to be high, as the number of new jobs has barely been keeping up with population growth.

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. The Governor's recommended budget proposed transferring this program to a new entity, the Early Learning Council, along with attendant Child Care Development Block Grant funding. However, the Legislature maintained the administration of child care expenditures in the Employment Department. As the Early Learning Council takes shape throughout the 2011-13 biennium and develops its goals and strategies to promote comprehensive early childhood supports, policy makers may have an opportunity to re-evaluate the appropriate oversight, integration, and level of support for the various aspects of the child care system.

The Employment Department made an administrative decision to begin assessing a 9% surcharge to billings for the Office of Administrative Hearings for the period of July 1, 2010 to July 1, 2012, to build up a reserve of working capital in the amount of $2.3 million, equivalent to two months of operating expenditures. The funds are intended to replace prepayments of a portion of estimated hearings expenses which larger agencies used to provide.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is a $36.7 million, or 21.5%, reduction from the 2009-11 legislatively approved budget. The Legislature applied standard adjustments of a 5.5% reduction from the 2011-13 current service level to personal services, and elimination of inflation for services and supplies expenditures. Further reductions to services and supplies and a 3.5% reduction to "hold back" General Fund expenditures in the event of declines in the state's revenue forecast were also applied to the Child Care Division. Additional expenditure limitation was approved in excess of the Governor's recommended budget, to reflect updated Unemployment Insurance claims caseload projections, federal benefit extensions, and the passage of SB 637, which revised the formula for determining when extended unemployment benefits would be provided, keeping Oregon eligible for federal extended benefits through calendar year 2011.

OED – Unemployment Insurance

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	11,480,418	18,853,676	20,991,810	22,634,632
Federal Funds	105,155,969	151,723,388	130,762,268	111,266,399
Total Funds	**$116,636,387**	**$170,577,064**	**$124,754,438**	**$133,901,031**
Positions	653	833	624	721
FTE	562.58	793.73	606.74	666.64

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.

Legislatively Adopted Budget

The 2011-13 legislatively approved budget is a $38.1 million, or 22.3%, decrease from the 2009-11 legislatively approved level, primarily due to improvements in unemployment insurance claim caseload projections. Prior to the economic downturn, OED had anticipated reductions in federal support for unemployment insurance administration. However, because of federal Emergency Unemployment Compensation and extensions in federal benefits throughout the 2009-11 biennium, federal reimbursement rates have been higher than originally anticipated. Federally funded benefit extensions will continue in Oregon through calendar year 2011. Beyond that, the rate of reimbursement for regular claims is anticipated to drop to 77% (vs. 88% in 2009) depending partially on the efficiency with which OED evaluates, pays, and adjudicates claims. In 2007-08, OED modified its internal processes to maximize the amount of federal reimbursement that is paid for administration of the unemployment insurance program. Under this scenario, OED anticipates depleting other fund balances (SEDAF, Reed Act, and Penalty and Interest funding) to pay for regular operating expenses in the 2009-11 biennium.

The legislatively approved budget applied standard adjustments of a 5.5% reduction from the 2011-13 current service level to personal services, and elimination of inflation for services and supplies expenditures. The Legislature approved $1.2 million and 9.30 limited duration FTE associated with the passage of SB 637, which revised the formula for determining when extended unemployment benefits would be provided, more or less matching federal law. The change enabled Oregon to remain in an extended benefit period throughout calendar year 2011. The cost of the benefits and administration of the extended benefit period are covered by Federal Funds. The Legislature also approved $6.5 million in Federal Funds and 50.60 FTE to provide limited duration positions to address UI caseloads that are projected to be higher than projected when the Governor's budget was developed, and to allow for an extension of federally funded Emergency Unemployment Compensation.

The Legislature also approved $811,482 in additional Other Funds and $811,447 in additional Federal Funds resources for benefit payment control efforts. The $1.6 million in total funds will fund 12.00 limited duration FTE to comply with federal direction to improve Unemployment Insurance fraud and over payment recovery efforts. Another $1.1 million in additional Federal Funds were approved related to a grant for the Department's reemployment and eligibility assessment efforts designed to provide targeted assistance to claimants to get them back to work faster, reduce error rates, and prevent fraud. The Legislature approved $3.7 million in Federal Funds, a portion of federal administrative reimbursement funding, and 8.00 limited duration FTE to modernize information technology programs associated with the unemployment insurance program, including electronic payment, filing, and reporting of employer taxes, and a secure on-line portal that allows customers to access certain Department information. A related package approved by the Legislature provides $353,339 in additional Federal Funds expenditure limitation and 2.00 permanent FTE positions to keep sensitive data secure; efforts include ongoing training for Employment Department personnel regarding what data is allowable and appropriate to access, remediation of security breaches, and responses to viruses, hacking attempts, and related threats.

OED – Business and Employment Services

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	0	0	0	0
Other Funds	66,078,409	71,167,649	74,918,967	73,720,432
Federal Funds	18,175,445	39,176,274	30,283,006	27,755,497
Total Funds	**$84,253,854**	**$110,343,923**	**$105,201,973**	**$101,475,929**
Positions	473	537	540	513
FTE	470.46	530.42	537.54	510.96

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is an $8.8 million, or 7.9% decrease from the 2009-11 legislatively approved budget. The legislatively adopted budget applied standard adjustments of a 5.5% reduction from the 2011-13 current service level to personal services, and elimination of inflation for services and supplies expenditures.

The Legislature approved a policy option package to provide additional Other Funds expenditure limitation in the amount of $2.7 million and authority for 21 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 that contract with OED to place individuals from training programs (such as vocational rehabilitation, the JOBS program at the Department of Human Services (DHS), and various workforce training programs at community colleges). A similar package has been approved for the last nine biennia (with greater or lesser numbers of positions) depending on the workload estimates of partner agencies. The package is funded on a fee-for-service basis.

In addition, the legislatively adopted budget included $1.9 million and 14.00 limited duration FTE associated with federal funding for worker retraining and reemployment services per the Federal Trade Act.

The Legislature eliminated a total of $1.5 million and 13 permanent positions that had been held vacant for an extended period during the 2009-11 biennium.

OED – Child Care

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended*	2011-13 Legislatively Adopted
General Fund	3,767,711	2,756,283	4,458,624	3,670,948
Other Funds	2,466,829	2,794,555	3,043,007	2,930,056
Federal Funds	140,406,751	125,351,807	126,358,244	123,161,683
Total Funds	**$146,641,291**	**$130,902,645**	**$133,949,875**	**$129,762,687**
Positions	77	76	77	77
FTE	73.00	72.00	73.00	73.00

** The Governor's recommended budget proposed to transfer the current service level funding and staff for the Child Care Division to a new "Early Learning Council;" this policy option was not approved by the Legislature. For the purposes of providing a valid comparison, the Governor's Recommended Budget column includes Child Care Division funding at the level that was proposed for transfer.*

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is a $1.1 million, or 0.8%, decrease from the 2009-11 legislatively approved budget. The Legislature approved standard adjustments of a 5.5% reduction from the 2011-13 current service level to personal services, and elimination of inflation for services and supplies expenditures. Further reductions to services and supplies and a 3.5% reduction to "hold back" General Fund expenditures in the event of declines in the state's revenue forecast were also applied. As discussed above, the Governor's recommended budget including transferring the funding, employees, and functions of the child care division to an Early Learning Council; the Legislature opted to maintain these expenditures within the Employment Department in absence of a detailed plan for the structure, activities, and outcomes associated with the Early Learning Council.

OED – Workforce and Economic Research

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	7,166,020	8,450,659	8,557,318	8,547,868
Federal Funds	5,675,630	6,105,630	6,446,478	6,699,609
Total Funds	**$12,791,650**	**$14,556,289**	**$15,003,796**	**$15,247,477**
Positions	68	70	70	69
FTE	68.00	69.50	69.50	68.50

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 online 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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is a 4.7% reduction from the 2009-11 legislatively approved budget. The legislatively adopted budget applied standard adjustments of a 5.5% reduction from the 2011-13 current service level to personal services, and elimination of inflation for services and supplies expenditures. The Legislature eliminated one permanent full-time position due to the fact that certain research functions previously conducted by states will now be handled at the federal level. Other Funds were increased from the current service level to accommodate 3.00 limited duration FTE to conduct customized analysis and research requested by customers, funded on a fee-for-service basis. Federal Funds expenditure limitation was increased from the Governor's recommended budget level to enable the Division to complete research required under a federal Green Jobs grant awarded during the 2009-11 biennium; the Department received an extension from the federal government for project completion.

OED – Office of Administrative Hearings

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	24,022,692	29,041,426	26,061,209	25,063,841
Total Funds	**$24,022,692**	**$29,041,426**	**$26,061,209**	**$25,063,841**
Positions	119	144	122	120
FTE	118.50	143.50	121.50	117.80

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is a 13.7% reduction from the 2009-11 legislatively approved budget. The Legislature approved standard adjustments of a 5.5% reduction from the 2011-13 current service level to personal services, and elimination of inflation for services and supplies expenditures.

The Legislature approved 6 FTE to handle the increase in workload in other state agency cases (primarily DHS), which is greater than originally projected in the Governor's budget. However, the Legislature also approved changes to how the Construction Contractor's Board handles disputes and contested cases, resulting in a decrease of 5.50 permanent FTE, resulting in a net increase of 0.50 FTE. Another 1.80 limited duration FTE were approved to handle UI hearings stemming from federal extended benefits related to the passage of SB 637, and the extension of federal Emergency Unemployment Compensation.

OED – Nonlimited

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds (NL)	2,299,142,910	3,502,207,680	1,768,948,096	2,077,281,096
Federal Funds (NL)	148,664,421	2,794,092,327	376,000,000	1,003,167,000
Total Funds	**$2,447,807,331**	**$6,296,300,007**	**$2,144,948,096**	**$3,080,448,096**

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.

Legislatively Adopted Budget

Oregon's UI system is funded through a counter-cyclical strategy of raising revenue to pay benefits from employers when the economy is strong. Employer premiums are set in law and adjust annually so that sufficient reserves are on hand to cover 18 months of a recession. Unlike other states with a "pay-as-you-go" UI system, Oregon's employers are more insulated from sharp increases in premiums, and the state is not at risk for insolvency, unlike some other state UI systems.

The 2011-13 legislatively adopted budget estimates over $3 billion in unemployment insurance benefit payments over the 2011-13 biennium. Benefit payments to federal employees are included in the "Federal Funds Nonlimited" category since these benefit payments are paid by federal, not state UI taxes. Also included in the Federal Funds Nonlimited category are the amounts for benefit extensions and benefit payment increases attributable to extended benefits and Emergency Unemployment Compensation.

Housing and Community Services Department (HCSD) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	19,514,921	9,524,011	9,523,939	10,018,855
Lottery Funds	5,929,190	8,659,409	11,230,921	10,383,766
Other Funds	111,922,729	142,349,250	145,177,772	140,534,236
Federal Funds	134,933,782	283,581,340	203,012,721	203,039,554
Other Funds (NL)	1,210,382,469	1,538,994,266	580,486,383	580,486,383
Federal Funds (NL)	101,195,237	107,250,000	104,229,868	104,229,868
Total Funds	**$1,583,878,328**	**$2,090,358,276**	**$1,053,661,604**	**$1,048,692,662**
Positions	140	191	191	190
FTE	137.12	161.42	168.87	168.37

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

General Fund support is provided to the General Fund Food Program, which provides support to the Oregon Food Bank Network for capacity building and bulk food purchases ($2.17 million); the Statewide Homeless Assistance Program which funds emergency shelter programs and associated services ($2.7 million); the Emergency Housing Assistance Program ($4.7 million) which provides supportive services, emergency mortgage, rent or utility payments to those who are homeless or at risk of becoming homeless; and support for the low-income rental assistance program ($470,000). Prior to the 2011 session, the rental assistance program was funded through a surcharge on court cases related to residential landlord and tenant law.

HCSD has numerous sources of Other Funds that include proceeds from the sale of bonds ($230 million), mortgage and down payment assistance repayments ($212.2 million), loan and tax credit-related fees ($8.2 million), the energy bill payment assistance charge ($30 million) and a portion of the public purpose charge established as part of the electric industry restructuring legislation approved in 1999 ($23.4 million), civil penalties assessed to farm labor contractors by the Bureau of Labor and Industries ($125,000), special assessments on manufactured dwellings ($826,498), and interest earnings ($174.9 million). Resources for bond-related activities are expended as Other Funds Nonlimited. The 2009 Legislative Assembly passed SB 772, which amounted to $172,600 from manufactured home park registration fees, while the passage of HB 2436 added $32,291,342 from fees for recording certain documents. Lottery bond proceeds are also part of the legislatively adopted budget, and are budgeted as Other Funds. The Legislature approved $5.1 million in bond proceeds for affordable housing and manufactured home park preservation for the 2011-13 biennium.

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 $10.4 million in Lottery revenue support the debt service requirements for the following: lottery revenue bonds that were issued for the Community Incentive Fund, which supported grants and loans to revitalize downtowns and main streets and to develop housing near jobs and transportation; $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; and the debt service on the $19.9 million in lottery bonds in 2009 and $5.1 million in 2011 approved for housing preservation.

Federal Funds are received from a variety of federal agencies which administer the following programs: HOME Investment Partnership Program ($29.5 million); Community Development Block Grant ($3.9 million); Community Services Block Grant ($11.5 million); Low-Income Home Energy Assistance (LIHEAP) funds ($105.1 million); Emergency Shelter grants ($2.6 million); Supportive Housing programs ($1.1 million); Bonneville and Department of Energy weatherization assistance funds ($11.9 million); Food Assistance programs ($1.8 million); and federal grants related to volunteerism and AmeriCorps ($4.7 million).

Federal Funds Nonlimited expenditure authority is for Section 8 rent subsidy payments.

Budget Environment

The slow economy, high rates of unemployment, and a tight credit market have converged to create a challenging environment for HCSD. High rates of unemployment have led to record numbers of home foreclosures and weak buyer demand. While low interest rates may be a boon for those with steady income, they affect the operational capacity of HCSD, because the agency's single family home loan program is not competitive with the private sector; if no bonds for the program are issued, no loan payments and associated interest earnings can be generated to provide operating funding for the agency. Economic uncertainty has caused bond issuance costs to rise and purchase of pass-through revenue bonds (and related fee income) to lag. The high rates of foreclosure and unemployment mean that the demand for affordable housing – which exceeds supply in the best of economic times – is extremely high. And, tight credit markets make it difficult for affordable housing developers to cobble together financing to make projects pencil out. Finally, regulations have limited the amount of overall earnings on HCSD bonds, while requirements for reserves against default and to secure attractive ratings have increased, to the point that little remains available for agency operations.

Federal decisions have created challenges for the agency as well. High unemployment and foreclosure rates in Oregon led to an award from the United States Treasury of $200 million in Troubled Asset Relief Program funds for mortgage payment assistance, loan preservation assistance, transitional assistance, and loan refinancing assistance. The Department has been under intense time pressure to create programs and eligibility criteria, publicize the assistance, develop procedures in accordance with federal program guidelines and contract oversight criteria, and hire and train staff to assist homeowners in or at risk of foreclosure. In addition, shortly after the Legislature adjourned sine die, the Department learned it did not win the contract to continue as administrator for Project-Based Section 8 Housing Assistance Payments in Oregon. The current contract expires on September 30, 2011, and the decision has direct implications for agency employees and Department operations. The Department anticipates losing $4.8 million in administrative reimbursement revenue, a portion of which subsidizes the expenses of other Department programs. Employees directly involved in the administration of the Section 8 program will be laid off if appeal of the federal decision is unsuccessful; other employees could also be let go in absence of an alternate source of funding.

HCSD must attempt to deal with its resource crunch on a variety of fronts, including strategically reducing service levels. For example, the agency has: suspended its single family loan program pending the ability to offer rates that are competitive with the private sector; shifted employees from other divisions to meet the demand for energy assistance and weatherization, which has additional funding and demand; and gained approval of legislation to allow for additional sources of funding (document recording fee and removing limits on administrative costs).

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for the Housing and Community Services Department is $1.05 billion, a 0.4% increase from the 2009-11 legislatively approved budget and a 0.5% decrease from the 2011-13 Governor's recommended budget. The legislatively adopted budget includes a standard 5.5% reduction from the 2011-13 current service level to personal services, and eliminates inflation for services and supplies expenditures. Further reductions to services and supplies and a 3.5% reduction to "hold back" General Fund and Lottery Fund expenditures in the event of declines in the state's revenue forecast were also applied. Policy option packages specific to a particular program area are discussed below.

HCSD – Energy/Weatherization

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	54,435,373	50,973,463	51,136,142	51,141,616
Federal Funds	80,414,499	147,902,303	130,495,215	130,503,385
Total Funds	**$134,849,872**	**$198,875,766**	**$181,631,357**	**$181,645,001**
Positions	7	26	23	23
FTE	7.00	25.50	19.00	19.00

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for the Energy and Weatherization program is an 8.66% reduction from the 2009-11 legislatively approved budget, due to a decrease in Federal Funds from the completion and phase out of grants awarded under the American Recovery and Reinvestment Act. The legislatively adopted budget eliminates inflation on services and supplies, reduces personal services by 5.5% from the 2011-13 current service level, and reduces expenditure limitation for state agency assessments per SB 5508, the end of session budget reconciliation bill.

An accountant and two information systems specialists added to the program area last biennium in a limited duration capacity are continued in the 2011-13 biennium. The information systems specialists will work on databases and reporting modules specific to weatherization projects and the Low Income Energy Assistance program, while the accountant will be utilized for contracts and payments associated with large increases in federal funds for the program area. Eight half-time limited duration positions were approved to complete weatherization projects funded with federal American Recovery and Reinvestment Act grant funds awarded in 2009. A new program analyst position, a new compliance specialist position, and a new office specialist position will be funded on a limited duration basis by fully utilizing administrative allowances associated with federal grant awards and programs, rather than turning back these dollars to local partners in the form of special payments. These positions are necessitated by reviews of agency administration by the U.S. Department of Health and Human Services, the Oregon Secretary of State, and the U.S. Department of Energy, each of whom found gaps in Housing's monitoring and compliance procedures.

HCSD – Self-Sufficiency/Emergency Assistance

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	11,421,034	9,522,189	9,521,943	10,018,855
Other Funds	10,586,925	9,591,233	10,889,029	11,112,098
Federal Funds	12,553,037	36,848,912	25,540,682	25,544,530
Federal Funds (NL)	101,195,237	107,250,000	104,229,868	104,229,868
Total Funds	**$135,756,233**	**$163,212,334**	**$150,181,522**	**$150,905,351**
Positions	23	20	18	20
FTE	22.42	18.85	18.00	19.00

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 General Fund into the Department's Low Income Rental Housing Fund, per HB 5056 which changed the allocation of court fees (the program used to be funded with transfers from the Judicial Department, and consisted 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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is a 7.54% decrease from the 2009-11 legislatively approved budget and a .48% increase from the 2011-13 Governor's recommended budget. The budget continues General Fund reductions implemented to balance the 2009-11 budget; eliminates inflation on services and supplies; reduces personal services by 5.5% from the 2011-13 current service level; further reduces services and supplies by 6.5% of the Governor's recommended spending level; holds back 3.5% of General Fund expenditures in the event of downturns in the state revenue forecast; and reduces expenditure limitation for state agency assessments per SB 5508, the end of session budget reconciliation bill. The Legislature added $350,000 to the General Fund Food Program in an effort to mitigate impacts to that program. $470,000 General Fund was added for the Low Income Rental Assistance program to supplant Other Funds that had been transferred from the Judicial Department for this purpose, pursuant to HB 5056. General Fund allocations under the 2011-13 legislatively adopted budget are as follows: General Fund Food Program: $2,173,067; Emergency Housing Assistance: $4,700,669; State Homeless Assistance Program: $2,675,119; and Low Income Rental Housing Fund: $470,000.

The level of Federal Funds expenditures and Federal Funds Nonlimited expenditures assumed in the legislatively adopted budget for section 8 inspections, oversight and rent subsidy payments is likely to decrease; the federal Housing and Urban Development Department switched to a competitive bid process, and Oregon was unsuccessful in winning the contract.

HCSD – Community Capacity Building

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Lottery Funds (DS)	4,456,646	0	0	0
Other Funds	5,341,187	1,515,135	2,687,591	2,613,421
Federal Funds	16,221,026	5,406,354	4,654,004	4,654,004
Total Funds	**$26,018,859**	**6,921,489**	**7,341,595**	**7,267,425**
Positions	9	9	8	7
FTE	8.70	7.92	7.00	6.50

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is a 5% increase from the 2009-11 legislatively approved budget, and a 1% decrease from the Governor's recommended budget. The Legislature applied a standard 5.5% reduction from the 2011-13 current service level to personal services, eliminates inflation for services and supplies expenditures, and eliminated a part-time position that had been vacant for an extended period.

HCSD – Homeownership/Affordable Rental Housing Development

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	8,025,286	0	0	0
Lottery Funds	1,472,544	8,659,409	11,230,921	10,383,766
Other Funds	31,016,660	68,315,790	67,054,880	63,215,138
Federal Funds	23,329,354	91,277,536	40,021,558	40,034,977
Other Funds (NL)	1,210,382,469	1,538,987,060	580,988,306	580,486,383
OF Debt Service	0	120,382	501,923	0
Total Funds	**$1,274,226,313**	**$1,707,360,177**	**$699,797,588**	**$694,283,071**
Positions	55	63	72	72
FTE	53.50	60.50	68.50	68.50

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is a 59.3% decrease from the 2009-11 legislatively approved budget, primarily due to a marked decrease in Other Funds Nonlimited. HCSD has curtailed its single family loan program, funded through mortgage revenue bonds. With higher issuance costs and insufficient revenue to capitalize the required loan reserves, the program is unable to cost-effectively provide the number of competitive loans as it did prior to 2009. The decrease in the volume of single family loans – while addressing an immediate revenue problem – will further erode future operating revenue, because there will be fewer indentures and loan origination fees from which to draw future operating revenue.

Federal Funds have also decreased appreciably in this program compared with the 2009-11 legislatively approved budget, as the Housing and Economic Recovery Act and the American Recovery and Reinvestment Act wind down.

The legislatively adopted budget for lottery funds expenditure limitation (for debt service) is increasing by 20% over the 2009-11 legislatively approved budget to reflect interest owing on policy packages approved in previous biennia for affordable housing preservation, and supported housing for the homeless.

The Legislature applied a standard 5.5% reduction from the 2011-13 current service level to personal services, eliminated inflation for services and supplies expenditures, and reduced expenditure limitation for state agency assessments per SB 5508, the end of session budget reconciliation bill.

Other policy option packages approved in the Homeownership and Affordable Rental Housing program consist of the following:

- ***Affordable Housing Preservation***: The 2011-13 legislatively adopted budget includes $5.1 million Other Funds (lottery bond proceeds) to continue the preservation of affordable housing projects with expiring federal Section 8 subsidies. This amount will enable the preservation of an estimated 250 units of affordable housing.
- ***Federal Stimulus Funding***: The 2011-13 legislatively adopted budget includes $418,417 in Federal Funds expenditure limitation and 2.50 FTE limited duration positions, to complete projects funded through the Housing and Economic Recovery Act's Neighborhood Stabilization Program, which provides grant funding for redevelopment of abandoned and foreclosed properties; and the Tax Credit Assistance Program under ARRA, which provides grant funding for capital investment in Low Income Housing Tax Credit projects that have stalled during the economic downturn.
- ***Maintaining Department Staff***: The Legislature approved the extension of three limited duration positions, as follows: a loan specialist and compliance specialist, and a fiscal analyst position are financed by housing preservation package proceeds (the 2009-11 Section 8 housing preservation bond sale did not occur until the spring of 2011) and fees from asset management activities, respectively. Administrative fees charged for the Tax Credit Exchange program, a long term program requiring 15 years of ongoing asset management, will fund a permanent Fiscal Analyst 3 position associated with that program's administration.
- ***HB 2152***: Legislative approval of HB 2152 enables the Housing and Community Service Department to recover the costs of administering certain programs. Prior to passage, administrative costs in certain programs were limited to 5%, and costs in excess of 5% had to be subsidized from the Department's interest earnings on loans and bond indentures. HB 2152 repealed the 5% limit so the Department can pay program expenses with program dollars, as provided by the legislatively approved budget. Programs potentially impacted by this change include the Emergency Housing program; Homeownership Assistance program; Farmworker Housing Development program; and the Housing Development and Guarantee program. The bill reduced Other Fund expenditure authority by $162,807, as this is the amount in excess of 5% that would otherwise have been spent as special payments in those programs.

HCSD – Program Outreach and Accountability

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	68,601	1,822	1,996	0
Other Funds	10,542,584	8,252,087	8,759,399	8,811,852
Federal Funds	2,415,866	2,146,235	2,301,262	2,302,658
Other Funds (NL)	0	0	0	0
Total Funds	**$13,027,051**	**$10,400,144**	**$11,062,657**	**$11,114,510**
Positions	46	34	35	34
FTE	45.50	33.20	34.20	33.20

Program Description

The Program Outreach and Accountability area includes:

- ***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).
- ***Financial Management Division*** – Includes accounting, financial reporting, budget, grant monitoring and reporting, field audits, loan processing, payroll, facilities management, and bond-related activities.

- *Information Services Division* – Provides 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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is a 7% increase over the 2009-11 legislatively approved budget. The Legislature applied a standard 5.5% reduction from the 2011-13 current service level to personal services, eliminated inflation for services and supplies expenditures, and reduced expenditure limitation for state agency assessments per SB 5508, the end of session budget reconciliation bill. The budget also eliminates $2,059 of residual General Fund attributable to the roll up of administrative costs of a program no longer administered in this division.

HCSD – Home Ownership Stabilization Initiative

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	0	3,581,160	3,646,885	3,640,111
Total Funds	**$0**	**$3,581,160**	**$3,646,885**	**$3,640,111**
Positions	0	35	34	34
FTE	0.00	12.75	22.17	22.17

Program Description

The Homeowner Stabilization Initiative program was created when the Department was notified that it would be receiving funding from the U.S. Treasury under the "Hardest Hit Housing Fund." Oregon received three awards for the program, totaling $220.7 million. Funds are Troubled Asset Relief Program (TARP) dollars, and because of restrictions associated with this kind of funding, state government entities cannot directly receive them, but Treasury guidelines require that recipient states' housing finance agencies develop and manage the programs implemented with Hardest Hit funding. To meet these requirements, HCSD created the Oregon Affordable Housing Assistance Corporation (OAHAC) as a non-profit corporation to implement and manage programs developed by HCSD to help Oregonians having trouble meeting mortgage obligations because of unemployment. OAHAC will contract with the Department to administer the following programs:

- Loan Modification Assistance ($26 million) will provide additional financial assistance to homeowners who are on the verge of qualifying for mortgage modification assistance but for a small amount of additional financial resources
- Mortgage Payment Assistance ($100 million) will provide resources to qualified homeowners to help pay mortgages during a defined period of unemployment
- Loan Preservation Assistance ($67 million) will provide financial resources to help address any financial penalties incurred related to qualifying home loans
- Transitional Assistance ($7.5 million) will provide resources to aid homeowners to transition from homeownership to other affordable housing
- A pilot project to help homeowners with loan balances greater than the current value of their home, involving purchase of loans from financial institutions at a discount ($7.7 million)
- Contracts with mortgage counselors ($5 million) to provide initial screening of applications for eligibility and location
- Administration ($7.5 million)

The majority of program delivery is expected to be completed in the 2011-13 biennium, with accounting and reporting requirements tailing into 2013-15.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is a 1.84% increase from the 2009-11 legislatively approved budget, reflecting a full biennium of administrative expenditures and staffing. The Legislature applied a standard 5.5% reduction from the 2011-13 current service level to personal services, and reduced expenditure limitation for state agency assessments per SB 5508, the end of session budget reconciliation bill.

Department of Veterans' Affairs (ODVA) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	6,122,619	5,898,200	5,898,200	6,469,658
Other Funds	37,487,702	47,920,104	45,562,427	45,191,343
Federal Funds	0	1,970,508	0	0
Other Funds (NL)	345,255,913	626,736,708	443,095,385	443,095,385
Total Funds	**$388,866,234**	**$682,525,520**	**$494,556,012**	**$494,756,386**
Positions	110	110	98	94
FTE	109.89	107.64	98.00	94.00

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 with Other Funds, provides home and farm loans to veterans, and includes loan servicing and Department administration costs. The Veterans' Services Program provides counseling, claims assistance, conservatorship services, and partnerships with counties and national veterans' service organizations to support local veterans' programs. The Veterans' Services Program is funded with General Fund and Other Funds, including conservatorship fees. The Veterans' Home Program operates a skilled nursing care and Alzheimer's disease facility in The Dalles, and is funded with Other Funds; planning for a second veterans' home in Linn County is underway, and lottery funding for the state share of construction costs was authorized for a third home in Roseburg during the 2011 legislative session.

Revenue Sources and Relationships

The largest sources of ODVA Other Funds revenues are bond sales ($100 million in 2011-13), veteran loan and contract-related repayments ($75 million), and interest earnings ($55 million). The balance of revenue comes 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 service. The program's administrative costs are limited in the budget, while the direct loan activity expenditures (i.e., loans made to veterans, pass-through payments made on behalf of borrowers, and debt service paid on General Obligation bonds issued to finance the program) are Nonlimited.

General Fund and Other Funds support the Claims and Counseling section and conservatorship program; the 2011-13 estimated conservator fees total $600,000. The balance of Other Funds, most of which support the claims and counseling programs, comes from existing cash balances in the Veterans' Loan program. The Constitution allows these revenues to be used for Veterans' Services. General Fund supports the educational assistance, emergency assistance, and service delivery partnership programs.

The Veterans' Home Program is financed entirely with 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

In November 2010, Oregon voters passed Ballot Measure 70, expanding veteran eligibility for the Veterans' Home Loan program as well as eliminating the constitutional 30-year loan eligibility restriction. The loan program is now a lifetime benefit for eligible veterans. The dampening effect of the economic climate makes it difficult to evaluate the initiative's impact on loan generation. In addition, federal law has a limitation of 25 years from discharge on the ability to issue bonds for veterans, so any loans for this newly eligible group will have to be funded from reserves or older bond proceeds. Oregon and the four other states with Veterans' home loan programs (California, Texas, Wisconsin, and Alaska) are seeking federal legislation to ease this restriction.

Aging veterans and an increase in the number of younger veterans due to conflicts in the Middle East are creating an increased demand for veterans/ counseling and claim services. These services are partially funded through interest and fees generated by the Veterans' Loan program, at a time when the program is struggling with low demand in both the investor (bond) and consumer (home loan) markets, low interest rates and earnings, lower real estate valuations, higher rates of foreclosure, higher prepayments, and federal restrictions on use of bond funds and earnings generated. All of these factors negatively impact the loan program's financial performance. ODVA will be utilizing reserves to pay for operations in the 2011-13 biennium, and economic modeling suggests that reserve amounts and earnings potential for the program are projected to deteriorate at an accelerated rate over the next 3 decades. While economic conditions are not favorable to new loans and earnings for the home loan program, ODVA is taking advantage of the low interest rate environment to exchange volatile variable debt for fixed rate debt, which will add more certainty to long term borrowing costs. However, this strategy restricts the amount of funding available for veterans' services, because of the higher short term costs related to issuance.

Expenditures for the Home relate to the cost of providing residential care. Operation of the Home is 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 2011 Legislative Assembly considered reductions in Medicaid reimbursement rates for nursing facilities and the elimination of exemptions to the provider tax, both of which would have had an impact on the cost of operating Veterans' Home. At the same time, a second Veterans' Home is scheduled to begin construction in the city of Lebanon in Linn County, and a third home in Roseburg was authorized, with lottery bond proceeds set aside to fund the state's portion of construction expenses; these projects would be at risk of abandonment if ODVA were subject to medium-to-significant changes to reimbursement rates and provider taxes for the veterans' homes, absent some other source of operating funding or major changes to their service model.

ODVA – Loan Program

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	13,638,701	17,591,274	16,731,627	16,064,672
Other Funds (NL)	345,255,913	626,736,708	443,095,385	443,095,385
Total Funds	**$358,894,614**	**$644,327,982**	**$459,827,012**	**$459,160,057**
Positions	77	74	67	63
FTE	76.99	73.31	67.10	63.10

Program Description

The Loan Program provides home acquisition and home improvement loans to veterans at favorable interest rates. Since 1945, the Department has made over 334,000 home and farm loans with a principal amount over $7.6 billion. The state funds the loans by issuing General Obligation bonds authorized under Article XI-A of the state Constitution. The program consists of:

- ***Director's Office*** – internal audit, public information, and communications.
- ***Veterans' Home 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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted limited budget of approximately $16.1 million Other Funds is a 7.15% reduction from the 2009-11 legislatively approved budget, primarily due to projected reductions in loan activity. The budget eliminated 4 long term vacant positions, eliminated inflation on services and supplies expenditures, and reduced personal services expenditures by 5.5% from the current service level. In addition, the Legislature did not opt to continue the Campus Veterans' Service Officer pilot program (established in 2009), a portion of which was funded from loan program revenue.

ODVA – Veterans' Services Program

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	6,122,619	5,898,200	5,898,200	6,469,659
Other Funds	1,940,637	2,772,469	2,171,694	2,170,196
Total Funds	**$8,063,256**	**$8,670,669**	**$8,069,894**	**$8,639,855**
Positions	30	34	29	29
FTE	29.9	32.33	28.90	28.90

Program Description

The Veterans' Services Program includes:

- Counseling and Claims – which assists veterans, their dependents, and survivors to obtain service-connected and non-service related benefits. Over 23,300 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 Veterans Administration pays its share of that care.
- The Conservatorship Program – which provides conservatorship services for veterans and their dependents who are determined to be "protected persons" and who are recipients of U.S. Department of Veterans' Affairs' benefits. Conservatorship services are provided when no other entity or person is willing or able to act as conservator. 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, totals $4.16 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. 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; "expansion and enhancement" funding for county training or service enhancements was added in 2005, and requires counties to submit an action plan and quarterly reports to qualify for formula-driven funding. 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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $8.6 million Other Funds is approximately 0.4% below the 2009-11 legislatively approved budget level. The General Fund component, however, is approximately 9.7% more than the 2009-11 legislatively approved budget level. The budget eliminated inflation on services and supplies expenditures, and reduced personal services expenditures by 5.5% from the current service level. In addition, the budget reduces General Fund services and supplies expenditures by an additional 6.5%, and holds back total General Fund expenditures by 3.5% to address a potential downturn in future state revenue forecasts. The Legislature funded program enhancements in SB 5508, the budget reconciliation bill, as follows:

- $100,000 in one-time General Fund for assistance to wheelchair bound veterans needing medical transportation
- $350,000 General Fund to provide funding for interim operation of the Military HelpLine suicide prevention hotline operated by the Oregon Partnership, until federal funding is secured for the service by the Oregon Military Department
- $350,000 General Fund to augment payments to County Veterans' Service Officers for the 2011-13 biennium

The 2011-13 legislatively adopted budget funds ongoing Veterans' Services programs at the following levels:

- Counseling and Claims services: $1,322,137 General Fund; $1,230,924 Other Funds; 20.45 FTE
- Conservatorship: $535,178 General Fund; $939,272 Other Funds; 8.45 FTE

- County Veterans Service Officers: $3,383,314 General Fund (including the $350,000 enhancement for the 2011-13 biennium)
- Expansion and Enhancement funding for county veterans services: $41,582 General Fund
- Emergency Assistance funding: $286,830 General Fund
- National Service Organizations: $103,709 General Fund

ODVA – Oregon Veterans' Home Program

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	21,908,362	26,495,318	26,659,106	26,656,474
Total Funds	**$21,908,362**	**$26,495,318**	**$26,659,106**	**$26,656,474**
Positions	3	2	2	2
FTE	3.00	2.00	2.00	2.00

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.

Legislatively Adopted Budget

The legislatively adopted budget of approximately $26.7 million Other Funds is a 0.6% reduction from the 2009-11 legislatively approved budget. The 2011-13 legislatively adopted budget eliminated inflation on regular services and supplies expenditures (but maintained medical-related inflation adjustments), adjusted state agency assessments, and reduced personal services expenditures by 5.5% from the current service level.

ODVA – Capital Construction

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	0	1,061,043	0	300,001
Federal Funds	0	1,970,508	0	0
Total Funds	**$0**	**$3,031,551**	**$0**	**$300,001**

Legislatively Adopted Budget

The 2011-13 legislatively approved budget includes $300,000 Other Funds expenditure limitation for design and preconstruction costs related to the second Oregon Veterans' Home in Linn County. The source of the funds is a local option property tax measure approved by Linn County residents, to be transferred to ODVA to begin the pre-construction phase of the project. Another $1 in Other Funds expenditure limitation is approved for construction costs related to a third home approved for Roseburg. The state's share of the 35% of estimated construction costs on that home will be funded by lottery bond proceeds, not issued until the spring of 2013. Design work on the home is not expected to begin until construction of the second home is well underway, if not completed.

Department of Agriculture – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	14,147,428	13,012,720	11,939,880	12,917,172
Lottery Funds	9,695,292	10,143,165	9,463,296	6,894,457
Other Funds	46,106,933	49,680,325	54,574,473	52,099,191
Federal Funds	7,635,574	12,287,361	12,665,265	11,944,869
Total Funds	**$77,585,227**	**$85,123,571**	**$88,642,914**	**$83,855,689**
Positions	517	504	506	468
FTE	372.22	357.69	359.89	343.29

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 sectors. 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's budget is comprised of four policy areas. ***Administration and Support Services*** provides policy direction and support functions for the agency. 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 ***Natural Resources*** Policy Area includes the Natural Resources, Pesticides, and Plant Divisions. These three divisions are responsible for protecting the state's agricultural natural resource base. The ***Agricultural Development*** Policy Area consists of the Agricultural Development and Marketing Division and the Commodity Inspection Division. These divisions work with the state's agricultural producers to increase sales through product and market development and assist in moving products into the domestic and international markets by providing inspection, grading, and certification of agricultural commodities.

Revenue Sources and Relationships

Less than 25% of the Department's expenditures are financed by the General Fund and Lottery Funds. The General Fund provides significant percentages of the total funding for food safety inspections, agriculture marketing, regulation of Confined Animal Feeding Operations, and predator control. Some General Fund is also used to fund the administrative support functions of the agency. Lottery Funds are almost entirely from the constitutionally dedicated 7.5% of all Lottery revenues that are restricted to wildlife and habitat protection and restoration. Dedicated Lottery Funds provide most of the funding for agricultural water quality activities, grants to treat exotic weeds, and insect pest prevention and management.

Other Funds account for over 60% of the Department's total revenues. The main source of agency Other Fund revenues is from license and fee payments for regulated activities such as inspections of measuring devices to ensure accuracy and pesticide applicator fees. Other Funds also include revenue from reimbursable work and charges for services, cost reimbursements, management assessments for central administrative services, and transfers from other and federally funded program areas. Federal Funds are primarily received by the Natural Resources and Agricultural Development and Marketing policy areas. Federal Funds are used for Specialty Crop grants to promote certain agricultural products in the state, plant and animal health protection, invasive species management and prevention, and pesticides regulation.

In the past, the Department's Other Funds have been transferred into the General Fund for expenditure as General Fund. During the February 2010 special session, $443,000 in fees were transferred to the General Fund from the Pesticide Use Reporting System (PURS), which was mothballed during the 2009 session. In the 2009 regular session, a total of $2,250,000 of Other Funds were transferred to the General Fund. The Other Fund transfers were from the weights and measures program ($500,000), pesticides program ($750,000), and the Department's vehicle replacement pool ($1,000,000). No Other Fund balances were transferred as part of the 2011-13 adopted budget.

Budget Environment

Population growth in Oregon has led to increased competition for available natural resources, including water and land. The Department's level of involvement with coordination and development of water use, land use, and conservation plans with other agencies and affected parties has been steadily increasing. Conservation issues are becoming more complex, requiring more planning and inter-agency cooperation. For Food Safety, population growth brings a corresponding increase in the number and complexity of food establishments. In addition, over 750 food product sampling and testing inspections are done under contract for the Food and Drug Administration (FDA) each year. 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.

While past General Fund cuts have included actual reductions in the agency's scope of work such as the suspension of the Pesticide Use Reporting System and eliminating an agriculture marketing position, most reductions in General Fund support are the result of replacing General Fund revenue with monies from license and fee payers.

Legislatively Adopted Budget

The legislatively adopted budget level of $83.9 million is comprised of $12.9 million General Fund (15.4%), $6.9 million Lottery Funds (8.2%), $52.1 million Other Funds (62.1%), and $11.9 million Federal Funds (14.2%), which represents a $1.3 million (1.5%) overall reduction from the 2009-11 legislatively approved budget. The state supported portion of the 2011-13 adopted budget (General Fund and Lottery Funds) is about 14.4% less than the 2009-11 legislatively approved levels. General Fund and Lottery Funds support is 7.4% less than the Governor's recommended level due primarily to the 6.5% reduction to services and supplies and the 3.5% supplemental statewide ending balance hold back reduction on total General Fund and Lottery Funds support, which were taken in all agencies as part of the final legislatively adopted budget. Total positions and FTE were lower than the Governor's recommended level due primarily to the elimination of long-term vacant positions. In total, 34 vacant positions (13.22 FTE), $0.8 million Other Funds, and $0.4 million Federal Funds were eliminated as part of these efforts.

As with the majority of Natural Resources agencies, the Department of Agriculture has addressed past reductions in General Fund appropriations by moving those activities onto other revenue sources such as Other Funds from fees. The 2011-13 legislatively adopted budget continues this practice. Of the $2.5 million in General Fund reductions, only $200,000 comprised actual program activity reductions; all the remaining reductions were shifted to Other Funds. The budget was increased by $250,000 General Fund for Predator Control payments to the federal Wildlife Services agency in an effort to partially reverse reductions taken in previous biennia. The Legislature also added $700,000 General Fund to fund three agricultural marketing positions in an attempt to increase economic activity in the state's agriculture sector. As a result of passage of HB 3560, $100,000 General Fund was added to fund county wolf predation compensation claims.

The Department also experienced reductions in Lottery Funds, which are 30% lower than the 2009-11 approved budget levels. These reductions were due to Ballot Measure 76 Lottery Funds being insufficient to support all current service level expenditures into 2011-13 because the nature of the constitutional dedication of lottery revenues for wildlife and habitat protection and enhancement was changed by Ballot Measure 76, which was passed by the voters in November 2010. This constitutional reauthorization of dedicating Lottery Funds to natural resources changed the way the dedicated Lottery Funds could be spent. Under the old dedication, 7.5% of lottery revenues was divided into two parts, 65% for capital expenditures and 35% for operations expenditures. Under the reauthorization of this dedication in Ballot Measure 76, 65% is for grants to non-state agencies and 35% can support state agency programs. Previously, state agency programs could be funded under either the capital or operations funding split as long as it was the right kind of expenditure. Now state agencies are prohibited from directly receiving any of the 65% dedicated to grants. To meet this challenge, $2.5 million Lottery Funds support for weed control grants – that had been supported with dedicated Lottery Funds that pass through the Department's budget – was moved to the Oregon Watershed Enhancement Board (OWEB) for funding from the 65% dedicated to grants. This change was not included in the Governor's budget recommendations, and is the reason the Lottery Funds for the Department of Agriculture is 27% below the level recommended by the Governor.

Other Funds are increased almost 5% above 2009-11 levels. This is due partially to reductions taken in state supported activities being moved instead to Other Funds. In addition, a number of fee increases proposed by ODA were approved for the Confined Animal Feeding Operations (CAFO), seeds, and shellfish regulatory programs. Fees increase proposed for the Food Safety, Animal Health, and Water Quality programs were not approved by the Legislature. In addition to fund shifts, Other Funds also increased due to program enhancements. These included $1 million Other Funds for maintenance and upgrades to the Department's information technology infrastructure. Finally, $0.9 million Other Funds were added to increase monitoring and data collection for the Agriculture Water Quality program using Pacific Coastal Salmon Recovery Fund monies from OWEB on a one-time basis.

Columbia River Gorge Commission – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	1,022,067	818,084	847,538	814,846
Other Funds	0	73,030	5,000	5,000
Total Funds	**$1,022,067**	**$891,114**	**$852,538**	**$819,846**

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 agreement between the Governors' offices of Oregon and Washington, and legislative statutes, form the basis of the relationship between the states and the federal government. The Commission was established to implement the National Scenic Area Act's purposes of protecting and enhancing the scenic, cultural, recreational, and natural resources of the Gorge while encouraging compatible growth within existing urban areas of the Gorge region and allowing future economic growth.

The Commission functions as the permanent regional land use policy body for the Scenic Area, a 292,000-acre region stretching along both shores of the Columbia River for 80 miles, just east of the Portland OR-Vancouver WA metropolitan area. 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.

The Commission has an oversight role for the entire Scenic Area and functions as a facilitator and resource for collaborative regional efforts. Commission responsibilities include the adoption and maintenance of a management plan, review and approval of local land use ordinances for the Scenic Area, appellate review of decisions made under the ordinances, and coordination of Gorge resource development efforts envisioned by the Scenic Act. The Commission adopted the initial management plan in 1991. Under the management plan, the Commission sets policy for land use and resource protection on non-federal lands in the Gorge, monitors implementation of the plan, ensures that Scenic Area ordinances are effective, and facilitates enhancements of the economic, natural, scenic, cultural, and recreational resource elements of the Scenic Area. Five of the 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 Scenic Act was approved at the federal level, and the intent of the states was to maintain a level of local control as expressed through a bi-state compact. The Columbia River Interstate Compact is a binding legal document that requires each state to pay its Commission members' expenses and to contribute equally to operating costs to perform all functions and responsibilities in accordance with the Compact and Act. The executive state offices and matching state statues reflect this ongoing commitment. Because of this requirement, the budget is, in effect, set by the state appropriating the lesser amount for operational expenses. The Commission has also received grant funding for monitoring program activities and other special project work from the federal government. These grant funds are generally not factored into the development of the Commission's operating budget. The Commission collects no revenue from fees, licenses, or assessments.

Other Funds expenditure limitation was included in the Commission's 2009-11 legislatively adopted budget to allow the agency to spend any moneys received from donations. The agency, however, received less than $2,500 in revenues from donations.

Budget Environment

The proximity of the entire Gorge area to the Portland/Vancouver population base affects planning efforts with pressures for new development, changing composition of urban areas, availability of affordable housing, uses of resource lands, and increased visitation to tourism and recreation sites. As the regional planning agency, the Commission must work with stakeholders to ensure these pressures are dealt with in a manner consistent with the requirements of the National Scenic Area Act. The broad mission of the Commission results in many interpretations by the various individuals and groups that recreate and live in the Columbia River Gorge. This has led to controversy regardless of which side of an issue the Commission chooses.

According to the Commission, base funding levels for Commission activities represent the most limiting factor affecting fulfillment of key strategies and mandated responsibilities. Oregon and Washington frequently 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.

The Commission is in the unique position of having its budget determined by two states. Since both Oregon and Washington have been experiencing revenue shortfalls due to the economic downturn, the Commission's budget for the 2009-11 biennium was substantially reduced. Reductions included ten furlough days and a temporary reduction in planning staff FTE. As of October 2010, joint program services were being provided by four full-time and four part-time staff, for a total of 6.91 FTE, all of which are considered to be employees of the State of Washington.

While the Commission has survived recent attempts at dissolution, it is likely that continued commentary will be generated about whether or not the Columbia River Gorge Commission should be funded. The Commission was directed by the Oregon Legislature through budget notes to obtain legal advice on whether or not the Commission could collect fees as a way to general revenue for operational costs. A report was provided to the Emergency Board in December 2010 indicating that charging fees was not an authority provided by the laws of either of the two states and was not authorized in the National Scenic Act or in the bi-state compact. In order to provide this authority, all of these legal documents would need to be changed. In a similar vein, a decision to dissolve the Commission would require an agreement by both states and by Congress. During Washington's 2011 legislative session, an effort was made to move the operational activities of the Commission into the Department of Ecology

Legislatively Adopted Budget

The Commission's legislatively adopted budget is comprised of two basic programs – Joint Expenses and Commissioner Expenses. The Joint Expenses program represents all operational activities of the Commission except for the expenses of each state's appointed commissioners. Expenditures for Joint program activities are required by law to be equally shared by Oregon and Washington.

The 2011-13 legislatively adopted budget for the Commission totals $814,846 General Fund and $5,000 Other Funds. The General Fund appropriation represents a 0.4% reduction from the 2009-11 legislatively approved level and a 3.9% reduction from the Governor's recommended level. The adopted budget included standard reductions to continue allotment reduction savings from the 2009-11 biennium, the elimination of inflation, and an additional 6.5% reduction to services and supplies, although the application was this reduction was not applied to professional services which represents Oregon's payment to Washington for the personal services expenses of the Commission's staff. The adopted budget also included the 3.5% supplemental ending balance adjustment which represents a total of $29,329 General Fund. This adjustment is subject to restoration to the agency's budget in February 2012 depending on the state's overall fiscal situation and any budgetary changes made by the State of Washington.

Department of Energy (DOE) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	3,100,000	0	0	0
Lottery Funds	0	590,347	2,164,185	2,088,438
Other Funds	20,140,759	33,307,287	30,531,027	31,477,822
Federal Funds	3,551,982	57,739,196	30,830,849	36,736,670
Other Funds (NL)	111,505,039	217,916,815	171,915,239	171,915,239
Federal Funds (NL)	0	1	1	1
Total Funds	**$138,297,780**	**$309,553,646**	**$235,441,301**	**$242,218,171**
Positions	96	122	120	127
FTE	89.41	117.44	108.23	113.23

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. The Department currently receives no General Fund support for its activities.

DOE staffs the following 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.
- The Global Warming Commission (GWC) recommends ways to coordinate state and local efforts to reduce Oregon's greenhouse gas emissions consistent with Oregon's goals and recommends efforts to help the state, local governments, businesses and residents prepare for the effects of global warming.

The Department also heads or lends expertise to a number of workgroups and advisory committees, including the following:

- Northwest Power and Conservation Council is responsible for adopting a regional energy conservation and electric power plan and a program to protect, mitigate and enhance fish and wildlife on the Columbia River and its tributaries. The Council is set up as a regional agency with two members each appointed by the states of Idaho, Montana, Oregon and Washington for three-year terms. Bonneville Power Administration reimburses the Department for the costs associated with the two appointed members.
- Small Scale Local Energy Project Advisory Committee reviews applications made under the Small Scale Energy Loan Program (also known as SELP). The program promotes energy conservation and renewable energy resource development and offers low-interest loans for projects that save energy; produce energy from renewable resources such as water, wind, geothermal, solar, biomass, waste materials or waste heat; use recycled materials to create products; or use alternative fuels. It can loan to individuals, businesses, schools, cities, counties, special districts, state and federal agencies, public corporations, cooperatives, tribes, and non-profits. Projects must be primarily in Oregon.
- Oregon Energy Planning Council was established by executive order in 2008 to advise on forecasting, transmission, price stability, renewable energy and energy efficiency. The Oregon Energy Planning Council was created by Executive Order 08-26 and includes 23 members. The group was tasked with writing a comprehensive energy plan by December 31, 2010. The Oregon Department of Energy is identified in the Executive Order as staff to the Council.
- Energy Advisory Committee - DOE has started an Energy Advisory Committee to enable stakeholders to engage in policies that have a significant effect on Oregon's quality of life. The Energy Advisory Committee

held its first meeting in December 2010 and has 23 members representing a wide range of stakeholder entities.

- The Energy Supplier Assessment Advisory Committee is comprised of representatives of Oregon's natural gas suppliers, investor- and consumer-owned utilities who pay the largest percentage of the Energy Supplier Assessment rate authorized in ORS 469.120, the Department's primary Other Fund revenue source. The group, established in 2010, is involved in reviewing ESA expenditures and proposed rates.
- The Department convenes rulemaking advisory committees on an as needed basis to assist in creating and updating proposed agency administrative rules.

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 (estimated at $200 million for the 2011-13 biennium), loan repayments ($24.5 million), fees ($3.2 million), and interest income ($13.2 million).

Excluding bond sales for the Small Scale Energy Loan Program, approximately 47% of DOE's Other Funds expenditures are supported by the agency's assessment on energy suppliers; the energy supplier assessment is limited to one-half of 1% of the supplier's gross revenue derived in Oregon. The 2011-13 assessment rate of .00085 is expected to bring in a total of $12 million, and supports a portion of agency administrative expenses and energy policy and conservation activities. The rate generates an additional $2 million in revenue, and is an increase over the 2009-11 biennium rate of .00069, supporting approved expenditures while maintaining an ending balance. Because the assessment is based on gross revenue, it can fluctuate based on energy prices.

Other sources of revenue include the following: energy siting fees ($3.9 million); fees for service related to the program for schools and self-directed efficiency projects ($760,000) stemming from electric marketing restructuring; and fees for energy efficient design services in state buildings, home oil heating and radioactive waste transportation fees. HB 2960 allows the Department to charge a project origination fee for school energy efficiency projects and financing, but demand for the program and subsequent fee revenue is as yet unknown.

The business energy tax credit program was restructured by the 2011 Legislature, and differs substantially from the previous program. The Department is authorized to charge fees to recover the cost of administering the program; however, the amount of the fees will be determined in part by the staffing required, and the fee receipts will be determined by the volume of applications. Program expenditures for the re-vamped program were also indeterminate at the close of the legislative session. As the agency develops the new program using statute as guidance, the agency will return to the 2012 legislative session or the Emergency Board seeking expenditure limitation and position authority related to the program.

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 for these activities are expected to total $3 million in 2011-13.

DOE was granted $56 million in federal grant funding related to the American Recovery and Reinvestment Act. The Department will distribute remaining funds in 2011-13, consisting of $33.7 million in sub-grants funds for energy efficiency improvements (equipment and installation) in local government buildings, and the Energy Efficiency and Conservation Block Grant used to assist state, tribal, and non-entitlement local governments in implementing energy efficiency and renewable energy programs. Anticipated projects include development and implementation of an energy efficiency strategy; government or not-for-profit building retrofits; transportation measures to conserve energy (including bike lanes, pathways, and sidewalks); development and implementation of building codes; methane capture; LED traffic signals and lighting; and onsite renewable energy use in government buildings.

Budget Environment

The agency has grown substantially in the last two biennia, sharing responsibility for implementing complex and high profile policy priorities such as climate change; the renewable energy portfolio standard to which Oregon's public and investor-owned utilities are expected to adhere; and the expansion of incentives available to businesses implementing renewable or energy efficiency measures. In addition, there has been a substantial increase in the number of energy facility siting requests that must be reviewed and permitted by DOE, including wind farms, biomass projects, and new transmission infrastructure. The Department reorganized its management and budget systems according to function, resulting in five divisions for the 2011-13 biennium (in place of its previous two divisions, Operations and Loan Program). The resulting change provides the Department with a more detailed means of managing its programs, and the resources and responsibilities approved by the Legislature. Administration of federal stimulus funding, and policy bills – including the creation of a new energy overhaul of tax incentive programs for business and residential consumers (HB 3672) and a new program to finance energy efficient schools (HB 2960) – require the Department to establish new policies and processes, and scale personnel to meet available funding and program demand. The Department anticipates having a better idea of how these bills will be administered by the time of the 2012 session.

DOE – Energy Policy

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	0	0	0	0
Lottery Funds	0	0	0	0
Other Funds	0	0	7,511,383	7,611,383
Federal Funds	0	0	1,313,552	1,313,552
Total Funds	**$0**	**$0**	**8,824,935**	**8,924,935**
Positions	0	0	28	29
FTE	0.00	0.00	27.50	28.00

Program Description

The Energy Policy Division resulted from agency reorganization efforts during the 2009-11 biennium. The division encompasses conservation programs and research and technical services. Outreach and education efforts are aimed at industrial, commercial, residential, and transportation sectors to develop conservation strategies and promote energy efficiency in homes and buildings. Technical expertise in the area of climate change and renewable energy technologies, as well as staffing for the Western Climate Initiative and the Oregon Global Warming Commission, are encompassed within the division.

Legislatively Adopted Budget

The 2011-13 legislatively approved budget is commensurate with the Governor's recommended budget. The Legislature approved a 5.5% reduction to personal services from the current service level, elimination of inflation to services and supplies expenditures, and adjustments to state agency assessments and charges in SB 5508, the end of session bill which have the effect of reducing operating expenses for this program.

DOE – Energy Development Services

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	0	0	0	0
Lottery Funds	0	0	2,164,185	2,088,439
Other Funds	0	0	8,394,587	8,730,697
Federal Funds	0	0	27,944,039	33,850,697
Other Funds (NL)	0	0	171,915,239	171,915,239
Federal Funds (NL)	0	0	1	1
Total Funds	**$0**	**$0**	**210,418,051**	**216,584,417**
Positions	0	0	35	39
FTE	0.00	0.00	25.17	27.67

Program Description

The Energy Development Services Division resulted from agency reorganization efforts during the 2009-11 biennium. The division is intended to integrate various financing and incentive programs that promote energy conservation and renewable energy use. The Small-Scale Energy Loan Program, tax incentive programs approved under HB 3672 (2011), American Recovery and Reinvestment Act-funded projects, and the Clean Energy Deployment Program (HB 2960 from 2011).

Legislatively Adopted Budget

The legislatively adopted budget is a 2.9% increase from the 2011-13 Governor's recommended budget. The Legislature approved the elimination of two positions associated with the Energy Efficiency and Sustainable Technology program established in 2009, due to a revenue shortfall stemming from lower than anticipated program demand. A 5.5% reduction to personal services from the current service level was approved, as was the elimination of inflation to services and supplies expenditures. The Legislature approved an additional four limited duration positions (2.00 FTE) and associated expenditure limitation to enable the Department to evaluate and process applications received for Business Energy Tax Credits prior to the program's sunset at the end of the calendar year. Lottery Funds were reduced by 3.5% to provide for a supplemental ending balance in the event that future state revenue forecasts fall below close of session projections.

The Legislature also approved adjustments to state agency assessments and charges in SB 5508, and a limited duration position at the request of the Governor. This position will assist in developing a program to offer low cost financing, technical assistance, and project planning support to school districts who are interested in making energy efficiency investments; savings from these energy efficiency investments are assumed to generate savings sufficient to repay the financing costs. The position will be funded through Federal Funds received through the State Energy Program grant award and with loan fees paid by schools who utilize the program ($100,000 Other Funds).

DOE – Nuclear Safety and Emergency Preparedness

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	0	0	0	0
Lottery Funds	0	0	0	0
Other Funds	0	0	558,468	588,468
Federal Funds	0	0	1,496,746	1,496,565
Total Funds	**$0**	**$0**	**2,055,214**	**2,055,033**
Positions	0	0	6	6
FTE	0.00	0.00	6.00	6.00

Program Description

The Nuclear Safety and Emergency Preparedness program resulted from agency reorganization efforts during the 2009-11 biennium. Staff participate in a variety of regional and national forums to represent Oregon's interests in ensuring the federal government carries out its responsibilities related to clean-up efforts at the Hanford Nuclear Reservation, and provide support to the Oregon Hanford Cleanup Board. The program also ensures that state and local responders are properly prepared to deal with an emergency in the event of a nuclear accident at Hanford, the Columbia Generating Station, or in the course of the transportation of radioactive materials along state transportation corridors.

Legislatively Adopted Budget

The legislatively adopted budget is commensurate with the Governor's recommended budget. The Legislature approved a 5.5% reduction to personal services from the current service level, elimination of inflation to services and supplies expenditures, and adjustments to state agency assessments and charges in SB 5508, the end of session bill, which have the effect of reducing operating expenses for this program.

DOE – Energy Facility Siting

	2007-09 Actual	2009-11 Legislatively Approved	**2011-13 Governor's Recommended**	**2011-13 Legislatively Adopted**
General Fund	0	0	0	0
Lottery Funds	0	0	0	0
Other Funds	0	0	4,135,447	4,260,266
Federal Funds	0	0	0	0
Total Funds	$0	$0	**4,135,447**	**4,260,266**
Positions	0	0	9	10
FTE	0.00	0.00	9.00	10.00

Program Description

The Energy Facility Siting program works with energy facility developers and operating energy facilities to meet the state's energy needs by ensuring that large power plants, transmission lines, and natural gas pipelines are built to meet Oregon requirements. Siting is a long-term, multi-year endeavor involving multiple stakeholders, site visits, engineering studies, public hearings, and ongoing monitoring from planning, through to construction and operation of the facility. The program staffs the Energy Facility Siting Council (EFSC), coordinates the energy facility siting process, oversees compliance with existing site certificates, and coordinates federal energy siting projects for the state. The program resulted from agency reorganization efforts during the 2009-11 biennium.

Legislatively Adopted Budget

The legislatively adopted budget for the Siting program represents a 3% increase over the 2011-13 Governor's recommended budget. The Legislature approved a 5.5% reduction to personal services from the current service level, and eliminated inflation allowances for services and supplies expenditures. The Legislature approved $1.9 million in additional Other Funds expenditure limitation and five permanent positions to address the growth trend in applications for siting energy facilities and transmission lines. The number of applications has increased steadily due to population growth and state requirements that a certain percentage energy generation come from renewable sources. The Legislature approved the positions as permanent in acknowledgement that the long-term nature of projects may be better suited to permanent staff and institutional memory. Also approved were adjustments to state agency assessments and charges in SB 5508, the end of session bill, which have the effect of reducing operating expenses for this program.

DOE – Administrative Services

	2007-09 Actual	**2009-11 Legislatively Approved**	**2011-13 Governor's Recommended**	**2011-13 Legislatively Adopted**
General Fund	0	0	0	0
Lottery Funds	0	0	0	0
Other Funds	0	0	9,931,142	10,317,008
Federal Funds	0	0	76,512	76,512
Total Funds	**$0**	**$0**	**10,007,654**	**10,393,520**
Positions	0	0	42	43
FTE	0.00	0.00	40.56	41.56

Program Description

The Administrative Services program provides shared administrative services to the agency including the Director's Office, budgeting, accounting, contracting, Information technology, human resources, auditing, and communications. The program resulted from agency reorganization efforts during the 2009-11 biennium.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is a 3.9% increase over the Governor's recommended budget. The Legislature approved the elimination of inflation from services and supplies expenditures, and a 5.5% reduction in personal services expenditures from the current service level budget. The Legislature approved $352,327 in

Other Funds expenditure limitation and three limited duration positions (1.56 FTE) related to concluding projects and reporting requirements associated with American Recovery and Reinvestment Act awards received in the 2009-11 biennium. Also approved were adjustments to state agency assessments and charges, and one limited duration position (with associated expenditure limitation) to serve as an energy policy advisor the Governor for the 2011-13 biennium. This position was funded at the request of the Governor, and will serve to support the development of a Governor's 10-Year Energy Plan and coordinate other energy policy related activities within the Office of the Governor and the Department of Energy. This position will be supported with Energy Supplier Assessment revenue.

Department of Environmental Quality – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	36,444,631	30,807,725	28,962,145	25,073,542
Lottery Funds	5,610,171	5,415,717	3,133,153	4,502,197
Other Funds	117,306,094	137,858,403	143,176,928	140,225,902
Federal Funds	26,452,507	37,313,314	32,597,667	30,728,115
Other Funds (NL)	137,436,517	189,073,148	125,666,802	125,666,802
Total Funds	**$323,249,920**	**$400,468,307**	**$333,536,695**	**$326,196,558**
Positions	826	814	771	725
FTE	797.46	790.13	748.20	710.92

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.

Air Quality – This 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. The primary sources of air pollution in Oregon are motor vehicles, forest slash burning, woodstoves, industrial facilities, field burning, and area sources. The federally delegated air quality program includes statewide air quality monitoring and emissions inventory, strategic planning for pollution reduction, and a permit system. Permits are issued under two industrial source air quality programs operated by the Department.

Water Quality – This 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. 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.

Land Quality – This program focuses on preventing and reducing waste generation, assuring that waste generated is properly managed, responding to emergency spills, and cleaning up sites contaminated with hazardous substances and uncontrolled releases of toxic chemicals. Activities are organized into the five main subprogram areas of solid waste, hazardous waste, environmental cleanup, underground storage tanks, and emergency management. In each area, the Land Quality program focuses on the hierarchy of waste management, starting with prevention, reduction, reuse, recycling, recovery, and ending with proper disposal. Land Quality operates the federally approved solid waste landfill compliance program and the federally delegated hazardous waste program.

Agency Management – This program provides leadership, coordination, and support for the Department and staff assistance for the Environmental Quality Commission. Agency Management includes the Office of the Director, the Public Affairs Office, 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.

Pollution Control Bond – 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. The Clean Water State Revolving Fund (CWSRF) makes loans to local governments for construction of eligible waste water treatment facilities and is funded primarily with monies from the federal government. Funding for the CWSRF is nonlimited.

Revenue Sources and Relationships

The federally delegated clean air program is primarily financed with permit and emission fees (such as the Air Contaminant Discharge Permit fee) supplemented by a General Fund appropriation and Federal Clean Air Act funds. Federal law requires that the cost of the permit program for major industrial sources be fully paid from emission fees (Title V Permit Fee). Other non-General Fund sources include fees for asbestos certification and inspection, field burning permits, and the vehicle inspection program. The Vehicle Inspection Program is entirely supported by fees for certificates of vehicle emissions compliance, required as part of a vehicle's registration process in the Portland and Medford areas.

The federally delegated and state water pollution permit programs are financed from a combination of sources – the General Fund, industrial and municipal fees, and Federal Clean Water Act funds. The primary Other Funds sources of revenue include industrial waste discharge permit fees, municipal wastewater permit fees, and subsurface sewage disposal fees. Other Funds sources also finance the administrative costs of the wastewater finance program. Federal Funds are received primarily under the Clean Water Act for operational expenses (Section 106) and for nonpoint source project grants (Section 319) and from other miscellaneous grant sources for a variety of program activities. The Water Quality program relies more heavily on state support for program funding than any other program area.

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. 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. Agency Management is financed solely from indirect cost revenues. The indirect rate is calculated as a percentage of personal services. The actual rate is negotiated annually with the Environmental Protection Agency once the agency's total budget is established.

While the Department, like all agencies that receive General Fund, saw General Fund reductions occur during the 2009-11 biennium due to General Fund revenue shortfalls, DEQ has also seen significant loss of Other Funds revenue. These reductions have occurred in programs that issue permits related to construction or business activity. Therefore, as the recession has slowed business and construction activity, the Department has seen reductions to its programs that regulate septic systems, storm water runoff, air quality operations, and solid waste operators. To meet the lower revenues, DEQ was forced to take management actions such as holding Other Fund positions vacant in order to keep expenditures in line with falling revenues.

In the past Other Funds have been transferred into the General Fund for expenditure as General Fund. This has happened to the Department of Environmental Quality. During the 2009 regular session, in an effort to rebalance the 2007-09 biennium, a total of $6,560,000 Other Funds was transferred to the General Fund. The Other Fund transfers were from the solid waste orphan site account ($4,100,000), the vehicle inspection program which tests the emissions of vehicles in the Portland and Medford areas ($2,000,000), a low vehicle emission program that had delayed startup ($400,000), and the balances from two defunct programs ($60,000).

The 2011-13 legislatively adopted budget did not include any transfers of Other Funds balances to the General Fund. However, due to the further accumulation of a significant ending balance in the vehicle inspection program, the Legislature worked with the agency to reduce the fee charged customers during 2011-13 to spend down the ending balance. As a result, the Department will reduce fees for this program by about $1.5 million during the 2011-13 biennium.

Budget Environment

Air Quality – The federal Clean Air Act requires compliance with federal air quality standards and prevention of air quality deterioration in areas that exceed federal standards. 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.

Water Quality – Under the federal Clean Water Act, either the state or federal government must operate programs to protect the quality of rivers, streams, lakes, and estuaries. DEQ must operate programs to carry out the mandatory requirements of the Clean Water Act that are acceptable to 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.

Land Quality – 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. Bonds are sold to conduct cleanup of Orphan Sites, however due to General Fund constraints, no state-backed bonds were approved for sale in 2009-11. In the past the agency has been able to use some Hazardous Substance Possession fees to pay debt service for Orphan Site bonds in place of General Fund.

Agency Management – 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.

Pollution Control Bond – 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 bond sales are now paid using interest proceeds. The CWSRF Program is now self-funding in the sense that all debt service can be paid out of proceeds from interest payments made by CWSRF loan customers. The CWSRF program saw a significant increase in federal support through federal stimulus legislation. This higher level of federal support did not continue into the 2011-13 biennium.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget level of $326.2 million is comprised of $25.1 million General Fund (7.7%), $4.5 million Lottery Funds (1.4%) $265.9 million Other Funds (81.5%), and $30.7 million Federal Funds (9.4%), which represents a $74.3 million (18.5%) overall reduction from the 2009-11 legislatively approved budget. The state supported portion of the 2011-13 adopted budget (General Fund and Lottery Funds) is about 7.9% less than the Governor's recommended level due primarily to the 6.5% reduction to services and supplies and the 3.5% supplemental statewide ending balance hold back reduction on total General Fund and Lottery Funds support, which were taken in all agencies as part of the final legislatively adopted budget. Total positions and FTE were lower than the Governor's recommended level due to the elimination of long-term vacant positions. In total, 31 vacant positions (25.02 FTE), $2.3 million Other Funds, and $0.7 million Federal Funds were eliminated.

General Fund reductions in program operations for 2011-13 included a land quality manager in eastern Oregon, support for the Lane Regional Air Protection Agency, pollution outreach and technical assistance, Clean Diesel work, and air quality monitoring sites, reduced air, water, and land quality permitting and compliance activities, significantly reduced water toxics monitoring and mixing zone studies, reduced water quality enforcement and air emission inventory work, reduced stormwater program compliance and issuance of new permits, and eliminating staff that respond to public complaints about non-permitted sources of pollution.

Lottery Funds were increased over the Governor's recommended level by $1.4 million as Measure 76 Lottery Funds were used to replace General Fund support in the Water Quality program. The Department's water quality protection work is eligible to be funded under Measure 76. This action allowed General Fund to be used to offset reductions in other Natural Resource agencies. Overall Lottery Funds were 16.9 % lower than the 2009-11 level even with this increase over the Governor's level due to the one-time shifting of eligible DEQ programs from Lottery Funds to federal monies from the Pacific Coastal Salmon Recovery Fund. While these monies originate as Federal Funds in the Oregon Watershed Enhancement Board, they are transferred and expended by DEQ as Other Funds.

Other Funds and Federal Funds were lower than 2009-11 totals due almost entirely to the ending of federal stimulus to states through the American Reinvestment and Recovery Act. The program most affected by the drop in funding was the Clean Water State Revolving Fund (CWSRF). The CWSRF makes loans to local governments for construction of eligible waste water treatment facilities and is funded primarily with monies from the federal government. The CWSRF program saw a significant decrease as one-time federal support through federal stimulus legislation for "shovel ready" projects came to an end. No bonds were approved for cleanup of new Orphan Sites due to General Fund constraints; however $3.3 million in bonds were authorized to pay for ongoing oversight obligations on sites previously cleaned up under the Orphan Site program. Debt service for these bonds will be paid with Other Funds from existing Hazardous Substance Possession fees.

Department of Fish and Wildlife – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	13,849,847	13,284,543	12,134,244	7,067,548
Lottery Funds	11,945,861	6,105,448	3,645,741	5,824,398
Other Funds	131,336,054	153,095,223	176,455,718	197,593,072
Federal Funds	83,303,669	98,206,507	112,976,593	109,794,486
Total Funds	**$240,435,431**	**$270,691,721**	**$305,212,296**	**$320,279,504**
Positions	1,360	1,379	1,493	1,466
FTE	1,148.48	1,162.20	1,239.24	1,227.99

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 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. More than 70% of all fish caught by recreational anglers and 75% of the salmon harvested commercially are hatchery produced fish. 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, operates a fish screen program, and administers angling regulations. 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 ***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 Wildlife Division consists of the Wildlife Management, Wildlife Habitat Resources, and Wildlife Conservation programs and has primary responsibility for managing wildlife resources throughout the state. The ***Wildlife Management*** program manages game species including big game, furbearers, waterfowl, and upland game birds. Biologists, with the assistance of seasonal wildlife technicians, inventory big game species, develop and implement species management plans, respond to damage complaints, conduct hunter and harvest surveys, and assist in developing hunting regulations. The Access and Habitat program is used to provide both wildlife habitat improvement and improved hunter access to private lands. The ***Wildlife Habitat Resources*** program provides guidance in the agency's development of statewide goals and objectives related to the management of wildlife and their habitat. The program operates state-owned game management areas and develops projects to maintain and improve wildlife habitat. The goal of the ***Wildlife Conservation*** 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. The program is also responsible for creating and implementing the state's Comprehensive Wildlife Conservation Strategy and the aquatic invasive species program.

Agency Administration provides general support functions to all programs of the Department. The Division includes the Office of the Director, the Fish and Wildlife Commission, Commercial Fishery Permit Boards, and the divisions of Human Resources, Information and Education, Administrative Services, and Information Systems. Agency Administration is also responsible for management of the Point-of-Sale licensing system. ODFW provides funding through a contract with the Department of State Police, Fish and Wildlife Division to provide law enforcement services to ensure compliance with laws that protect and enhance the long-term health and use of the state's fish and wildlife resources, including recreational and commercial fishing laws and regulations and hunting laws. These enforcement positions are included in the State Police budget. Officers in the Fish and Wildlife Division are sworn police officers and can enforce traffic, criminal, boating, livestock, and environmental laws and respond to emergency situations.

Revenue Sources and Relationships

The Department relies heavily on Other Funds revenue from hunting and fishing license and tag sales. 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 Wildlife Conservation program does not receive license and tag revenue since it deals with non-game species. Instead, the program receives Other Funds revenues from the nongame income tax check-off contributions, interest income, and the new voluntary wildlife conservation stamp.

The Fish Division's Federal Funds revenues are received from the U.S. Department of Energy through the Bonneville Power Administration, the Department of Commerce through the Mitchell Act, the U.S. Army Corps of Engineers, the 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 Wildlife Management 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 Wildlife Conservation program receives Federal Funds from the U.S. Department of Interior for threatened and endangered species activities through the State Wildlife Grant program and the Wildlife Conservation and Recovery program.

Budget Environment

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 aging fish hatcheries, the perception of fewer hunting opportunities, landowner relationships and access for hunting, and livestock predation. The Department's Other Fund balances are not easily transferred to the General Fund due to federal law that prohibits states from transferring hunting and fishing license and fee revenues to their General Fund or risk losing significant federal funds support.

Past General Fund reductions in the Department of Fish and Wildlife have most often been accomplished through fund shifts. That is removing General Fund support for a program and shifting that program to another fund type; in the case of ODFW, this has been done using Other Funds revenue from the sale of hunting and fishing licenses and tags.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget level of $320.3 million is comprised of $7.1 million General Fund (2.2%), $5.8 million Lottery Funds (1.8%), $197.6 million Other Funds (61.7%), and $109.8 million Federal Funds (34.3%), and represents a $49.6 million (18.3%) overall increase from the 2009-11 legislatively approved budget. While the overall budget increased over 2009-11, the state supported portion of the 2011-13 adopted budget (General Fund and Lottery Funds) is about one-third less than the 2009-11 approved levels.

The 2011-13 adopted budget is about $15 million (4.9%) higher than than the Governor's recommended level, with General Fund $5.1 million (41%) lower; Lottery Funds $2.2 million (60%) higher; Other Funds $21.1 million (12%) higher; and Federal Funds $3.2 million (2.8%) lower. The General Fund and Lottery Fund differences were primarily caused by moving most native fish conservation, research, and monitoring activities that had been funded with General Fund to dedicated Measure 76 Lottery Funds and shifting all the General Fund in the wildlife conservation strategy program on to Measure 76 Lottery Funds. The Lottery Funds were made available through actions in the Oregon Watershed Enhancement Board budget. Most of the remaining changes in state support are due to the 6.5% reduction to services and supplies and the 3.5% supplemental statewide ending balance hold back reduction on total General Fund and Lottery Funds support, which were taken in all agencies as part of the final legislatively adopted budget. Other Funds are higher than the Governor's recommended level due to the addition of expenditure limitation to accommodate contracted work that was not anticipated in the agency's request budget or the Governor's budget. Federal Funds are lower mostly due to the elimination of 63 permanent positions (36.52 FTE) and removal of $2.4 million Federal Funds and $1.5 million Other Funds expenditure limitation associated with the eliminated positions.

The 2011-13 adopted budget for ODFW includes the following General Fund and Lottery Funds adjustments:

- Reduced General Fund by over $2 million by shifting program support for programs such as hatchery operations, coastal salmon research and monitoring, marine fisheries surveys, wildlife management, and habitat improvement activities to Other Funds from the sale of hunting a fishing licenses and tags.
- Replaced $2.5 million in Measure 76 Lottery Funds with Other Funds from the Pacific Coastal Salmon Recovery Fund (PCSRF) due to significant differences in the amount of Measure 76 Lottery Funds forecasted to be available to state agencies under the new Measure 76 requirements during 2011-13. This shift will support a number of native fish recovery and watershed improvement activities.
- $1.1 million Lottery Funds and 6 limited duration positions (5.50 FTE) were added to work on the Department's Nearshore Marine Management program.
- Added $250,000 General Fund for Predator Control payments to Wildlife Services to restore cuts made in previous biennia.

The 2011-13 adopted budget also included a number of Other Funds and Federal Funds increases:

- $1.8 million Federal Funds added to Propagation due to restoration of Mitchell Act funding for federally supported fish hatcheries.
- $3 million Other Funds was added to the Natural Production program for native fish monitoring, research, and recovery activities.
- $5 million Federal Funds was added to Natural Production for monitoring, research, and evaluation of salmon and steelhead populations in the interior Columbia River Basin as part of the federal Columbia River Power System Biological Opinion.
- $2.9 million Federal Funds was added to Natural Production for monitoring, research, and evaluation of native fish populations in Willamette River as part of the implementation of the biological opinion governing operation of the U.S. Corps of Engineers' Willamette Project.
- $23.2 million Other Funds was added for four capital construction projects, the largest of which was $16 million for purchase of a new Headquarters Building in Salem.

Department of Forestry (ODF) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	46,393,079	43,202,509	46,101,909	47,871,547
Lottery Funds	0	1,374,136	3,060,100	2,453,947
Other Funds	212,418,724	231,738,602	198,776,816	197,855,667
Federal Funds	16,746,135	46,558,712	47,864,641	44,278,675
Other Funds (NL)	2,050,843	22,144,777	15,000,000	0
Total Funds	**$277,608,781**	**345,018,736**	**310,803,466**	**292,459,836**
Positions	1,297	1,227	1,245	1,181
FTE	917.22	864.07	894.64	862.32

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.

Budget Environment

Historic economic challenges across the state are compounded in ODF by a historic drop in the timber market and a 10% reduction in state General Fund support. Due to the nature of the agency's funding structure, the reduction in state General Fund resulted in additional Other Funds reductions paid by private landowners that would have matched state General Fund. The Department of Forestry absorbed $10.8 million total reductions of overall expenditures for agency activities over the 2009-11 biennium. The structure of current agency funding and revenue streams has been relatively static and unchanged over many years. The current structure of shared resources between forest landowners and the General Fund and focused funding for specific services delivered requires a complex funding system and one that is less responsive to change over time. Reliance on state General Fund is problematic when economic conditions result in reduced state revenues or when competing interests are prioritized. Avenues for new revenue sources through partnerships, grants, or service based approaches can be explored for improvement to the funding structure.

The federal government manages about 60% of Oregon's forestlands. Environmental analysis, biomass use, development of stewardship contracts, and other activities to address challenges facing federal forests and nearby private landowners and communities requires resources beyond current available revenue streams.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $292.4 million total funds is 5.9% less than the Governor's recommended budget and 15.23% less than the 2009-11 legislatively approved spending level. This includes a 10.8% increase in General Fund, 78.6% increase in Lottery Funds, a 14.6% decrease in Other Funds limited expenditures, and a 4.9% decrease in Federal Funds from the 2009-11 legislatively approved spending level. The budget removes the $15 million Nonlimited Other Funds expenditure category which accounts for 10% of the overall expenditure reduction. The budget includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The budget eliminates $33.8 million of one-time expenditures approved during the 2010 special session and Emergency Board meetings for forest fire protection extraordinary expenses, and maintains the 50:50 cost sharing between the General Fund and private land owners for base fire suppression resources. It also provides resources to restore funding on 42 positions (21.15 FTE) to administer the Forest Practices Act including compliance monitoring, effectiveness monitoring, field administration, and forest health. The Legislature eliminated 56 vacant positions (40.31 FTE) determined to not be critical for supporting the agency's core programs.

ODF – Agency Administration and Central Business Services

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	5,244,479	6,028,353	2,938,611	2,788,506
Lottery Funds	0	1,374,136	2,360,100	2,453,947
Other Funds	49,705,469	64,064,754	49,822,408	50,110,147
Federal Funds	764,964	1,204,094	1,669,508	1,975,300
Nonlimited	0	7,144,777	0	0
Total	**$55,714,912**	**$26,545,203**	**$27,627,274**	**$26,693,701**
Positions	117	114	118	120
FTE	116.78	114.73	118.53	120.14

Program Description

Agency Administration and Central Business Services includes Agency Administration, Equipment Pool, Facilities Maintenance and Development, Capital Budgeting and Debt Service.

- ***Agency Administration*** (89.30 FTE and 90 positions) 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.
- ***Equipment Pool*** (29.89 FTE and 29 positions) 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, and Corrections.
- ***Facilities Maintenance and Development*** (0.95 FTE and 1 position) 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.
- ***Capital Budgeting*** includes Capital Improvement projects and Major Capital Construction projects. 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. The Department's Long-Range Facilities Management Plan coupled with site master plans provides details on

major construction needs over the coming ten-year period. Site master plans and feasibility studies are contracted for by the Department to determine major construction needs to meet workload projections at each site. The Department works with the Capital Projects Advisory Board for review of the agency's major construction, space, and maintenance needs.

- ***Debt service*** payments are required to pay off COPs issued for the construction of the Salem Headquarters Office Complex, capital construction relocation projects in John Day and Sisters, as well as for capital investment improvements in the agency's business information systems, and forest land acquisition.

Revenue Sources and Relationships

Agency Administration is funded by the 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. Expenditures for the Equipment Pool program are financed 100% from fees charged to equipment pool users. Facilities Maintenance and Development is currently funded by utilizing the facility operation and maintenance budgets of each program. Revenue to pay debt service comes from the General Fund (42%), Other Funds (24%), and Lottery Funds (34%). 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; and Private Forests program from the Forest Products Harvest Tax. Generally, costs are prorated among the funding sources of the programs that occupy the specific facility. In the past, General Fund was provided as the public share match money for projects funded in the Fire Protection program. Capital construction projects are funded through COPs and Other Funds generated from the State Forest Management program.

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.

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.

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.

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $26.7 million is $933,573, or 3.3%, less than the Governor's recommended budget level and $148,498, or 0.5%, more than the 2009-11 legislatively approved budget level. The budget reflects an increase of 2 positions (1.61 FTE) resulting from a shift of administrative functions and expenditures for agency-wide federal grant administration to Administration from Forest Practices adding $306,264 Federal Funds expenditure limitation. Offsetting reductions in the Private Forests Programs result in a net zero overall budget impact. Four positions (3.80 FTE) were shifted administratively during the 2009-11 biennium as a result of internal realignment of responsibilities. A shift of $3.5 million General Fund was made to operating programs and replaced by Other Funds expenditure limitation to correct accounting for operating program charges for administrative services. The budget also removes one-time funding for purchase of state forest land (Gilchrist Forest, $15 million), and one-time debt issuance costs related to debt refinancing during the 2009-11 biennium ($7.1 million). The budget was also increased by $176,837 Lottery Funds and $414,881 Other Funds to provide an expenditure limitation for debt service and issuance costs on Lottery Bonds approved in HB 5036 for additional state forest land acquisition in Klamath County. The budget reflects a reduction of $1.5 million Other Funds and $88,157 Federal Funds to reflect personal service cost reductions, elimination of standard inflation, and reductions in various state government service charges and assessments.

ODF – Fire Protection

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	30,888,405	32,532,388	34,230,904	32,700,337
Other Funds	92,097,083	77,502,491	55,494,809	54,546,161
Federal Funds	10,775,365	18,249,853	18,894,169	18,013,764
Other Funds (NL)	2,050,843	15,000,000	15,000,000	0
Total Funds	**135,811,696**	**143,284,732**	**123,619,882**	**105,260,262**
Positions	726	727	736	697
FTE	409.45	412.44	413.55	392.88

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 2005 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. The 2009 Legislature allowed the reserve base for the OFLPF to revert back to $15 million. Revenues to support the OFLPF were estimated to be $16.7 million in 2009-11, 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) increased the limits of the landowners' responsibility to $15 million per year, including the cost of insurance premiums and all claims paid to local districts from the OFLPF to address the rising costs of emergency fire suppression. Beyond this limit, the cost responsibility falls on the General Fund. The measure included a sunset provision that would revert to the lower limit of $10 million if the Legislature did not take action to maintain the increase in landowners' responsibility. The 2009 Legislature allowed the increase in the landowners' responsibility to revert back to $10 million. The impact of this action is an increase in the risk that emergency fire suppression costs above $10 million will require General Fund for payment. The current reserve and expenditure limits are inadequate when dealing with severe fire seasons and higher per unit costs for firefighters and equipment.

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. Wet, cool weather in the spring of 2010 and 2011 delayed the onset of wildfire activity. The added rainfall, while delaying the onset of wildfire, has the potential of spurring heavier growth of grasses and brush adding to the fire fuel load as forest vegetation dries out. 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. Providing adequate funding for fire protection resources is an increasing challenge given the current economy and private landowners ability to pay the increasing costs, especially private landowners in low-producing areas of the state.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $105.3 million is $18.4 million, or 14.6%, less than the Governor's recommended budget level and $38 million, or 26.5%, less than the 2009-11 legislatively approved budget level and includes 697 positions (392.88 FTE). The budget removes $44.8 million total funds in one-time funding for costs approved during the 2009-11 biennium for extraordinary fire suppression including $3.65 million General Fund, $26.5 million Other Funds, and $15 million Nonlimited Other Funds. Without regard to these one-time costs, the 2011-13 legislatively adopted budget reflects a net $0.5 million, or 0.17%, total funds reduction from the Governor's recommended budget and a $6.8 million, or 2.3%, total funds reduction from the 2009-11 legislatively approved budget level. While total funds reflects a reduced budget, General Fund was increased 3.8% from the Governor's recommended budget and 10.8% from the 2009-11 legislatively approved budget to maintain the 50:50 cost sharing between the General Fund and private land owners base fire suppression resources.

The budget reflects a reduction of $1.8 million General Fund, $4.4 million Other Funds, and $1.4 million Federal Funds ($7.6 million total funds) to reflect reduced personal service costs, elimination of standard inflation, reductions in state government service charges and assessments, and a 6.5% reduction in services and supplies. The budget also includes a reduction of $1.2 million General Fund for a supplemental ending balance that may be restored during the 2012 legislative session for the second year of the biennium depending on economic conditions.

Above the base fire suppression resources, a $4.8 million General Fund special purpose appropriation to the Emergency Board was approved by the Legislature for fire severity resources to pre-position resources and equipment and one-half of the cost of the second year of the biennium's insurance premium (the first year is included in the base budget).

ODF – State Forest Lands

	2007-09* Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	63,605,033	83,325,324	85,018,333	84,235,929
Federal Funds	511,211	8,177,661	7,140,833	6,519,699
Total Funds	**64,116,244**	**91,502,985**	**92,159,166**	**90,755,628**
Positions	340	291	283	268
FTE	280.33	256.16	252.89	242.43

** 2007-09 Actual expenditures include budget history for Nursery Program which is no longer supported.*

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 state-owned 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 $48 million for 2011-13. 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. State-owned lands are expected to generate $77 million for counties and local taxing districts during the 2011-13 biennium; timber sales from Common School Fund lands are forecasted to generate approximately $30 million in revenue during the 2011-13 biennium. Management costs on the Common School Fund lands are proposed in the budget at slightly over $11.3 million for the 2011-13 biennium.

Budget Environment

The level of forest management on state-owned 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.

Current economic conditions point to possible downturns in most of the Department's revenue sources, including state forests. The national and state economic conditions are expected to remain weak at least through the fourth quarter of 2011. 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 forests. The Office of Economic Analysis reported in its most recent indicators report that the Random Lengths Composite 48 Price (Random Lengths Publications, September 2010) for lumber is $250 per thousand feet compared to $245 per thousand feet in August and $236 per thousand feet in September 2009. Although prices have recently firmed, they are still well below prices in September 2008 and the housing bubble prices of $396 per thousand feet in September 2005. The 2009 fiscal year's average bid price per thousand board-feet has increased by 1% compared to the previous year primarily because of low inventories at local mills.

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 forests over the last decade. Listings for fish species also have effects on the ability of managing the resource to achieve revenue goals on state forest lands.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $90.6 million is $1.4 million total funds, or 1.5%, lower than the Governor's recommended budget and $747,357 total funds, or 0.82%, lower than the 2009-11 legislatively approved budget level and includes 268 positions (242.43 FTE).

The budget was reduced by $720,738 Other Funds and $621,134 Federal Funds and 15 positions (10.46 FTE) to eliminate long-term vacant positions that have been determined to not be critical for supporting the agency's core programs; and $61,666 Other Funds to reflect reductions in state government service charges and assessments.

ODF – Private and Community Forests

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	10,260,195	4,641,768	8,932,394	12,382,704
Lottery Funds	0	0	700,000	0
Other Funds	7,011,139	6,846,033	8,441,266	8,963,430
Federal Funds	4,694,595	18,927,104	20,160,131	17,769,912
Total	**21,965,929**	**30,414,905**	**38,233,791**	**39,116,046**
Positions	114	95	108	96
FTE	110.66	80.74	109.67	106.87

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 to conduct stand management prescriptions through technical and financial assistance.
- Promotes the role of family forestland owners in providing for forest sustainability including timber availability and the maintenance and enhancement of ecosystem services such as clean water, fish and wildlife habitat, carbon sequestration and aesthetics through education, financial assistance, and technical services.
- 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 voluntary measures under the Oregon Plan for Salmon and Watersheds through technical, cost-share, and administrative assistance.
- Is responsible for monitoring to ensure rules and programs are effective and efficient.
- Provides on-site technical, educational, and financial assistance for municipal governments, other urban public agencies, non-profit groups, and civic organizations.
- Provides technical information on tree risk assessment, ordinances, inventories, tree care, planting, tree selection, and urban forest management.

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 occasional 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, tree improvement, the acquisition of development rights on a voluntary basis on important forestlands threatened with loss to development and forest insect and diseases management. The federal funding for these programs requires, in most cases, a 50% (dollar for dollar) non-federal match. Federal funding is also provided for Urban and Community Forestry and Forest Health monitoring activities. Other Funds revenues were phased out in the 2003-05 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 50% reforestation tax credit program is now a fee based program for participating landowners. The program also receives private donations, including the Forest Resource Trust funds and Urban and Community Forest donations, for specific projects.

Budget Environment

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. As the economy recovers and timber harvesting on private lands becomes more robust, workload will increase from notifications of operations (intent to conduct a forest operation), plus reviewing and commenting on written plans describing operating methods on sensitive sites. The number of on-site inspections for pre-operation planning active operations, and reforestation auditing are also expected to increase.

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 education and the availability of financial assistance funds to enable these landowners to manage sustainability. Certification through programs such as the American Tree Farm System and Forest Stewardship Council now require family forest landowners to manage responsibly for threatened and endangered species, water quality, high conservation value forests, forest health, integrated pest management and soil conservation. Financial assistance and education is needed to help these landowners develop written management plans define their goals for management and objectives for future resource conditions, know their current resource conditions and threats, and to come up with the actions and management recommendations to go from known conditions to desired conditions.

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $39.1 million is $882,255, or 2.3%, more than the Governor's recommended budget level and $8.7 million more than the 2009-11 legislatively approved budget level and includes 96 positions (106.87 FTE). The increased budget is primarily due to increasing the General Fund appropriation by $3.45 million and $522,164 Other Funds from the Governor's recommended budget level and $7.7 million General Fund and $2.1 million Other Funds from the 2009-11 legislatively approved budget level. These resources were used to restore funding on 42 positions (21.15 FTE) to administer the Forest Practices Act including compliance monitoring, effectiveness monitoring, field administration, and forest health to 2007-09 budget levels. The additional General Fund includes resources to restore support for insect and disease control efforts that consists of aerial survey, monitoring bark beetle tree mortality, and the Sudden Oak Death eradication program. The addition of General Fund also enabled shifting $1.6 million Federal Funds made available through the American Recovery and Rehabilitation Act back to General Fund and Other Fund resources. The Legislature adopted a budget note directing the agency to examine work processes with input from stakeholders with an eye toward incorporating best practices into agency performance reducing costs, becoming a more efficient partner, and increasing effectiveness in administering the Forest Practices Act and to use resources to utilize independent contractors for compliance monitoring and report to the Legislature.

The budget was reduced by $126,823 Other Funds, and $707,126 Federal Funds and 7 positions (6.56 FTE) to eliminate long-term vacant positions that were determined to not be critical for supporting the agency's core programs and to shift two positions to the Administration Program for agency-wide federal grant administration.

The budget reflects a reduction of $0.9 million General Fund, $1.1 million Other Funds, and $1.2 million Federal Funds ($3.2 million total funds) to reflect reduced personal service costs, elimination of standard inflation, reductions in state government service charges and assessments, and a 6.5% reduction in services and supplies.

The budget also includes a reduction of $310,311 General Fund for a supplemental ending balance that may be restored during the 2012 legislative session for the second year of the biennium depending on economic conditions.

Department of Geology and Mineral Industries – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	3,289,957	2,675,265	2,597,776	2,465,906
Lottery Funds	1,499,224	500,000	0	0
Other Funds	5,581,580	7,734,026	7,211,066	7,246,479
Federal Funds	1,690,466	3,811,371	3,502,353	3,558,985
Total Funds	**$12,061,227**	**$14,720,662**	**$13,311,195**	**$13,271,370**
Positions	40	39	42	43
FTE	37.04	37.08	41.20	42.20

Agency Overview

The Department of Geology and Mineral Industries (DOGAMI) is the state's primary source of geologic information. DOGAMI has two program areas The Geologic Survey and Services program and the Mined Land Regulation and Reclamation program. 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.

The Geologic Survey and Services program gathers geologic data and maps mineral resources and hazards. Geographic areas needing tsunami hazard mapping, landslide hazard studies, and earthquake risk mapping have been prioritized by the agency. The information is shared with state and local policy-makers for land use planning, facility siting, building code and zoning changes, and emergency planning. The Geologic Survey program also provides publication and library functions and the agency's administrative functions such as budgeting, accounting, and human resource services.

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, geothermal exploration and extraction, and received no General Fund or Lottery Funds support.

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. Historically, approximately 40-45% of DOGAMI's Federal Fund monies are for grants that require matching General Fund dollars. The Mined Land Regulation and Reclamation program is financed primarily from Other Funds derived from aggregate mine, oil and gas, and geothermal permit fees. The Department has experienced an increase in Federal and Other Funds revenue due to partners in the LIDAR consortium paying the Department for collection of map data using LIDAR services contracted by DOGAMI.

Budget Environment

Oregon is a state with a wide range of geologic hazards, varied geologic conditions, and diverse geologic resources. Population increases along with greater interest in renewable energy sources and climate change have contributed to an increase in demand for geologic information. Increased demand combined with General Fund reductions has resulted in DOGAMI becoming more dependent upon obtaining funding partners to support projects, rather than pursuing projects that are of highest priority need. General Fund reductions to this Department have largely involved use of other revenues to replace lost state support. This has occurred to such an extent that future fund shifts may be limited by the availability of state support to use as match for other revenue sources such as federal grants.

Legislatively Adopted Budget

The legislatively adopted budget level of $13.3 million is comprised of $2.5 million General Fund (18.6%), $7.2 million Other Funds (54.6%), and $3.6 million Federal Funds (26.8%), which represents a $1.4 million (10%)

overall reduction from the 2009-11 legislatively approved budget. This reduction is largely attributed to a reduction in funding to collect LIDAR data. The General Fund portion of the 2011-13 adopted budget is about 5% less than the Governor's recommended level due statewide reduction actions taken in all agencies as part of the final legislatively adopted budget.

The legislatively adopted budget includes $2.9 million Other Funds expenditure limitation to continue LIDAR mapping, two limited duration positions for data analysis (1.75 FTE), and $0.7 million in additional Other Funds and Federal to conduct flooding hazard assessments for coastal river flooding and tsunami inundation threats. A total of $439,124 General Fund support was reduced and replaced with Other Funds and Federal Funds. As with all state agency budgets, the General Fund portion of DOGAMI's budget was adjusted to include a 6.5% reduction to services and supplies and a 3.5% supplemental statewide ending balance hold back reduction on total General Fund support.

Department of Land Conservation and Development (DLCD) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	19,057,084	15,509,125	11,440,378	10,885,017
Other Funds	686,757	2,193,137	1,363,210	1,457,573
Federal Funds	5,259,499	6,598,675	5,860,289	5,857,281
Total Funds	**$25,003,340**	**$24,300,937**	**$18,663,877**	**$18,199,871**
Positions	95	95	58	57
FTE	85.02	80.64	55.80	55.11

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 and natural hazards programs. Oregon's land use planning system is based on a set of 19 statewide goals expressing the state's policies on land use and related topics such as 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 post-acknowledgement plan amendments, which are 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

Historically, about 65% of the agency's budget was funded with General Fund, until that support climbed into the 70% range in recent biennia due to work associated with Measures 37 and 49. With the bulk of that work completed and reflecting adjustments made to balance the statewide budget, the 2011-13 legislatively adopted budget sets General Fund support at 60%.

Federal dollars are expected to cover about one-third of the budget; funding comes from the U.S. Department of Commerce's National Oceanic and Atmospheric Administration (NOAA) and from the Federal Emergency Management Agency (FEMA). 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.

FEMA funds, which are used to operate the Floodplain Management Program, in most cases require a 25% state match and are restricted to use in administration of the National Flood Insurance and RiskMap programs.

Other Funds revenue sources consist mostly of federal transportation funds from the Oregon Department of Transportation (ODOT) for Transportation Growth Management (TGM) and other transportation-related program activities. DLCD projects a transfer from ODOT of more than $950,000 in 2011-13. 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.

New for the 2011-13 biennium is revenue of about $430,000 Other Funds related to the implementation of HB 3647 (2010), which requires establishment of an independent soils analysis program. The agency will contract with third parties for these analyses; landowners will pay a pass-through fee to cover program costs.

One-time Other Funds revenues of just over $825,000 are phased-out for 2011-13. These were fee revenues associated with HB 3225 (2009) and SB 1049 (2010), which allowed the agency to process additional claims under Measure 49 and to charge various fees to help offset the claim processing costs.

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.

DLCD has faced funding challenges over the past several years. The agency has limited 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 came 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.

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. This level of funding, along with about $6 million General Fund proposed in the 2009-11 budget, was aligned with the agency completing the review and resolution of claims by December 31, 2010.

However, the 2009 Legislature passed HB 3225, which set a statutory deadline of June 30, 2010 for the issuance of final orders on most claims. The measure also allowed the agency to process approximately 500 additional claims. As noted previously, the 2009-11 budget included about $6 million General Fund to handle both the existing and additional Measure 49 claims. The supplemental claims were subject to a $175 fee intended to partially defray processing costs. These were claims the agency could not previously consider because claimants did not meet specific filing criteria contained in the original ballot measure. Some filing requirements and timelines were confusing to claimants or inconsistently applied across the state.

Most recently, the 2011 Legislature passed HB 3620, which allows a person to file a request for reconsideration of a claim under Ballot Measure 49 if the claimant's date of property acquisition was changed by conveyance of the property. In cases where conveyance and reacquisition of the property occurred within a 10-day period, the claim may go forward. The agency estimates approximately 7-10 claims will be eligible for additional M49 processing due to this legislation.

Several other land use-related bills were also passed by the 2011 Legislature. Some of these concern urban issues: HB 3225, which authorizes exceptions to allow transportation facilities in Metro urban reserves; SB 766, which requires a review council to designate regionally significant industrial areas; and SB 795, which requires the Commission to consider amendments to the Transportation Planning Rule. Other bills passed include HB 3408 (irrigation reservoirs), HB 3465 (guest ranch in Silvies Valley), SB 960 (standard for commercial activities on farmland), HB 3280 (activities at wineries), HB 3166 (10-year limit for local land use decision challenges), HB 3572 (extends time frame for a specific destination resort application), HB 2129 (relating to procedure for post-acknowledgment change to local land use plans), HB 2748 (wave energy), HB 2132 (transfer of development pilot program), HB 2688 (review of land reserve designations), and HB 3538 (greenhouse gas emissions).

Legislatively Adopted Budget

The agency's 2011-13 legislatively adopted budget consists of $10,885,017 General Fund, $1,457,573 Other Funds, $5,857,281 Federal Funds and 57 positions (55.11 FTE). The total funds budget is a 25.1% reduction from the 2009-11 legislatively approved budget and a 2.5% reduction from the Governor's recommended budget. While the budget does include targeted reductions and the supplemental ending balance adjustment (eliminates $397,439 General Fund), the decrease between biennia is primarily due to the phase-out of most Measure 49 program expenses. More detail follows in the budget program unit narratives.

DLCD – Planning Program

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	16,977,745	13,387,921	9,783,476	9,285,676
Other Funds	686,757	2,193,137	1,363,210	1,457,573
Federal Funds	4,339,970	6,598,675	5,860,289	5,857,281
Total Funds	**$22,004,472**	**$22,179,733**	**$17,006,975**	**$16,600,530**
Positions	95	95	58	57
FTE	85.02	80.64	55.80	55.11

Program Description

Administration (13.88 FTE) provides agency leadership and oversees day-to-day operations. These include financial services, support services, information systems, and administration of the Landowner Notification program. This program requires cities and counties to provide 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.

Planning (13.65 FTE) provides technical assistance and policy consultation services in planning areas, such economic development and revitalization, urban growth boundary expansion, farm and forest protection, natural resource management, mineral and aggregate resources, and floodplain management.

Specific services include the Transportation and Growth Management (TGM) Program and the Natural Hazards Program. The TGM Program, a joint effort with the Oregon Department of Transportation (ODOT), focuses on helping communities manage urban growth, planning an efficient transportation network, and protecting the function of state highway facilities. The program provides technical assistance and manages grants to special districts, cities, and counties. Federal funding received through ODOT is this program's primary revenue source. The Natural Hazards Program helps flood-prone communities maintain eligibility for participation in the National Flood Insurance Program and keeps floodplain maps and data up to date. Federal funding from the Federal Emergency Management Agency (FEMA) supports this program.

Community Services (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.

Ocean and Coastal Services (11.58 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 and the Oregon Ocean Resources Management Program. The agency provides services such as technical assistance, administration of coastal grants, coordination of state and federal programs in the coastal zone, and support to the Ocean Policy Advisory Council. These activities are primary supported by federal funding.

Measure 49 Development Services (1.00 FTE) was established to process claims for compensation made under Measure 37 and Measure 49. The bulk of the claims were processed by June 30, 2010, by employees in limited duration positions. The 2011-13 budget retains one permanent position to provide ongoing program support. The budget also includes an additional $50,000 General Fund to help cover Measure 49- related Attorney General costs. While the volume of new or newly eligible claims is minimal, litigation from already processed claims is ongoing. This adjustment, along with the agency's base budget for legal costs, provides a total of $652,771 General Fund for department-wide Attorney General charges. Recent monthly expenditures for Attorney General work suggest this funding level will be inadequate unless litigation tapers off or the Attorney General and agency find ways to more efficiently manage or mitigate this work.

Legislatively Adopted Budget

This program unit captures more than 90% of the agency's spending. The 2011-13 legislatively adopted budget for General Fund is 30.1% below the 2009-11 legislatively approved budget and reflects the Measure 49 program phase-out and budget reductions, as noted previously. Reductions were taken in all fund types to implement standard statewide adjustments in compensation, assessments, and rates.

The budget also includes the elimination of over $400,000 General Fund and six permanent positions to help balance the statewide budget. The affected positions include dedicated Measure 49 resources, the agency's communication officer, and a receptionist. The reduced staffing level will require cessation of lower priority tasks and shifting some activities to other positions.

A limited duration position working on greenhouse gas emissions reduction targets was continued. This effort was initiated under the 2009 Jobs and Transportation Act and is supported by ODOT funds. Expenditure limitation of $94,418 Other Funds was also added to handle expedited reviews for industrial lands. The work is supported by application fees paid to the Oregon Business Development Department.

Budget authority on an existing part-time procurement specialist position was increased by 0.36 FTE to cover the workload associated with soils analysis contracts required under HB 3647 (2010). The fee-supported program starts in October 2011; General Fund will initially pay for start-up costs, but these costs will then be repaid from fee revenues. Program revenue estimates and expenditures will need to be reviewed, and possibly modified, in the 2013-15 biennium budget cycle based on actual experience.

The budget also adds federal resources to improve digital flood hazard maps.

DLCD – Grant Program

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	2,079,339	2,121,204	1,656,902	1,599,341
Federal Funds	919,529	0	0	0
Total Funds	**$2,998,868**	**$2,121,204**	**$1,656,902**	**$1,599,341**

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, dispute resolution, economic development, and small city and county grants. This program is managed by staff in DLCD's Planning Program. No positions are included in the Grants budget.

Revenue Sources and Relationships

Prior to the 2009-11 budget, this program unit included Federal Funds for grants provided to local coastal governments. This budget component was 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.

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is about $520,000 General Fund, or 25%, below the 2009-11 legislatively approved budget. This change consists of about a 22% decrease in the overall grant program, plus an additional reduction to create the statewide supplemental ending balance. While grant capacity is diminished, the agency still expects to make grant awards in the high-priority categories of planning assistance, dispute resolution, periodic review, and technical assistance.

Land Use Board of Appeals – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	1,506,938	1,414,047	1,352,155	1,295,278
Other Funds	65,304	80,003	83,644	83,620
Total Funds	**$1,572,242**	**$1,494,050**	**$1,435,799**	**$1,378,898**
Positions	6	6	5	5
FTE	6.00	6.00	5.00	5.00

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 develop a consistent body of land use law. Prior to the creation of LUBA, circuit courts reviewed local land use decisions which resulted in delays and inconsistent interpretations of land use law in different portions of the state. LUBA has jurisdiction to review appeals of local government and some state agency 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 via discretionary review. 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.

The Board consists of three hearings referees and two support positions. The Board Members are members of the Oregon State Bar and are appointed by the Governor (subject to Senate confirmation). LUBA's office is located in the Public Utility Commission (PUC) building, with 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 in the 2011-13 biennium.

LUBA also collects appeal filing fees and fees from intervening parties, which are transferred to the General Fund. The 2009 Legislature increased the appeal filing fee from $175 to $200 and added an intervener fee of $100 (HB 3199). LUBA estimates receiving $80,150 from these fees in 2011-13, which is consistent with handling about 130 appeals annually.

Budget Environment

At historical staff levels, LUBA managed between 420-450 appeals per biennium. Depending upon complexity and timing of the appeals, LUBA was able to meet performance measure targets for issuing final opinions within the statutory 77-day deadline. The volume of appeals is heavily influenced by economic activity and population growth; in 2010 the Board received only 116 appeals. The timing and extent of the reduction in appeals volume is unknown, but the Board projects that appeal numbers will likely return to normal as the economy recovers.

Legislatively Adopted Budget

LUBA's 2011-13 legislatively adopted budget consists of $1,295,278 General Fund, $83,620 Other Funds, and 5 full-time positions. The General Fund appropriation is an 8.4% reduction from the 2009-11 legislatively approved level and a 4.2% reduction from the Governor's recommended level. Along with eliminating inflation and reducing services and supplies by 6.5%, the adopted budget abolishes the Board's vacant staff attorney position. Since the former incumbent was laid off during the 2009-11 biennium due to budget shortfalls, LUBA board members have already absorbed the work previously performed by this position. If the number of annual appeals filed with the agency remains under 150, the Board should be able to meet its statutory deadlines.

The budget also includes a 3.5% supplemental ending balance hold back of $46,974 General Fund. This amount is subject to restoration to the agency in February 2012 depending on the state's overall fiscal situation.

Department of State Lands – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	213,075	2,441,534	0	0
Other Funds	37,447,787	25,931,494	24,208,738	26,494,276
Federal Funds	2,277,027	6,101,737	2,895,671	5,671,787
Other Funds (NL)	1,242,333	9,812,450	10,054,249	10,054,249
Total Funds	**$41,180,222**	**44,287,215**	**37,158,658**	**42,220,315**
Positions	111	111	110	108
FTE	108.76	108.46	106.76	106.42

Agency Overview

The Department of State Lands 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.

The Department is organized around five program areas:

- ***Common School Fund*** (91 positions, 89.42 FTE) consists of four divisions, Land Management, Wetlands and Waterways Conservation, Finance and Administration, and the Director's Office.
- ***Removal-Fill Mitigation*** (1 position, 1.00 FTE) 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.
- ***South Slough Natural Estuarine Research Reserve*** (16 positions, 16.00 FTE) 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. 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. SSNERR operates an interpretive center and maintains nature trails for hikers and canoeists. It also conducts a variety of research, educational, and stewardship programs.
- ***Natural Heritage Program*** (no positions or FTE) – 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 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. Responsibility for maintenance of a data bank of significant natural heritage sites areas to guide decisions on project planning and land management was transferred to Oregon State University (OSU), however the Department provides the state match for federal funds to maintain the data bank.
- ***Capital Improvements*** (no positions or FTE) manages property as assets of the Common School Fund. 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

Other Funds revenue for the Department 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. Income from these sources is expected to remain fairly stable. Fee revenue and leasing revenue is expected to generate $8.3 million for the 2011-13 biennium. Constitutional revenue is generated from periodic land sales and other revenue generated from property holdings for deposit in the Common School Fund. Revenue from land management activities is projected to show a slight increase during the 2011-13 biennium. Common School Fund revenues also include receipts from timber harvests on Common School Forest land. The Department of Forestry projects $33.3 million in timber receipts for 2011-13 which is about $9.1 million more than expected for the 2009-11 biennium. However, recent reports suggest timber receipts will be closer to $30 million. Common School Fund distributions to the Department of Education by the Department of State Lands are anticipated to be $101 million in 2011-13.

Federal Funds received by the Department from the U.S. Environmental Protection Agency, Office of Coastal Resource Management, National Oceanic Atmospheric Administration, Department of Commerce, and U.S. Fish and Wildlife Service provide support of the wetlands program, permit streamlining efforts, Natural Heritage Advisory Council, and the South Slough National Estuarine Research Reserve. Federal Fund receipts are estimated at $5.8 million for the 2011-13 biennium. State match ranges from 30% to 50% depending on the individual grants and is provided from in-kind contributions, private donations, and some Common School Fund expenditures.

Budget Environment

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. 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. From 1999 to 2009 distributions were based on a sliding scale of percentages of a three year rolling average of the annual growth in the Common School Fund's market value with lower percentages used when fund growth was relatively sluggish. The constitution (Article VIII) requires the Legislative Assembly to provide by law how moneys in the Common School Fund shall be invested, distributed and to appropriate in each biennium money from the fund for public education. State law, ORS 273.105, delegates responsibility to the State Land Board.

In 2009, the Legislature appropriated $2,825,910 General Fund and reduced the Department's statutory Other Fund ending balance to provide an additional $1,812,968 Other Funds expenditure limitation to hire a forensic consultant to help the state defend its position in the Portland Harbor cleanup cost allocation process. The forensic consultants will complete most of their evaluation of state activities at or adjacent to 79 upland sites and provide the contamination, remedy, and associated costs in each sediment management area in the early months of the 2011-13 biennium. The Department anticipates it will require additional assistance from the Department of Justice and the forensic consultant in 2011-13 as cost allocation negotiations and natural resource damage assessment work continues with federal environmental agencies and other entities at an estimated cost of $1.2 million General Fund and $700,000 Other Funds in the 2011-13 biennium. The Legislature did not provide any General Fund to complete this work. The issue may need to be addressed during the 2012 legislative session.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is $5 million, or 13.6%, more than the 2011-13 Governor's recommended budget and $2 million less than the 2009-11 legislatively approved budget level and includes 108 positions (106.42 FTE). The Legislature approved the following:

- $700,000 Other Funds to make final payments on the Portland Harbor expert forensic witness contract. Other Funds come from statutory revenues not associated with the Common School Fund.
- $2,256,000 Other Funds and $2,283,000 Federal Funds to finalize acquisition of several forested properties in the South Slough watershed from two timber companies and the Common School Fund to manage in accordance with the South Slough management plan.
- Transfer support for the Natural Heritage program to the Oregon Parks and Recreation Department by January 1, 2012, reducing expenditures by $20,827 Other Funds and $130,133 Federal Funds.

- $486, 712 Federal Funds for federal grants from the U.S. Fish and Wildlife Service and U.S. Environmental Protection Agency initiated during the 2009-11 biennium, but that will not be completed until the 2011-13 biennium.

The budget also reflects reductions of $597,579 Other Funds and $50,035 Federal Funds to eliminate inflation and to adjust personal services costs and assessments for state government service charges, as well as a 6.5% reduction from total services and supplies.

Marine Board (OSMB) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	23,795,485	26,262,518	$25,615,484	22,020,102
Federal Funds	8,032,484	8,091,039	6,954,993	6,683,394
Total Funds	**$31,827,969**	**$34,353,557**	**$32,570,477**	**$28,703,496**
Positions	40	43	43	40
FTE	39.00	41.38	42.00	39.50

Agency Overview,

The Oregon State Marine Board (OSMB) was established in 1959 and is responsible for registering and titling all recreational motorized and sailboats 12 feet and longer in the state, providing boater education, marine law enforcement, facility access, and mitigating the effects of invasive species on native waters. The Board consists of five members appointed by the Governor for four-year terms. The Board selects the agency's executive director.

Forty positions (39.50 FTE), organized into four program areas, support the mission of the agency.

- ***Administration and Education program*** ($5.5 million, 23.00 FTE) is responsible for agency administration, public affairs, statewide boating rules, vessel titling and registration activities including floating homes and boathouses, outfitter and guide registration, and ocean charter boat licensing.
- ***Law Enforcement program*** ($12.5 million, 4.50 FTE) provides on-water safety patrol and boating law enforcement.
- ***Facilities program*** ($8.8 million, 9.00 FTE) provides for the maintenance and improvement of boating facilities throughout the state.
- ***Aquatic Invasive Species (AIS) program*** ($1.9 million, 3.00 FTE) provides for invasive species mitigation through inspecting and decontaminating watercraft.

Revenue Sources and Relationships

OSMB is funded with 77% Other Funds and 23% Federal Funds. The agency receives no General Fund support or Lottery Fund allocation. The following table summarizes the Department's major sources of revenue.

Major Revenue Sources by Fund-type	2007-09 Actuals	2009-11 Estimates	2011-13 Legislative Adopted	% Change 2009-11-E to 2011-13
Other Funds Revenue				
ODOT Gasoline Tax	$10,881,691	$10,018,350	$9,770,172	-2%
Registration/Title Fees	10,785,010	10,051,126	9,352,406	-7%
Aquatic and Invasive Species Fees	0	1,350,299	2,281,230	+69%
Guides/Outfitters/Charter	264,085	274,042	447,204	+63%
Mandatory Education Fees	674,482	412,987	289,480	-6%
ODFW Sportfish Grant	89,000	119,000	120,000	+1%
Title Penalties	93,572	103,675	103,800	0%
Sub-Total	$22,787,839	$22,329,478	$22,464,292	1%
Federal Funds Revenue				
Coast Guard Federal Funds	$5,096,754	$5,254,719	$4,730,000	-10%
Boating Infrastructure Grant	3,030,706	352,407	1,045,000	+197%
Clean Vessel Act Grant	632,100	695,073	910,000	+31%
Sub-Total	$8,759,560	$6,302,199	$6,685,000	+6%

The agency's three primary revenue sources are:

- ***Marine fuel taxes:*** Each year the Department of Administrative Services certifies the amount of motor vehicle fuel taxes imposed during the preceding fiscal year on fuel purchased and used to operate motor boats. The amount, less refunds for commercially used motor boats, is transferred to the Marine Board's

Boating Safety, Law Enforcement and Facility Account. The estimate is based on the results of the Oregon Motorboat Fuel Use Survey that is conducted every four years to determine the amount of fuel consumed for a variety of vessel sizes and types, which is used to determine the tax to be transferred from the Department of Transportation. The last survey was completed in spring 2010. The survey indicates total consumption has decreased by 22%, which despite an increased tax rate for the second half of the last fiscal year, results in a slight decrease in fuel tax transfer to OSMB.

- ***Registration and title fees:*** Registration fees are set by statute and vary based on type and size of vessel. Registrations are valid for two years. A boat owner must also secure a one-time certificate of title from the Marine Board. The 2003 Legislature adopted new fees based on a flat fee of $3/foot for a two year registration; 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 last fee increases were authorized by the 2003 Legislature and became effective during the 2003-05 biennium.
- ***Invasive species fees:*** The fees for the permits are $5 for motorboats, $5 for manually propelled boats over ten feet in length, and $20 for nonresidents and annual fees for operators of boat liveries. The aquatic invasive species fees were instituted during the 2009 legislative session and are deposited into a dedicated account.

OSMB has an Other Funds beginning balance of $4 million and an estimated ending balance of $4.5 million, which represents five months of cash reserves.

The sources of the agency's Federal Funds are:

- U.S. Coast Guard's Recreation Boating Safety (RBS) grant program ($4.7 million): The Coast Guard restricts use of RBS grants to boating safety programs and requires a 50-50 state match. This is a formula-driven grant award and is funded by the federal Sportfish Restoration and Boating Trust Fund.
- Boating Infrastructure Grant (BIG) program ($1.1 million): 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. BIG funds, authorized in 1998 as part of the Sport Fishing and Boating Safety Act, require a 25% state match.
- Clean Vessel Act (CVA) program ($910,000): 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. CVA is a competitive grant.

Matching funds for the various grants come from local government funds, local in-kind support, and OSMB registration and titling fees and marine fuel tax.

Budget Environment

Over the last eleven years, the average number of boats registered by OSMB was 188,038. The number of registered boats peaked in December of 2004 at 197,591. Current registration is estimated to be 177,634 boats, which would be its lowest point in the last eleven years. On average, registration has decline approximately 1% per year since 2000. The agency notes that even though the number of registered boats has declined, there is an increased utilization of waterways by non-registered craft, such as canoes, kayaks, rafts, and inner tubes.

The decline in boat registration lessens registration and titling fees revenues and likely the amount of marine fuel tax received by the agency. The agency has had to administratively manage its budget to remain within available cash resources.

The future availability of federal resources may also become an issue as federal funding becomes more constrained due to the federal budget deficit.

Over the last ten years, the average number of registered outfitters and guides has been 1,063. This number peaked in 2006 at 1,086. Current registration for 2010 is 1,036.

Over the last ten years, the average number of licensed charter vessels has been 215. The highest number reported over this period occurred in 2010 at 249.

The interplay of motorized and non-motorized boating activities continues to be an issue that the agency must actively manage in terms of education, regulation, and law enforcement.

The level of safety patrol and boating law enforcement will be become more difficult as biennium-over-biennium funding of these activities by the agency will be relatively unchanged from the 2009-11 biennium.

The financial stewardship of the agency has been of concern since the release of a Secretary of State Audit in November 2010. Greater Board awareness of its fiduciary responsibilities, a change in the agency's director, and a new agency finance manger are expected to lead to improved agency accountability of state funds.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $28.7 million is $3.9 million, or 11.9%, less than the Governor's recommended budget and $5.7 million, or 16%, less than the 2009-11 legislatively approved budget and includes 40 positions (39.50 FTE).

OSMB's budget is comprised of $6.5 million personal services (23%), $3 million services and supplies/capital outlay (11%), and $19.2 million special payments (67%).

The Other Funds budget of $22 million is $3.6 million, or 14%, less than Governor's recommended budget and is $4.2 million, or 16%, less than the 2009-11 legislatively approved budget. Federal Funds total $6.7 million and is $271,599, or 4%, less than Governor's recommended budget and is $1.4 million, or 17%, less than the 2009-11 legislatively approved budget.

The budget was reduced by $5.8 million Other Funds and $271,133 Federal Funds to reflect updated revenue and expenditure estimates for the 2011-13 biennium. During the 2009-11 biennium, the agency had been operating administratively at a reduced level because of declining Other Fund revenues.

A permanent full-time Accounting Technician position was abolished and re-established as a Fiscal Analyst 2 position to provide the agency with increased internal control capability.

The budget was reduced by $287,332 Other Funds and three positions (2.50 FTE) to eliminate long-term vacant positions that were determined to not be critical for supporting the agency's core program.

The budget reflects a reduction of $496,363 Other Funds and $122,861 Federal Funds for standard reductions that include: a 5.5% reduction to personal service; the elimination of the standard inflation increase; and an adjustment to state government service charges and assessments charged to most agencies.

OSMB – Administration and Education Program

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	5,220,082	6,258,434	6,676,782	5,241,125
Federal Funds	431,094	743,166	440,054	212,238
Total Funds	**$5,651,176**	**$7,001,600**	**$7,116,836**	**$5,453,363**
Positions	26	29	29	24
FTE	23.84	26.22	26.84	23.00

** Starting with the 2011-13 biennium, the AIS program is established as its own program within the agency (see below). The 2009-11 legislatively approved budget for the program was $745,986 (3 positions, 2.38 FTE) and is included in the above figures.*

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

Balancing needs and expectations of water-based outdoor recreation activities in Oregon is a growing challenge. The number of registered boats continues to decline and evidence indicates a steady increase in the popularity of non-registered manually powered boats and organized rowing sports. Implementation of the Aquatic Invasive Species Program is enabling the Board to gather baseline use data on non-registered boats for the first time, but it will take several years to quantify trends. However, fatalities related to manually powered boat operation continue to increase, and conflict between motorized and non-motorized users has spiked in recent years. The economic downturn has eroded the number of 16-20' registered boats, and higher fuel prices have likely played a part in fewer use days by registered boaters. These changes require new ways of dealing with user conflict and managing limited and declining resources by service providers. While approximately 80% of fatalities involved persons not wearing life jackets, funds for statewide campaigns are now very limited. The agency continues to work closely with service providers to carry this important message to all boaters – registered or not – while trying to assess how best to serve this diverse group of customers.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $5.5 million is $1.6 million, or 23%, lower than the Governor's recommended budget and is $1.6 million, or 22%, lower than the 2009-11 legislatively approved budget and includes 24 positions (23.00 FTE). The large reduction reflects the transfer of the Aquatic Invasive Species program to a unique program within the agency (see below).

The budget was reduced by $155,647 Other Funds and two positions (1.50 FTE) to eliminate long-term vacant positions that were determined to not be critical for supporting the agency's core program.

The budget reflects a reduction of $301,341 Other Funds and $14,735 Federal Funds for standard reductions that include: a 5.5% reduction to personal service; the elimination of the standard inflation increase; and an adjustment to state government service charges and assessments charged to most agencies.

The budget was reduced by $908,838 Other Funds and $227,350 Federal Funds to reflect updated revenue and expenditure estimates for the 2011-13 biennium.

OSMB – Law Enforcement Program

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	9,382,126	10,109,050	10,180,477	8,789,102
Federal Funds	3,883,988	4,855,273	3,997,489	3,738,931
Total Funds	**$13,266,114**	**$14,964,323**	**$14,177,966**	**$12,528,033**
Positions	4	4	4	4
FTE	4.83	4.83	4.83	4.50

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 and with the Department of State Police (OSP) providing additional statewide coverage, with emphasis in the five counties (Gilliam, Grant, Harney, Lake, and Wheeler) not covered by contracts with county sheriffs. For the 2011-13 biennium, the average contract totals $327,259, with Multnomah County having the largest contract ($1.4 million) and Union County having the smallest ($20,682). The agency has estimated that it will transfer $10.1 million to county sheriffs and $1.7 million to OSP this biennium. 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 decrease slightly over the next several years.

Budget Environment

Funding for marine law enforcement contracts is reduced this biennium by approximately $950,000, which will likely mean reduced enforcement. In the past, some county's contributions have increased to maintain services at the local level. Most counties provide more than the minimum match, with some counties providing the same or more funding than the Marine Board to cover waterway needs in those counties. 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. While the continuation of RBS funding appears likely, the recent economic downturn and competing federal priorities and future grant reauthorizations less than certain. Federal aid contributes approximately $4.7 million to support the marine law enforcement program.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $12.5 million is $1.7 million lower (12%) than the Governor's recommended budget and is $2.4 million lower (16%) than the 2009-11 legislatively approved budget and includes four positions (4.50 FTE).

The budget reflects a reduction of $78,078 Other Funds and $97,295 Federal Funds for standard reductions that include a 5.5% reduction to personal service and the elimination of the standard inflation increase.

The budget was reduced by $1.3 million of Other Funds and $258,588 of Federal Funds to reflect updated revenue and expenditure estimates for the 2011-13 biennium.

OSMB – Facility Program

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	9,193,277	9,895,034	8,758,225	6,088,676
Federal Funds	3,717,402	2,492,600	2,517,450	2,732,225
Total Funds	**$12,910,679**	**$12,387,634**	**$11,275,675**	**$8,820,901**
Positions	10	10	10	9
FTE	10.33	10.33	10.33	9.00

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. Priority consideration will be given to the rehabilitation and expansion of existing sites, followed by the development of new sites. Grants rely on partnerships and the leveraging of other financial resources such as federal funds, private funds and donations, and other local and state funds. Priorities for funding are established in the Board's Six Year Boating Facilities Plan, which currently has identified $175.6 million in identifiable motorized ($113.1 million), mixed ($36.2 million), and non-motorized ($26.1 million) boating access projects statewide across each of Oregon's 36 counties. 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 $910,000 in 2011-13. 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 $1.1 million, which are also authorized on a 75-25 match ratio. The timing of the construction season and permit timelines drives the expenditure of grant funds.

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $8.8 million is $2.5 million, or 22%, lower than the Governor's recommended budget and is $3.6 million, or 29%, lower than the 2009-11 legislatively approved budget and includes nine positions (9.00 FTE).

The budget was reduced by $131,685 Other Funds and one position (1.00 FTE) to eliminate a long-term vacant position that was determined to not be critical for supporting the agency's core program.

The budget reflects a reduction of $116,944 Other Funds and $10,831 Federal Funds for standard reductions that include a 5.5% reduction to personal service and the elimination of the standard inflation increase.

The budget was reduced by $2.3 million Other Funds and increased by $214,755 Federal Funds to reflect updated revenue and expenditure estimates for the 2011-13 biennium.

OSMB – Aquatic and Invasive Species Program

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted*
Other Funds	0	0	0	1,901,199
Federal Funds	0	0	0	0
Total Funds	**0**	**0**	**0**	**$1,901,199**
Positions	0	0	0	3
FTE	0	0	0	3.00

** The AIS program, which was created in 2009 by HB 2220, was previously budgeted under the Administration and Education Program with a 2009-11 legislatively approved budget of $745,986 (3 positions/2.38 FTE).*

Program Description

The Aquatic Invasive Species program purpose is to mitigate the effects of invasive species on native waters through inspecting and decontaminating watercraft. The program was established during the 2009-11 biennium and became operative on January 1, 2010. The program is operated in coordination with Oregon Department of Fish and Wildlife (ODFW), Department of Agriculture (ODA), and OSP. Boat inspections are conducted through mobile check stations operated by ODFW, ODA, or OSMB.

County Sheriff deputies and OSP troopers are contracted with by OSMB and ODFW for enforcement. Enforcement activities for the program are tracked using a statewide online reporting database.

ODFW, as the state agency charged to mange fish and wildlife resources, has the primary responsibility to implement the boat inspection stations. For the 2010 boating season, ODFW had five two-person inspection teams stationed at various locations across the state that conducted roadside inspections and boat ramp inspections. Each team is outfitted with a decontamination trailer.

The program works closely with the Oregon Invasive Species Council, neighboring state's AIS programs, as well as the U.S. Fish and Wildlife Service to assist in the development of rapid response planning, containment, and decontamination.

Revenue Sources and Relationships

The Aquatic Invasive Species program is estimated to generate $2.3 million in revenue from permit fees charged to boaters who register their boats for use on the public waterways of the state. This includes both instate and out-of-state users. The fees for the permits would be $5 for motorboats, $5 for manually propelled boats over ten feet in length, and $20 for nonresidents and annual fees for operators of boat liveries. The collection of fees on manually propelled boats provides information to the agency on non-motorized usage of Oregon's waterways.

OSMB collects all revenue for the program. The expense of ODFW and OSP are paid by OSMB after being billed by the participating agencies.

Budget Environment

The program prevention focus is on quagga and zebra mussels, aquatic weeds such as Eurasian watermilfoil, hydrilla, New Zealand mud snails, and other key aquatic invasive species that are spread by recreational water-based activities (boating, fishing, floating, etc.).

In 2010, a total of 2,852 *voluntary* watercraft inspections occurred at primarily boat ramps and some roadside inspection stations of which 80% were Oregon boats and the remaining 20% were from Washington (7%), California (6%), Idaho (4%), and various other states (3%). A total of 19 decontaminations were completed for New Zealand mudsnail and Eurasian water milfoil, among other discoveries. There were no decontaminations associated with quagga or zebra mussels.

This new program would benefit from a comprehensive review of its statutory framework and implementation strategy.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $1.9 million is $1.1 million, or 158%, more than the Governor's recommended budget and is $1.1 million, or 155%, more than the 2009-11 legislatively approved budget and includes three positions (3.00 FTE). The increase in the budget is a result of a fully phased-in 24 month budget and the fact that ODFW and OSP expenses are now budgeted as expenditures rather than revenue transfers.

Parks and Recreation Department – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Lottery Funds	93,331,031	90,870,271	88,206,624	79,815,323
Other Funds	105,112,829	94,290,268	101,377,638	99,228,158
Federal Funds	5,225,522	16,066,381	11,917,038	12,733,936
Other Funds (NL)	215,732	0	8,759,753	0
Total Funds	**203,885,114**	**201,226,920**	**210,261,053**	**191,777,417**
Positions	884	883	886	877
FTE	600.29	600.89	603.91	602.03

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 241 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 102,457 acres. These include 55 campgrounds, 176 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 2 historic inns.

The Department operates through the following programs:

- ***Directors Office*** (11 positions, 11.00 FTE) 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. It also provides public information, reviews agency programs and coordinates rulemaking in its efforts to improve agency performance.
- ***Central Services*** (77 positions, 72.94 FTE) is responsible for agency financial services, personnel and information services, and internal audit. The program unit provides budget and fiscal resources management, staff recruitment and training, information technology services including managing the park reservation system, centralized business services such as fleet and managing procurements and manages the volunteer and safety programs.
- ***Park Development*** (18 positions 17.50 FTE) is responsible for direction and management of all real property functions of the Department and provides engineering design, survey, and construction oversight for statewide park development projects focused on reducing the backlog of repairs and deferred maintenance. It also provides labor, materials, and products for state parks through partnerships with state, county, and local correction and youth crew programs.
- ***Direct Services*** (700 positions, 441.35 FTE) combines the former Operations and Recreation programs, along with property and resource management, engineering services for operations, parks safety and risk management and operations support. The program is responsible for operation of the state park system on a daily basis, recreational planning and programming including land and water based trail systems and promotion of bicycling.
- ***Community Support and Grants*** (30 positions, 30.00 FTE) is responsible for direction and management of the Department's major grant programs and Heritage programs. The grant programs include the All-Terrain Vehicle (ATV) grants program, the Land and Water Conservation Fund, the Local Government Grant Program, the Recreational Trails Grant Program, and the Recreational Vehicle Grant Program. The Heritage program administers federal and state programs for historic and archeological resource planning and preservation.

- ***Oregon State Fair and Exposition Center*** (41 positions, 29.24 FTE) 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.

Revenue Sources and Relationships

In November 1998 and again in November 2010, voters approved measures constitutionally dedicating 15% of the net proceeds of Oregon's lottery revenues to be deposited into a Parks and Natural Resources Fund. Half of the fund is allocated to OPRD; the remainder is allocated to the Oregon Watershed Enhancement Board. The second election amended the original measure to dedicate at least 12% of OPRDs share of gross proceeds to be dedicated to local grant programs and requires that costs to administer the local grants be borne by the remaining 88% of gross Lottery revenue. It also requires that the amount be increased to 25% if the net proceeds deposited into the fund increases more than 50% above the amount deposited in the 2009-11 biennium. The 2011-13 legislatively adopted budget assumes $84.6 million Lottery Funds revenue will be generated for the State Parks and Recreation Department sub-account in the biennium. Of the $84.6 million; $10.1 million, is required to be appropriated by the Legislature to local park grant programs. This is an increase of $6.4 million over the 2009-11 legislatively approved amounts. The remaining amount, $74.5 million, is projected to be available for the Department's operating programs. For 2011-13, these Lottery Funds represent 39% of total revenue in the Department's budget, a decrease of 3% from the 2009-11 legislatively adopted budget.

Park user fees represent 19% of the total revenues. User fees are expected to generate $43 million in 2011-13. Due to the infusion of Lottery Fund resources in 1999, park user fees remained at 1996 market levels. The 2009 Legislature approved an increase in the park user fees to bring rates closer to market rates and address declines in Lottery Fund resources. 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 2011-13, the RV fee is expected to produce $33 million, $21.4 million for the state parks system and $11.8 million for transfer to counties, including $1.2 million for county opportunity grants. The current estimate reflects a decrease of approximately $505,785. RV fee revenue is trending downward at approximately 2% per biennium. The Legislature also created a "salmon" license plate that has a premium surcharge above the standard license plate fees. OPRD anticipates receiving $469,774 in the 2011-13 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 $4.6 million from the Oregon Department of Transportation State Highway Fund for roadways and rest area maintenance, $698,975 million from the Marine Board for boater facility maintenance and rehabilitation, and $13.5 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 $14.1 million in Federal Funds.

Budget Environment

As the agency's Lottery Funds increased, the Department's staffing increased by 225 positions (193.65 FTE) since the 1997-99 biennium, a gain of 47%. Due to significant increases in Lottery Funds over time, the Legislature looked for opportunities to shift programs to the Department as a possible means of funding existing or new initiatives that would otherwise require General Fund. The Oregon State Fair and Exposition Center and the Capitol Mall were added to the Department over the past ten years. Also, balances were swept from the All Terrain Vehicle (ATV) program in 2010 through HB 3696. ATV balances were also used for payments to the Department of State Police for troopers and to the Department of Forestry for ATV trails operations and maintenance, and balances were tapped for funding invasive species work at the Oregon Department of Agriculture.

With passage of Measure 76 in November 2010, an estimated $10.2 million, or an additional $6.4 million, will need to be allocated by the Legislature for local park grants. In addition, administrative costs of $3.1 million Lottery Funds in the current service level budget cannot be expensed against the local park grant allocation. An estimated $5.8 million Lottery Funds will need to be shifted from other programs into the local grant program to make up the difference between the current service level budget for local park grants and administrative costs.

Property Acquisition is a fundamental component of ensuring an adequate supply of land is available for the recreational enjoyment of Oregonians and to preserve an area of outstanding natural, scenic, or historical value. Opinions about how much new parkland is needed are divergent. There has been no attempt by the Department to take into consideration other public lands that are available for the recreational enjoyment of Oregonians in its strategic plan for acquisitions of new parkland. As new parks and recreation sites have been developed, ongoing operational and maintenance costs are increased. Lottery Funds have made these acquisitions and new developments possible. Managing the increase in operating costs over time is a major issue. Changing demographics may result in promoting different forms of recreational activity other than camping.

The western snowy plover has been included on the federal threatened and endangered species list. Its habitat is along the ocean shoreline, which is also a favorite place for Oregonians to recreate. The Department recently received an Incidental Take Permit for the western snowy plover which allows the Department to avoid closing an ocean shore area if a snowy plover or plover nesting area is accidently harmed by a beach visitor. In return, the Department must assure that the harm is limited and pursue plover recovery elsewhere. As other habitat becomes listed as threatened and endangered, restoring the natural vegetation and controlling non-native plant species and predators will require resources to implement.

In the 1999-2001 biennium, dedicated Lottery Funds from Measure 66 (1998) provided 37% of available revenue and Other Funds provided 62%. Then, until the 2009-11 biennium, Lottery Funds increased relative to Other Funds. In the 2007-09 biennium, Lottery Funds provided 46% of the revenue and Other Funds 52%. This trend resulted from expanding programs during periods when Lottery revenues escalated and fee rates were held flat since the last increase in 1996. As Lottery growth slowed in the 2007-09 biennium, a fee increase was approved by the 2009 Legislature to maintain current service levels, provide adequate operating ending balances, and allow continued upkeep and upgrade of the system.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is $18.5 million, or 8.8%, less than the 2011-13 Governor's recommended budget and $9.4 million, or 4.7%, less than the 2009-11 legislatively approved budget level and includes 877 positions (602.03 FTE). The budget reflects adjustments to align revenues and expenditures with the May 2011 Lottery Fund revenue forecast. The Legislature approved the following:

- $500,000 Other Funds to support the Oregon Department of Fish and Wildlife efforts on the Oregon Nearshore Strategy, Marine Reserves, and other marine spatial planning work
- $21,000 Other Funds and $113,000 Federal Funds to transfer the Natural Heritage Program from the Department of State Lands to OPRD
- $348,000 Other Funds to provide resources for computer network security, to increase hosting capacity related to computerized systems and applications, and to increase storage capacity for critical applications and document management
- $2.4 million Other Funds for a one-time use of resources from the Park Land Trust fund for property acquisition
- $476,000 Other Funds increase for concession operations, cabin and yurts and park housing expenses
- $173,108 Other Funds paid for by the Oregon Department of Transportation and one position (1.00 FTE) to expedite review of cultural sites related to transportation projects
- $500,000 Other Funds increase for the Oregon State Fair and Exposition Center to produce more events and pay for maintenance, improvement, and development from revenue generated by event contracts
- $10,052,281 Lottery Funds to reflect 12% of estimated Lottery Fund revenues for the Local Grant Program required by the constitutional amendment under Ballot Measure 76 approved by the voters in 2010 and to shift funding for administration to other Lottery Fund resources
- $2.4 million Lottery Funds and $3 million Other Funds in unspecified reductions in services and supplies
- $38,875 Lottery Funds and $166,788 Other Funds reduction to eliminate 6 long-term vacant positions (1.88 FTE) that were determined to not be critical to Department operations
- $3,150,387 Federal Funds for anticipated increased revenues from the Land and Water Conservation, Recreation Trails, and State Historic Preservation federal programs
- $284,784 Federal Funds and 2 limited duration positions (1.50 FTE) to administer federal grants and address a backlog for inspections that is required at least once every five years on properties that receive grant funding

The budget creates additional ending balance capacity of $3,887,412 Lottery Funds and $3,488,673 Other Funds to insure sufficient cash flow needs are met. If economic conditions improve and an adequate ending balance is demonstrated, these funds may be restored during the 2012 legislative session. The budget also makes several technical adjustments to carry forward expenditure limitation for obligated projects that will not pay out until the 2011-13 biennium.

Water Resources Department – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	25,873,738	19,268,371	21,170,643	20,614,684
Lottery Funds	0	354,911	574,400	706,751
Other Funds	4,999,094	13,746,310	33,210,177	29,162,165
Federal Funds	576,618	1,197,639	1,195,501	1,195,479
Total Funds	**$31,449,450**	**$34,567,231**	**$56,150,721**	**$51,679,079**
Positions	152	148	144	146
FTE	148.06	146.29	142.59	144.59

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.

The Department operates through the following six programs:

- ***Administrative Services*** (12 positions, 10.67 FTE) provides human resource, accounting, payroll, contracting, facilities management, risk management, training services, and budget preparation and execution. The Division also provides administrative support for the Oregon Watershed Enhancement Board
- ***Field Services*** (64 positions, 64.00 FTE) administers water laws, including dam and well inspections, and water right regulation and enforcement. The Division regulates water use in order to protect senior water rights for both in-stream and out-of-stream purposes. The Department organized the state's 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, and water right record maintenance. In addition, field staff act as liaisons with Watershed Councils, municipal water suppliers, local governments, and irrigation districts to explain Commission and Department policies, review water management plans, provide information on water availability and water rights, and bring regional policy issues back to the Department.
- ***Technical Services*** (36 positions, 35.92 FTE) 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' programs include hydrologic analysis, ground water investigations, surface water availability, hydrographics, dam safety, stream gauging, geographic and water rights information systems, well construction and enforcement, and water use reporting.
- ***Water Rights and Adjudications*** (25 positions, 25.00 FTE) is responsible for evaluating both in-stream and out-of-stream water right applications, and administers 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. It also 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.
- ***Directors Office*** (8 positions, 8.00 FTE) 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.

- ***Water Development Loan Program*** (1 position 1.00 FTE) 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

Revenue Sources and Relationships

The Department's operating budget is primarily General Fund, representing 58% of the revenue. The other major source of revenue for the Department is Other Funds revenue from fees and charges for services which is 39% of the revenue not including bond proceeds. The Department assumed $8.6 million of fee revenue for the 2011-13 biennium, but updated revenue projections from September 2010 suggest $7.7 million is more likely. Federal Funds received through the Federal Emergency Management Agency (FEMA), Bureau of Reclamation, and other federal agencies represents about 3% of the budget. Other Funds revenue sources include start card fees (well drilling), water right and transfer fees, exempt ground water use fees, interest earnings, and payments from various county and state agencies for contracted services. The 2009 Legislature increased well start cards, water rights, and transfer fees to 50% cost recovery and implemented a new fee for exempt wells. These fees were included in SB 788 (2009). The 50% cost recovery fees will sunset in 2013. Lottery Funds are used to pay debt service on Lottery revenue bonds authorized in 2009 by the Legislature associated with the Umatilla Basin critical ground water projects; development of an integrated water resources strategy; grants for evaluating the feasibility of developing a water conservation, reuse, or storage project; and administrative costs to re-establish a loan program for water development projects.

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 Department's ability to manage the increasing demand for water as the population of the state grows, while at the same time manage the environmental and long term sustainability of the resource is impeded from a lack of data on both surface and groundwater on which to base decisions and declining resources to collect and manage the data. Listings and potential listings under the Endangered Species Act and water quality issues increase the complexity of water allocation decisions.

The Department 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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $51.7 million total funds is $4.5 million, or 8%, less than the 2011-13 Governor's recommended budget and $17 million, or 49.5%, higher than the 2009-11 legislatively approved budget. The Legislature approved the following:

- $1,448,893 Other Funds supported by lottery-backed bond proceeds to continue the water storage and supply feasibility grants started in the 2007-09 biennium.
- $487,062 General Fund to restore 2 positions (2.00 FTE) to maintain water availability models and hydrographic data needed to make decisions when water right applications, permits, and transfers are evaluated; and identify aquifer boundaries, define water budgets, document the interaction between surface water and groundwater, and quantify the impacts of future allocations on senior users and water resources.
- $147,214 Other Funds to continue a limited duration assistant watermaster position in the south-central region using revenue from Deschutes, Jefferson, Crook, and Klamath counties.
- $115,624 Federal Funds to make permanent an existing limited duration assistant hydro-tech position (1.00 FTE) in the east region using revenue from the Bureau of Reclamation and Grande Ronde Model Watershed project.
- $291,674 General Fund to continue two limited duration positions to complete the Integrated Water Supply Strategy; work during the 2011-13 biennium will include technical advisory reviews, workshops, survey, and completing recommendations for a coordinated and integrated water resource policy with a means for enforcement for the state to meet future water needs in terms of quantity, quality, and ecosystem functions.

- $17,130,201 Other Funds and 1 position (0.83 FTE) supported by General Obligation Bonds to make loan funds available for water development projects in the Columbia River Basin – bonds will be repaid by loan repayments made by the borrowers.

The budget also reflects a reduction of $735,498 General Fund and $20,104 Lottery Funds for the supplemental ending balance which is intended to be applied against spending levels in the second year of the biennium. If economic conditions improve, these funds may be restored during the 2012 legislative session. Also reflected are reductions totaling $2.4 million General Fund, $70,660 Other Funds, and $25,939 Federal Funds to eliminate inflation, adjust personal services costs and reduce assessments for state government services charges, as well as a 6.5% reduction in total services in supplies.

Oregon Watershed Enhancement Board – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Lottery Funds	75,662,082	66,667,401	68,715,916	64,796,420
Other Funds	919,340	2,009,705	1,764,253	1,773,534
Federal Funds	14,995,720	24,020,144	44,106,297	45,479,276
Total Funds	**$91,537,142**	**$92,697,250**	**$114,586,466**	**$112,049,230**
Positions	30	31	34	32
FTE	30.00	31.00	34.00	31.50

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. Ballot Measure 66 was replaced by Ballot Measure 76, which passed in November 2010, and reauthorized the dedication of 15% of net lottery proceeds to state parks (7.5%) and fish, wildlife and habitat conservation (7.5%). The Ballot Measure 76 reauthorization changed the way the dedicated Lottery Funds could be spent. Under the old dedication, the Lottery revenues were divided into two parts, 65% for capital expenditures and 35% for operations expenditures. Under the reauthorization of this dedication, 65% is now restricted to grants for non-state agencies. Only the other 35% can be used to support state agency programs. Previously, state agency programs could be funded under either the capital or operations funding split as long as it was qualifying expenditure. Now state agencies are prohibited from directly receiving any of the 65% dedicated to grants

OWEB is designated as the single state agency charged with administration of the salmon and watershed portion of the dedicated lottery revenues required under Ballot Measure 66 and 76. OWEB consists of 11 voting members, including five voting members from state natural resource agency boards and commissions and six public members appointed by the Governor and confirmed by the Senate. OWEB is also authorized to include up to 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. OWEB distributes funding for projects, offers technical assistance on grant proposals, and coordinates with other state natural resource agencies.

OWEB's day to day operations have been supported using the other 35% of revenue dedicated to "operations." The Restoration and Protection Research Fund (RPRF) was created by the 1999 Legislature 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. The RPFR received all interest earnings under Ballot Measure 66. Due to the change in funding restrictions under the new Ballot Measure 76, the RPRF was eliminated in SB 342 (2011) which implemented Ballot Measure 76. Now all interest earnings will accrue to either the 35% for Operations or the 65% for Grants from which they originated and will be used for the same purposes as the originating funds. This change does not prohibit the Board from establishing a funding goal for research projects each biennium from the 65% Grant Fund.

Revenue Sources and Relationships

After many years of significant growth in Lottery revenues, total revenues were projected to hold steady through the 2009-11 biennium and are projected to increase only slightly in the 2011-13 biennium, while program costs continue to increase. This increase is lower than the cost increases anticipated by the programs that rely on constitutionally dedicated Lottery Funds for support.

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. After initial concerns over the availability of PCSRF funding were addressed at the federal level, the Legislature assumed $24 million from PCSRF would be available for expenditure in 2009-11. OWEB was successful in receiving over $28.2 million from PCSRF grants in 2009-11. About $15 million from the Federal Fiscal Year 2010 grant remained unspent and was used to help address budget shortfalls in 2011-13 by backfilling Lottery Funds in other agencies to remain under the 35% limit on direct expenditure of Ballot Measure 76 Lottery Funds by state agencies. With the continued concern by some over federal spending levels, the PCSRF program could face the prospect of reductions or the threat of outright elimination at the federal level. Other Funds are received from the Department of Transportation for one-half of the proceeds from the sale of salmon license plates and from various non-governmental sources in the form of donations and grants.

Budget Environment and Potential Reductions

The nature of the constitutional dedication of 7.5% of all lottery revenues for wildlife and habitat protection, restoration, and enhancement was changed by Ballot Measure 76, which was passed by the voters in November 2010. In the 2009-11 approved budget more that 45% of the dedicated Lottery Funds go directly to state agencies. This could not continue under Ballot Measure 76. Possible solutions included simply cutting agency programs that rely on dedicated Lottery Funds until the 35% state agency expenditures is reached, moving some activities to non-state agencies, requiring some programs that currently are supported with dedicated Lottery Funds that pass through state agencies to find a third party to apply directly to the Oregon Watershed Enhancement Board on their behalf for funding from the 65% dedicated to grants to non-state agencies, or moving eligible activities from the 35% Operations Fund to the 65% Grant Fund.

Legislatively Adopted Budget

The adopted budget for OWEB is about 20% above 2009-11 levels, with a nearly 3% reduction in Lottery Funds being subsumed by a 90% increase in Federal Funds from the Pacific Coastal Salmon Recovery Fund (PCSRF). Lottery Funds support is 5.7% less than the Governor's recommended level due primarily to the 3.5% supplemental statewide ending balance hold back reduction on total Lottery Funds support, offsetting the transfer of $2.5 million Lottery Funds for weed control grants from the Department of Agriculture. While the Governor's budget recommended funding weed control grants overseen by the Department of Agriculture out of the 65% Measure 76 Grant Fund, it failed to move the funding out of the Department of Agriculture's budget and into OWEB so that the payments could be made out of the 65% Grant Fund.

The legislatively adopted budget for the Oregon Watershed Enhancement Board establishes a $55 million Lottery Funds grant fund for 2011-13, which includes $2.6 million to support Watershed Council and Soil and Water Conservation District operations and $2.5 million for weed control grants, awards for which will be recommended by the Department of Agriculture. The budget used $15 million PCSRF Federal Funds, awarded in 2010 but carried over into 2011-13, to backfill Lottery Funds support in other agencies facing reductions due to the restrictions of Ballot Measure 76 that limited direct state agency expenditures to the 35% Operations Fund and prohibited direct expenditure by state agencies of monies deposited in the 65% Grant Fund. The budget for the Operations program added back four positions that phased out because they were limited duration positions in 2009-11. All four of the grant program positions were added back as limited duration.

The following table shows the legislatively adopted budget's 2011-13 allocations of all new Measure 76 Lottery Funds revenue. While previously state agencies' expenditures were eligible for any dedicated Measure 66 Lottery Funds, under Measure 76 they are limited to the funding from the Operations Fund only.

2011-13 Measure 76 Lottery Fund Allocations

	M-76 LF 35% Operations	M-76 LF 65% Grants
Available New Resources May '11 Lottery Forecast	**29,617,700**	**55,484,300**
Department of Fish and Wildlife	5,824,398	0
OSP/ Fish and Wildlife Enforcement	5,965,774	0
Department of Agriculture	6,335,856	0
Department of Environmental Quality	4,503,053	0
Oregon Watershed Enhancement Board	6,484,507	55,019,938

Department of Aviation – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	8,463,051	9,562,159	0	5,676,565
Federal Funds	9,993,345	4,867,696	0	3,472,055
Total Funds	**$18,456,396**	**$14,429,855**	**$0**	**$9,148,620**
Positions	17	17	0	12
FTE	17.00	16.38	0.00	11.50

Agency Overview

The Department of Aviation's 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 28 state-owned airports 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 2011-13 biennium of $11 million. This reflects a decrease of $8.7 million from the 2007-09 actual revenue, or 44%, and $495,048, or 4%, less than the 2009-11 legislatively approved budget. This reduction in revenue follows an $8 million reduction in revenue for the 2009-11 biennium. A reduction in federally funded capital construction and fuel tax revenue accounts for most of the decline.

Fuel Tax: Jet fuel tax and aviation fuel tax represents 39% of the revenue for the Department.

- 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 until July 1, 2012. The 2011-13 estimated net jet fuel revenue totals $3.3 million, a decrease of 9% from the 2009-11 projected revenue.
- 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 until July 1, 2012. The 2011-13 estimated net revenue totals $517,347, a decrease of 30% from the 2009-11 projected revenue.

Effective July 1, 2012, the Legislature approved a modification to the distribution of fuel tax revenues (SB 939) between operating programs and pavement maintenance allowing up to 55% of the combined fuel tax revenues to be used for operating programs and 45% for pavement maintenance. This change will provide up to an additional $390,691 during the 2011-13 biennium for operating programs with a corresponding reduction in the pavement maintenance program. In the 2013-15 biennium it will provide up to an additional $781,382 for operating programs. The change in the distribution of fuel tax revenues was necessary to insure adequate resources to operate and maintain state airports for mission critical services.

Fees: Pilot registrations, aircraft registrations, hangar and site leases and charges for services represents 25% of the revenue for the Department.

- 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 $12 (good until the pilot's birthday) and $24 for renewals which are for a two-year period. The 2011-13 estimated revenue totals $109,104. The 2009-11 legislatively adopted budget increased these fees from $8 for initial registration and $16 for renewals (HB 2150).
- Approximately 4,200 aircraft are registered with the Department. Fees are based on the class of the aircraft and range from $30 for ultralight to $350 for turbo/jet fixed wing. The Department annually licenses 25 aircraft providers for a fee of $250 each. These fees are used to fund operations. The 2011-13 estimated revenue totals $534,803.
- The Department also generates revenues through hangar and site leases and charges for services.

Federal Funds: Federal Funds represents 36% of the revenue for the Department.

- 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.

Budget Environment

The Department of Aviation's financial position indicated a severe problem existed regarding its ability to sustain operating expenses past the 2009-11 biennium. Aviation and jet fuel tax revenues, which are the primary source of funding for operations, have dropped significantly in recent years and are not expected to return to pre-recession levels in the near future. In order to get through the 2009-11 biennium with a balanced budget, the Department held 5 positions vacant (31% of its staff) and reduced spending on services and supplies. In addition, during the 2009-11 biennium only, the Legislature authorized the agency to spend money for operations that would otherwise be used for airport pavement maintenance activities. Sufficient revenue has been transferred from the pavement maintenance program during 2009-11 so that the 2011-13 operations beginning balance should amount to the equivalent of about two and one-half months of sustainable operations expenditures. The Legislature required six months operating revenue to sustain operations. Without the transfer of revenues from the dedicated pavement maintenance program, projected operating revenues for 2011-13 would not support current service level expenditures. Even with the transfer of pavement maintenance program revenues to the Operations Program in the 2009-11 biennium, the ending balance for 2011-13 was projected to be $46,623. A prudent ending balance would be in the range of $800,000 to $1.2 million.

In the spring of 2010, a management review report noted agency deficiencies including a lack of administrative capacity, management controls, contract management, and budget planning and execution. The report concluded that the Department would greatly benefit from moving Aviation back into the Oregon Department of Transportation citing benefits that include appropriate separation of duties, longer life cycle of institutional knowledge, and overall efficiencies due to improved use of existing business systems and processes.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $9.1 million total funds reflects a decrease of $5.3 million total funds, or 36.6%, from the 2009-11 legislatively approved budget level. The 2011-13 Governor's recommended budget proposed moving the Department of Aviation into the Department of Transportation so no expenditure as a separate department is reflected in the above table. To insure aviation policy issues remained autonomous from other transportation policy concerns and to also insure the long-term viability of aviation programs, the Legislature decided to retain the Department of Aviation as an independent agency; and address the long-term business and management support by requiring in statute (SB 939) the Department of Transportation to provide all business operating services for the Department of Aviation including budget, accounting, records, purchasing, leasing, contract services, computer information system services, and human resource services. The Legislature eliminated four vacant positions (4.80 FTE) and reduced services and supplies to balance expenditures within available resources, and adjusted the distribution of fuel tax revenues between operating programs and the pavement maintenance program. Through a budget note, the Legislature directed the Department of Aviation to report quarterly to the interim Joint Committee on Ways and Means and the Emergency Board on its progress in implementing measures to improve the agency's business practices.

Department of Transportation (ODOT) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved*	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	4,504,713	18,860,253	20,000,231	17,416,053
Lottery Funds	46,559,439	85,445,103	83,891,421	69,700,542
Other Funds	2,982,159,093	4,138,563,415	3,754,354,934	3,552,606,464
Federal Funds	61,841,086	125,883,005	94,093,206	116,553,278
Other Funds (NL)	18,476,509	33,846,562	18,158,214	18,158,214
Federal Funds (NL)	0	11,921,871	21,621,528	21,621,528
Total Funds	**$3,113,540,840**	**$4,414,520,211**	**$3,992,119,534**	**$3,796,056,079**
Positions	4,627	4,644	4,639	4,613
FTE	4,514.48	4,546.08	4,544.19	4,521.79

** 2009-11 Legislatively Approved budget history includes $11,478,969 General Fund, $5,591,418 Other Funds, and $474,065 Federal Funds transferred from the Department of State Police for the Oregon Wireless Interoperability Network (OWIN) project*

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 ODOT's revenues originate from motor fuel taxes, weight-mile taxes, vehicle taxes, and driver fees that are constitutionally dedicated and bond revenue that is supported by increases in licenses and fees. The forecasted revenue from all sources is $5.08 billion for 2011-13. The State Highway Fund is shared among ODOT, counties, and cities. Out of the total revenues for 2011-13, $904 million is projected to accrue to other state agencies and local governments, leaving $4.1 billion available for expenditure on state transportation and programs. This is a decrease in available revenue of $74.7 million from the 2009-11 legislatively approved budget level primarily resulting from one-time federal American Recovery and Reinvestment Act (ARRA) payments and the reduction of the beginning balance. The most recent revenue forecast at the current service level predicts gross highway fund collections to increase by about 19% from the 2009-11 estimates, reflecting the Legislature's approval of HB 2001 during the 2009 legislative session that increased vehicle fees and use taxes from motor fuel and weight-mile taxes for heavy trucks. About 10.7%, or $449 million, of the net revenue projected is set aside to pay for highway improvement projects and debt service on revenue bonds authorized by the Legislature in 2001 and 2003 under the Oregon Transportation Investment Act (OTIA I, II, III) and in HB 2001(2009). Total state motor fuels tax receipts at the current service level are forecasted to increase 11%, or $125 million, over 2009-11 revenue estimates. Current trends and long-term revenue projections indicate that Highway Fund revenue will not be sufficient to meet anticipated future expenditure levels, requiring reductions in programs by 2% to 3% per year.

The Legislature, through HB 5047, ratified the establishment of fees for the issuance and renewal of group plates ($8,000), the establishment of new fees and an increase in existing fees for the Outdoor Advertising Sign Program ($698,088), and the establishment of a fee for the new "Fallen Public Safety Officer" registration plate ($8,000). The new and increased fees are expected to generate approximately $0.71 million in Other Funds revenues. The Legislature established a June 30, 2013 sunset on the fees relating to the Outdoor Advertising Sign Program and directed the Department to request re-approval of the Outdoor Advertising Permit fees (approved in HB 5047 to meet extraordinary enforcement costs) during the 2013 legislative session.

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 2011-13 biennium is over $874 million. The amount of Federal

Funds projected for the 2011-13 biennium is based on the anticipated payment of contracts eligible under the current SAFETEA-LU legislative authorization. The current federal legislation expired September 30, 2009. Congress temporarily extended transportation funding through October 1, 2011. Federal authorization is expected to be renewed at some point in the next year; however transportation advocates are speculating that it is more likely that a two-year extension will be authorized given the current political environment. The federal gas and diesel taxes have not been raised since 1993, and Highway Trust Fund revenues have declined significantly since 2007 as a result of the recession and reductions in driving due to high gas prices. However, funding levels under the federal surface transportation programs have increased; as a result, revenues now lag significantly behind funding levels. Federal Funds received and reported as federal revenue are grants or direct revenue for specific programs such as transit and rail projects.

During the 2009-11 biennium, the Department received $85 million in Lottery Funds to make bond installment payments for rail and other transportation infrastructure projects that are ineligible for funding through constitutionally dedicated Highway Trust Funds. For the 2011-13 biennium, Lottery Fund bond installment payments were reduced to $69.7 million as a result of refinancing debt late in the 2009-11 biennium. General Fund will be used to pay the debt service for Certificates of Participation (COPs) issued for the Oregon Wireless Interoperability Network (OWIN) project.

Budget Environment

The aging transportation infrastructure has been a priority of the Legislature for several biennia. In 2001 and again in 2005, the Legislature adopted a plan, referred to as the Oregon Transportation Investment Acts (OTIA) to provide new revenue to finance $1.9 billion in highway user tax bonds for bridge repair and modernization projects over eight years. It is estimated that a shortfall of $1.7 billion for other bridge repair and replacement needs remains. In 2009, the Legislature adopted HB 2001, referred to as the Jobs and Transportation Act (JTA), increasing motor fuels taxes, weight mile taxes, registration fees and title fees, specifically for the purpose of maintaining and modernizing the state's road system. Prior to the JTA, the state fuel tax was last increased by the 1991 Legislative Assembly. Distribution of the tax and fee increases in JTA is dedicated to rest area management, specific highway projects and related planning activities as well as shared revenues between city, county and state transportation programs. JTA expands requirements relating to establishing transportation priorities including developing a least cost planning decision making tool, establishing ten additional criteria for project selection, implementing practical design procedures, cost benefit comparisons and greenhouse gas and foreign oil dependency reduction. The Department is currently working with stakeholders to further define these concepts. Some of these concepts will not be fully developed until 2015.

Prior to JTA spending on state highway-related programs averaged $787 million per year which was approximately $491 million per year less than the needs analysis projected to manage the increased demand on the transportation infrastructure. With the increased funding from JTA, the gap has narrowed by approximately 33%. This expansion of revenues is still not sufficient to keep preservation, maintenance and modernization needs ahead of the escalating costs of highway and street construction and the infrastructure demands that currently exist. Increasing population, changing demographics and vehicle miles traveled will continue to degrade the transportation system. Increased investments in maintenance are necessary to keep older facilities safe and operational. The challenge of providing public transportation options across Oregon within and between cities requires investments at levels currently unavailable for rail and bus services. Although some dedicated revenues are available for these public transportation systems, federal revenues continue to be necessary to operate the systems. With the increase in fuel efficiency and the use of hybrid and electric vehicles, the fuels tax is expected to be a declining source of revenue within Oregon and nationally. The 2001 Legislature created a 12-member Road User Fee Task Force to explore alternative methods of taxation. The Department conducted a one-year pilot project in the Portland area which determined that the "per mile fee" is technically and financially feasible. The Department is now working to further refine the user fee concept.

In 2001, the governors of Oregon and Washington formed a bi-state partnership to study transportation problems and possible solutions for the I-5 corridor. The partnership recommended fixing three bottlenecks including the Columbia River Crossing project. In 2005 a 39-member task force was formed representing leaders from Oregon and Washington communities, including public agencies, businesses, civic organizations, neighborhoods, freight, commuter, and environmental groups. Local project partners reached consensus on one preferred alternative in July 2008 from five analyzed. Since 2005 the project has spent $127 million funded equally by Washington and Oregon with additional contributions from the federal government. The estimated construction cost of the project is $3.1 to $4.2 billion. Funding is expected to come from federal and state sources and tolling. Oregon's share of state funding is estimated at approximately $517 to $700 million which will require legislative approval. The Legislature expects to review every element of the project and provide oversight as the project evolves.

The Oregon Wireless Interoperability Network (OWIN) was created to address three basic issues: (1) replace the out-of-date existing wireless communications infrastructure; (2) meet the federal requirements to convert systems to narrowband frequencies by 2013; and (3) meet the requirements of HB 2101 (2005) which outlined a single emergency response system for state agencies and interoperability needs for all public safety agencies. During the 2009 session, the Legislature authorized $76 million in Certificates of Participation (COPs) for OWIN for initial work on the project including developing the backbone infrastructure (tower site improvements and microwave system). In the February 2010 special session, the Legislature transferred the project to ODOT from the Department of State Police to take advantage of ODOT's experience and capacity to manage large complex projects. For the 2011-13 biennium, the Legislature approved a scaled-back, and less costly project, now referred to as the "Revised State Radio Project."

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $3,796 million is $196 million, or 4.9%, less than the 2011-13 Governor's recommended budget and $618.5 million, or 14%, less than the 2009-11 legislatively approved budget level and includes 4,613 positions (4,521.79 FTE). Other Funds decreased 13.7%, and Federal Funds 7.6%. All of the General Fund, Lottery Fund and Nonlimited Federal Funds are dedicated to debt service from bonded projects. It is also 23 positions (16.29 FTE) lower than the 2009-11 legislatively approved budget level. The budget reflects a $36.1 million total funds increase in debt service payments from the 2009-11 legislatively approved budget level, $27.3 million Other Funds increase for consultant payments for continued implementation of the Jobs and Transportation Act (JTA) and flexible fund projects including development of "Least Cost Planning" methodology and integration with greenhouse gas emissions work, Metropolitan Planning Organization (MPO) support and statewide transportation data collection and analysis and highway project work; $2.5 million to support increases in diversity in highway construction workforce and reorganization in the Director's office, and reductions to reflect the following one-time costs:

- $21.7 million for costs associated with federal grants
- $295.4 million one-time bond proceed payments for Connect Oregon, Oregon Street Car, SE Metro Commuter Rail
- $132.5 million for 2009-11 OWIN project costs
- $7.7 million General Fund and $2.3 million Other Funds for a one-time increase for Senior and Disabled Transportation Operating Grants
- $3.5 million for one-time costs associated with the Emerging Small Business Program
- $2 million for a Rail Study
- $1.3 million one-time costs for the Integrated Transportation Information Computer System (ITIS)
- $2.3 million for issuance costs associated with a 2010 Connect Oregon III Bond Sale
- $1.9 million one-time costs associated with DMV Automated Testing Devices, and implementation of Jobs and Transportation Act
- $131.4 million net reduction to reflect contractor payments for construction projects scheduled during the 2011-13 biennium
- $12.1 million total funds reduction to reflect technical adjustments, decreased assessments for state government service charges, the supplemental ending balance, and adjustments in personal services for vacancy savings

ODOT – Highway Division

	2007-09 Actual	2009-11 Legislatively Approved*	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	0	2,749,798	0	0
Other Funds	2,208,709,679	2,600,414,907	2,620,900,205	2,489,458,337
Federal Funds	0	474,065	0	0
Total Funds	**$2,208,709,679**	**$2,603,638,770**	**$2,620,900,205**	**$2,489,458,337**
Positions	2,638	2,673	2,669	2,656
FTE	2,580.41	2,618.69	2,610.30	2,600.90

** 2009-11 Legislatively Approved budget history includes $2,749,798 General Fund, $5,591,418 Other Funds, and $474,065 Federal Funds transferred from the Department of State Police for the Oregon Wireless Interoperability Network (OWIN) project*

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. In 2009-11, the Legislature authorized a six cent gas tax increase and authorized bonding in the amount of $840 million to finance transportation projects around the state.

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:

- ***Highway Maintenance and Emergency Relief*** *(1,315.3 FTE and 1,358 positions)* program is to maintain, repair, and extend the service-life of the 8,049 center line mile state highway system which represents 19,128 lane miles. 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.
- ***Preservation*** (*150.46 FTE and 151 positions*) 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 conducts 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. The 1999 Oregon Highway Plan established a long-term goal of having 90% of state highway miles in fair or better condition.
- ***Bridge*** *(148.40 FTE and 149 positions)* program is responsible for preserving more than 2,600 bridges, tunnels, and culverts on the state highway system. 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.

- ***Operations and Safety*** *(184.03 FTE and 186 positions)* includes planning, development, and implementation of improvements to relieve or prevent traffic congestion and to improve safety. Programs include Intelligent Transportation Systems (ITS); identifying sections of state highway with the highest number of fatal and serious injury crashes and steps to improve safety on these roadway segments; 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.
- ***Modernization*** (*133.55 FTE and 134 positions)* 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.
- ***Special Programs*** *(632.55 FTE and 646 positions)* provides construction support and construction projects that do not fit general categories or fall under special rules or program areas. Construction support includes Transportation System management, System and Asset management, Indirect costs such as office expenses, rent, work planning, team/crew meetings, etc., surplus property, outdoor advertising, and administrative costs. Construction projects include pedestrian and bicycle, salmon and watersheds, forest highway, jurisdictional exchange, winter recreation parking, and snowmobile facility maintenance.
- ***Local Government*** *(44.16 FTE and 45 positions)* works 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.
- ***Oregon Wireless Interoperability Network*** ***(OWIN)*** provides administrative and operational support for the OWIN project. The OWIN project is a digital, trunked, land mobile radio system. The project includes installation of infrastructure (buildings, towers, and digital microwave equipment) throughout the state, designing and implementing voice and data systems and maintaining and operating those elements.

The following table provides expenditure detail for Highway Division programs. The 2011-13 legislatively adopted budget includes $11.7 million Other Funds for operations and maintenance of the state radio project within the Highway Maintenance expenditure limitation. The OWIN project has been scaled back to essential requirements needed to meet federal mandates and meet partnership obligations.

	2007-09 Actual	**2009-11 Legislatively Adopted**	**2009-11 Approved Spending Level**	**2011-13 Current Service Level**
Maintenance	390,569,709	442,546,765	425,000,364	422,130,090
Preservation	189,212,069	389,054,507	338,499,778	337,944,015
Bridge	686,229,445	670,425,103	615,756,193	615,079,243
Operations & Safety	115,723,138	142,963,268	135,444,465	134,556,338
Modernization	355,930,598	348,192,936	513,192,762	389,937,446
Special Programs	223,381,414	210,957,448	213,070,002	209,882,342
Local Government	247,663,306	390,683,462	379,936,641	379,928,863
OWIN Operations & Maint.	0	8,815,282	0	0
Total Highway Division	**$2,208,709,679**	**$2,603,638,771**	**$2,620,900,205**	**$2,489,458,337**
Positions	2,638	2,673	2,669	2,656
FTE	2,580.41	2,618.69	2,610.30	2,600.90

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 2011-13 legislatively adopted budget includes a total of $600 million bond financing to pay for projects identified in the 2009 Jobs and Transportation Act.

Budget Environment

The Highway Division budget includes the portion of the 2010-13 STIP to be expended during the 2011-13 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 October 1, 2009 through September 30, 2013 to coincide with the federal fiscal year. Criteria for the 2012-15 STIP has been approved by the Oregon Transportation Commission which begins the process for development of a draft 2012-15 STIP. The review typically takes 21 months to complete. 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 2009-15 time frame that are 2-3% lower than the estimates used a year ago to set program targets through 2015, including the addition of new revenue from JTA.

ODOT operates and maintains approximately 8,049 center line miles, which represent 19,128 lane miles of state 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 the transportation infrastructure. Commercial trucks rely on state highways for both short and long haul freight movements. State highways make up less than 11% of total road and street miles in the state, but carry 58% of the traffic – more than 20.7 billion vehicle miles per year. 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. Oregon's population is expected to grow by 1.2 million people by 2020. About 72% of this growth will occur in the Willamette Valley placing additional stress on highways and bridges. 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.

Reductions in highway programs will impact project delivery. A 1% reduction in current service level is over $25 million. The Department would be required to select projects to delay or cancel. The level of impact will depend on timing of the reduction decisions.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $2,489 million is $131.4 million, or 5%, less than the 2011-13 Governor's recommended budget level and $114.2 million, or 4.4%, less than the 2009-11 legislatively approved budget level and includes 2,656 positions (2,600.90 FTE). The budget includes adjustments for personal services costs, inflation, rate increases for the Attorney General, and state government service charges. The budget includes $11.7 million Other Funds and 8 limited duration positions (8.00 FTE) associated with the revised state radio project operations and maintenance. The budget adjusts contractor payments by a net reduction of $114.9 million to reflect the construction schedule for the 2011-13 biennium and also reflects reductions to eliminate inflation and decrease statewide salaries and assessments for state government service charges by $42.2 million Other Funds.

A request by ODOT to increase Sno-Park permit fees was determined to need additional legislative review. The Legislature approved a budget note requiring ODOT to convene a work group of proprietors of five major winter recreation destinations to develop a long-term strategy for funding snow removal and maintenance of parking areas that would not require the continued escalation of Sno-Park Permit fees for average citizens.

ODOT – Driver and Motor Vehicles Services

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	143,771,430	157,684,979	160,060,431	156,950,268
Federal Funds	1,909,801	2,545,006	2,226,262	3,396,725
Total Funds	**$145,681,231**	**$160,229,985**	**$162,286,693**	**$160,346,993**
Positions	878	874	861	861
FTE	841.92	842.17	834.46	837.46

Program Description

Driver and Motor Vehicles (DMV) licenses and registers over 2.8 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 51,000 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 titling fees. Together these revenues represent 98% of total estimated 2011-13 DMV gross revenue collections ($691.8 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 46.8% of the revenues collected are projected to be transferred to the State Highway Fund and other state transportation programs. In addition, 5% or $34.7 million of the revenues collected are projected to be transferred to other state agencies, for example RV related fees which are transferred to the Oregon Parks and Recreation Department.

Budget Environment

Eligibility for an Oregon driver license or identification card is becoming more difficult as standards for proving identity and legal status are tightened. The Legislature adopted a legal presence standard in February 2008 (SB 1080) with provisions phased in by January 2010. In addition, the Legislature adopted SB 640 (2005) requiring biometric data to verify identify for driver's licenses, permits, and identification cards issued by the Department of Transportation Driver and Motor Vehicles Division. The Legislature also adopted SB 1080 (2008) which required a legal presence standard by July 2008 and had other provisions that were phased in, such as a limited stay license, by January 2010.

Business process changes and computer system enhancements are increasingly driven by federal mandates that are underfunded. The federal Real ID Act created national standards for issuing driver licenses and identity cards which, if adopted in Oregon, would require extensive changes to current processes. Most of these changes would not be funded by the federal government.

Frequent changes to Federal Motor Carrier Safety Administration regulations tighten the requirements for issuing and suspending commercial driver licenses and increase the need for data sharing of driver records between states.

Oregon and national transportation initiatives encourage the use of alternative technologies for vehicles like plug-in hybrid and all-electric vehicles. Vehicle manufacturers in Oregon and elsewhere will continue introducing creative solutions for these new emerging vehicle types. This raises several issues and concerns relating to safety standards to operate on Oregon's roads, manufacturers conducting safety tests, titling and registration and licensing persons to operate these vehicles.

Total DMV transactions declined sharply in calendar year 2008 as the recession hit, then stagnated in calendar year 2009 as the recession continued. Transactions are expected to further fall in calendar year 2010 as HB 2001 is fully implemented. Demographic and economic changes combined with legislative impacts explain most of the variation in total DMV transactions over time.

DMVs computer systems and facilities are aging and increasing in cost to maintain and operate. The large mainframe systems were first developed in the mid-1960s with many features added throughout the years which mean the major applications are old and difficult to support. The supply of COBOL programmers is declining so finding qualified employees and contractors to support computer system projects is becoming more difficult. In addition field offices are mostly leased from private companies and facility improvements must be planned and funded many years in advance. Most buildings are not energy efficient and parking lots are frequently inadequate for the number of people served and the space needed for commercial driver license testing.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $160.3 million is $1.9 million, or 1.2%, less than the 2011-13 Governor's recommended budget and $117,008, or .07%, more than the 2009-11 legislatively approved budget level and includes 861 positions (837.46 FTE). The Legislature approved an increase of $350,890 Other Funds to support changes to the Commercial Driver License Information System for compliance with federal regulations. The budget reflects an increase of $1.2 million Federal Funds to carry forward a federal grant for automated testing devices. The Legislature reduced the budget by $1.2 million to reflect decreases in personal services for vacancy savings and eliminated one position vacant for six or more consecutive months determined to not be critical to operations. The budget also reflects reductions of $7.5 million Other Funds to eliminate inflation and to address other statewide actions.

ODOT – Motor Carrier Transportation

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	52,753,031	56,095,128	58,565,186	58,312,861
Federal Funds	4,314,471	5,539,691	5,585,990	5,584,867
Total Funds	**$57,067,502**	**$61,634,819**	**$64,151,176**	**$63,897,728**
Positions	312	313	310	310
FTE	312.00	313.00	310.00	310.00

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 87 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 88% of revenue collected, is transferred to the State Highway Fund. Over $5.5 million in Federal Funds is projected to be received in the 2011-13 biennium for commercial vehicle safety enforcement efforts under the Motor Carrier Safety Assistance Program (MCSAP). MCTD coordinates the work of the law enforcement agencies under compensated agreements including Salem and Eugene Police Departments and the Clackamas County Sheriff's Office as well as other 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 identifies 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 gives timely communication on project impacts to the trucking industry.

From 2003 until 2009, the Department of State Police (OSP) received an annual allocation of $1.6 million of the total Motor Carrier Safety Assistance Program (MCSAP) funds. Prior to that time many city police, county sheriffs, and county weighmasters who had participated in the program under compensated agreements were switched to non-compensated plans. Due to federal regulations that OSP was unable to meet, MCTD began to actively recruit other law enforcement agencies to receive reimbursement for truck safety enforcement work. At the same time, ODOT has initiated a dialogue with federal partners to seek a change in the federal regulations to allow federally compensated agreements with OSP.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $63.9 million total funds is $253,448, or 0.40%, less than the Governor's recommended budget and $2.3 million, or 3.67%, more than the 2009-11 legislatively adopted budget level and includes 310 positions (310.00 FTE). The budget reflects reductions of $3.1 million Other Funds and $172,425 Federal Funds to eliminate inflation, to reflect decreases in personal services costs, and to lower assessments for state government service charges.

ODOT – Transportation Development

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended*	2011-13 Legislatively Adopted
Other Funds	148,927,705	220,012,943	270,352,130	235,468,172
Federal Funds	184,535	204,949	3,437,758	163,431
Total Funds	**$149,112,240**	**$220,217,892**	**$273,789,888**	**$235,631,603**
Positions	222	222	236	223
FTE	213.43	212.72	227.43	214.43

** Includes Governor's recommendation to move the Department of Aviation into the Department of Transportation, which was not approved by the Legislature (see analysis for Department of Aviation)*

Program Description

Transportation Program Development operates through five program areas:

- ***STIP Development*** (20.00 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 identifying the scheduling and funding of transportation projects.
- ***Technical Assistance and Coordination*** (5.25 FTE) is provided to local governments on updates to periodic comprehensive plan reviews, and 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.
- ***Statewide and Regional Studies*** (71.50 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. Development of these various planning efforts requires a variety of analytical services from traffic analysis to public transit. Other sources of information used include federal legislation on clean air, water, and energy acts, state benchmarks, and land use planning goals.
- ***Transportation Analysis and Research*** (117.68 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. This also includes the agency's research program that emphasizes new technologies to help the transportation system operate better and more efficiently.

- ***ConnectOregon*** is a lottery-bond-based initiative first approved by the 2005 Legislature to invest in air, rail, marine, and transit infrastructure. ODOT implements the provisions of SB 71 and HB 2278, known as *Connect* Oregon I and II. The 2009 Legislature approved HB 2001 which provides authorization for *Connect* Oregon III, each authorization has been for $100 million in lottery funds, and an additional $40 million was approved in HB 5036 for *Connect* Oregon IV, by the 2011 Legislature, bringing the total to $340 million for the program.
- ***Legislative mandates*** originating from HB 2001 (2009) and SB 1059 (2010) include working with other state agencies and Metropolitan Planning Organizations to address new concepts such as Least Cost Planning and supporting modeling efforts to address Greenhouse Gas Emission reduction planning.

Revenue Sources and Relationships

General planning activities are funded from federal planning grants and state and federal highway funds. Revenue transfers from the highway program, for example, support highway planning, system studies and monitoring, and data gathering.

Budget Environment

Passage of HB 2001 in 2009 by the Legislature had a number of requirements that affect work that is accomplished, how it is completed, and the impact it has on other stakeholders. Changes to the transportation planning process to address least cost planning methodology and integration with greenhouse gas emissions has been initiated. The Division is working with Metropolitan Planning Organizations (MPOs) and local governments to assess the costs of greenhouse gas emissions planning work.

Potential changes due to reauthorization of federal transportation funding, reporting requirements and information learned from the 2010 Census are expected to change the approach for addressing transportation, housing, and environmental goals, and highway performance monitoring data collection.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $235.6 million is $38.1 million, or 13.9%, less than the 2011-13 Governor's recommended budget and $15.4 million, or 7%, more than the 2009-11 legislatively approved budget level and includes 223 positions (214.43 FTE). The budget reflects removal of one-time costs related to completion of the Integrated Transportation Information Computer System, issuance costs associated with the 2010 Connect Oregon III projects, and $23 million for funds paid out from the Connect Oregon Project. The budget also reflects $28 million Other Funds carry over limitation for implementation of provisions in JTA and delivery of flexible fund projects. The Legislature approved an increase of $12.5 million to provide resources to continue the Multi-modal Transportation Program initiated by the Legislature in the 2005-07 biennium. The Legislature shifted $1 million Federal Surface Transportation Funds to Public Transit for Senior and Disabled Transportation programs. The budget also reflects a reduction of $6.5 million Other Funds and $13,439 Federal Funds to eliminate inflation, to reflect decreases in personal services and to reduce assessments for state government service charges.

The Legislature approved a budget note to address concerns regarding costs and options on the Columbia River Crossing project, directing ODOT to provide reports to the Senate and House Transportation Committees on progress, costs, alternatives, and financing plans with an analysis of potential impacts on transportation funding. The budget note further requires ODOT to provide a feasibility study with a phased master plan that allows for legislative oversight and approval at key decision points with a first report to the Legislature in 2012.

ODOT – Public Transit Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	0	7,111,284	0	2,000,000
Other Funds	17,659,818	54,218,094	32,227,326	25,710,760
Federal Funds	40,327,375	62,282,192	47,715,495	55,201,703
Total Funds	**$57,987,193**	**$123,611,570**	**$79,942,821**	**$82,912,463**
Positions	15	15	15	15
FTE	14.75	15.00	14.75	14.75

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 grants.
- ***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, 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 coordinates 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*** (3.25 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 funds from three main sources:

1) Cigarette Tax – $7.5 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.
2) DMV Photo ID – $4.9 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.
3) Transportation Operating Fund (TOF) Non-Highway Fuels Tax – $6.4 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.

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $82.9 million is $2.97 million, or 3.71%, more than the 2011-13 Governor's recommended budget and $40.7 million, or 33%, less than the 2009-11 legislatively approved budget level and includes 15 positions (14.75 FTE). The budget reflects removal of a one-time $14.5 million in Federal Funds through the American Recovery and Reinvestment Act; $6.9 million General Fund and $2.3 million Other Funds for Senior and Disabled Transportation operating grants; and $20 million Other Funds for Street Car Bond Proceeds. The Legislature approved $2 million General Fund, and $1 million Federal Funds to support Senior and Disabled Transportation operating grants.

A technical adjustment to shift $6.5 million from Other Funds to Federal Funds limitation was approved to reflect revised federal apportionment for the federal Section 5311 – Rural and Small Urban Areas Program Grants. The Legislature reduced the budget by $30,358 total funds to reflect decreases in personal services for vacancy savings and assessments on various state government service charges. The budget also reflects a $2 million total funds reduction to eliminate inflation and reduce personal service costs by 5.5%.

ODOT – Rail Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	4,504,713	0	0	0
Other Funds	22,983,963	279,415,349	27,574,489	32,344,300
Federal Funds	0	37,748,894	16,306,903	34,606,903
Total Funds	**$27,488,676**	**$317,164,243**	**$43,881,392**	**$66,951,203**
Positions	24	24	25	25
FTE	24.00	24.00	25.00	25.00

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*** (1.00 FTE) defines overall state rail policies, actively represents the interests of rail customers and ensures that rail transport opportunities are adequately addressed at the federal, state, and local levels. Administration also coordinates the various functions of the Division.
- ***Railroad Safety*** (10.00 FTE) ensures compliance with federal and state safety regulations for track, locomotives, rail cars, hazardous material transport and rail operating practices. This program is critical in reducing the potential for railroad derailments and releases of hazardous materials. The Rail Safety Program, in cooperation with the federal government, uses a combination of inspections, enforcement actions and industry education to improve railroad safety. Under a separate statutory program, the Division inspects railroad sidings, yards and loading docks to ensure the safety of railroad workers. The Division has responsibility for the safety oversight of rail fixed guideway systems, i.e. light rail, streetcars and trolleys. The Rail Transit Specialist works closely with rail transit agencies in developing safety and security policies and procedures in compliance with Federal Transit Administration Guidelines. The Rail Transit Specialist also participates in incident and accident investigations and makes recommendations for improvement, if necessary. A Crossing Signal Compliance Specialist inspects crossings of rail transit operations to ensure compliance with federal and state regulations.
- ***Crossing Safety*** (8.00 FTE) The Rail Division enforces state laws and administrative rules as well as federal laws and regulations related to crossing safety. This encompasses, by statute, regulatory authority over all public highway-rail grade crossings in the state. The Rail Division, through its Crossing Safety Section, authorizes by Order the construction, alteration or elimination of highway-rail grade crossings within the state. The Crossing Safety Section manages safety improvement projects through administration of federal highway funds and state funds provided by the Grade Crossing Protection Account. Through projects such as construction of grade-separated crossings, signal upgrades and elimination of highway-rail grade crossings, injuries and fatalities at Oregon highway-rail grade crossings has been significantly reduced. In addition to its regulatory role, Crossing Safety Section staff work cooperatively with railroad companies, state, federal and local government agencies and the general public to address crossing safety concerns and participate in transportation planning activities to improve the mobility of highway and rail traffic.
- ***Operations*** (6.00 FTE) develops rail planning documents and administers both federal and state rail rehabilitation funds to help retain quality rail service to Oregon communities and businesses. The section manages railroad improvement projects for both passenger and freight rail operations; develops and implements freight and passenger rail plans; and manages state owned right of way. The section manages and markets intercity passenger rail operations, related Thruway motor coach service and coordinates Oregon's partnership in the Pacific Northwest High Speed Rail Corridor. As funds are available, Operations provides project management and technical expertise to communities interested in developing rail transport opportunities, such as commuter rail, interurban rail and excursion rail. The section also participates in federal proceedings related to railroad mergers, line abandonments and rail service.

Revenue Sources and Relationships

Programs operate with dedicated federal ($16.4 million) and state ($27.9 million) revenue.

Federal revenues at the current service level 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 at the current service budget level include:
- Custom License Plate Fees – $7.9 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 – $3.5 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 $100,000 from interest, $125,000 from Railroad Right of Way Lease Fees, and $287,500 from the Fixed Guideway Fee.

Budget Environment

The lack of stable, adequate funding for both the passenger rail and freight rail service, particularly the short line rail service, makes its future 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 2007, the Legislature approved dedicating revenue from specialty license plates for use in the passenger rail program. In 2009, the Legislature increased the fee from $50 to $100. To date, the specialty license plate fee revenue has been lower than originally projected which may be due to the recession and the increase of the registration fee. These fees will not be sufficient to cover the future expenses of the passenger rail program. Oregon's railroads are unable to raise the necessary capital to accommodate increases in rail traffic. The short line railroads have difficulty maintaining their systems to safely handle rail traffic. The 2001 and 2003 Legislature each allocated $2 million to short line rail rehabilitation projects. These funds provided 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 and high speed passenger rail, will stretch Division staff resources to provide adequate services for protecting the public from rail-related incidents, particularly in the rail planning and safety assessment areas.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $67 million is $23 million, or 52.57%, more than the 2011-13 Governor's recommended budget and $250.2 million, or 78.9%, less than the 2009-11 legislatively approved budget level and includes 25 positions (25.00 FTE). The budget reflects removal of one-time funding for the South Metro Light Rail ($252.4 million) and $3.1 million from a federal grant through the American Recovery and Reinvestment Act for passenger rail improvements. The Legislature approved a carryover of $18.3 million Federal Funds for the purchase of a new train set moving unspent limitation from the 2009-11 biennium to the 2011-13 biennium and $4.8 million Other Funds for grade crossing projects jointly paid for from rail assessments and Federal Highway Administration funds. The Legislature reduced the budget by $11,201 to reflect decreases in assessments on various state government service charges. The budget also reflects a $399,997 Other Funds and $87,451 Federal Funds reduction to eliminate inflation and reduce personal service costs by 5.5%.

ODOT – Transportation Safety Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	10,912,212	14,399,375	15,475,534	13,960,554
Federal Funds	15,074,652	17,057,411	17,601,075	17,579,927
Total Funds	**$25,986,864**	**$31,456,786**	**$33,076,609**	**$31,540,483**
Positions	26	26	25	25
FTE	25.50	26.00	25.00	25.00

Program Description

The Transportation Safety Division advocates transportation safety through statewide education, enforcement, and engineering. Major efforts focus on occupant protection, intoxicated driving, speeding, youthful drivers, pedestrians, bicyclists, motorcyclists, and employers. Safety programs are operated through over 550 safety grants and contracts awarded annually to local agencies, non-profit groups, the private sector, and service providers. The grants use state and federal funds 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
- conduct studies and make recommendations to the Legislature concerning safety regulations and laws

Revenue Sources and Relationships

Approximately 56% of the Safety program funds are Federal Funds; the remaining 44% 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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $31.5 million is $1.5 million, or 4.64%, less than the 2011-13 Governor's recommended budget and $83,697, or 0.27%, more than the 2009-11 legislatively approved budget level and includes 25 positions (25.00 FTE). The Legislature reduced the budget to eliminate inflation and reflect decreases in personal services costs and assessments on various state government service charges.

ODOT – Central Services

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	155,238,913	257,112,309	188,927,462	185,897,906
Federal Funds	29,952	30,797	19,722	19,722
Total Funds	**$155,268,865**	**$257,143,106**	**$188,947,184**	**$185,917,628**
Positions	512	494	498	498
FTE	502.47	494.50	494.25	494.25

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*** (34.25 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, payroll, fuels tax revenue, debt, and financial analysis.
- ***Human Resources*** (51.00 FTE) provides professional advice and leadership on employee labor relations, classification, recruitment and retention, 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.
- ***Audit Services*** (10.50 FTE) is responsible for an internal audit program assuring that effective management controls are in place and functioning properly to help management achieve its objectives and supports performance measures. External audit provides assurance on financial data submitted by external entities.
- ***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. 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.

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $185.9 million is $3 million, or 1.6%, less than the 2011-13 Governor's recommended budget and $71.2 million, or 37.7%, less than the 2009-11 legislatively approved budget level and includes 498 positions (494.25 FTE). The budget reflects removal of one-time expenditures for the Oregon Wireless Interoperability Network ($76 million) and resources related to the Emerging Small Business Program that was transferred to the Oregon Business Development Department in 2009. The Legislature approved a $13.2 million reduction to eliminate inflation and reflect decreases in vacancy savings, statewide personal services costs and assessments on various state government service charges.

ODOT – Nonlimited Loan Fund

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds (NL)	11,409,001	22,325,630	18,158,214	18,158,214
Total Funds	**$11,409,001**	**$22,325,630**	**$18,158,214**	**$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 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 2011-13 biennium are estimated to be $18 million.

Revenue Sources and Relationships

The program operates with dedicated Highway Trust Funds.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is $18.2 million to reflect estimated loan disbursements anticipated during the biennium.

ODOT – Debt Service

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	0	8,999,171	20,000,231	15,416,053
Lottery Funds	46,559,439	85,445,105	83,891,421	69,700,542
Other Funds	$195,672,483	$303,986,550	$376,949,223	$351,243,517
Other Funds (NL)	0	11,520,932	0	0
Federal Funds (NL)	0	11,921,870	21,621,528	21,621,528
Total Funds	**$242,231,922**	**$421,873,628**	**$502,462,403**	**$457,981,640**

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, General Fund 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. General Fund will be used to pay the debt service for Certificates of Participation (COPs) issued for the Oregon Wireless Interoperability Network project.

Budget Environment

The American Recovery and Reinvestment Act (ARRA) authorized taxable Build America Bonds (BABs). Under ARRA, issuing these types of bonds qualifies the Department to receive direct federal subsidy payments equal to 35% of the interest costs of the taxable bonds. During the 2011-13 biennium the Department expects to receive $21.6 million which will be used to offset debt service payments.

Under the JTA authorization, the Department is estimating two bond sales totaling $600 million during the biennium to initiate design and construction on projects specified in JTA.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $458 million is $44.5 million, or 8.85%, less than the 2011-13 Governor's recommended budget and $36.1 million, or 8.56%, more than the 2009-11 legislatively approved budget level. The budget reflects debt payments for bonds issued through the 2009-11 biennium. The Legislature approved the issuance of $40 million Lottery-backed bonds to continue the multi-modal transportation program initiated in 2005 and approved by the Legislature in HB 2001. Timing for the sale of these bonds is planned so that debt service payments will not be required until the 2013-15 biennium. The estimated cost for payments in 2013-15 is $2.5 million for principal and $4.9 million in interest, totaling $7.4 million Lottery Funds. The budget also includes a reduction of $554,838 General Fund and $2.9 million Lottery Funds for a supplemental ending balance that may be restored during the 2012 legislative session for the second year of the biennium depending on economic conditions.

ODOT – Capital Improvements

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	3,108,722	3,259,788	3,259,788	3,259,788
Total Funds	**$3,108,722**	**$3,259,788**	**$3,259,788**	**$3,259,788**

ODOT – Capital Construction

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	19,988,645	191,963,993	63,160	1
Federal Funds	0	0	1,200,001	0
Total Funds	**$19,988,645**	**$191,963,993**	**$1,263,161**	**$1**

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.

Budget Environment

The Oregon Wireless Interoperability Network (OWIN) project is not included in the 2011-13 legislatively adopted budget because expenditure authority for $260 million was approved by the Legislature in 2009 and does not expire until 2015. The project cost was estimated at $448.7 million and is escalating. Due to the state's fiscal condition and issues raised by the Legislative Fiscal Office, the amount of funding for the project was in doubt.

Options for legislative consideration to address issues raised by the Legislative Fiscal Office were developed by the OWIN staff and presented to the Legislature's Joint Committee on Ways and Means. The Legislature approved moving forward with a less costly radio communications project, now referred to as the "Revised State Radio Project." The scaled back project is estimated to cost a total of $209 million; of which $121.4 million will be expended in the 2011-13 biennium and $43 million in 2013-15 biennium.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $3.3 million for Capital Improvements is unchanged from both the Governor's recommended budget and the 2009-11 legislatively approved budget level. The budget reflects no addition for inflation.

The 2011-13 legislatively adopted budget of $1 for Capital Construction reflects a place-holder to allow the Emergency Board to increase expenditure limitation for remodeling the Portland Drive Test Center that will add space to a current facility, improve a parking lot, and update restrooms for ADA compliance. Estimated cost of improvements is $1.2 million. Improvements are dependent on the sale of the former Beaverton DMV Office site.

The Legislature approved a budget note requiring the Department to report during the interim on the progress, accomplishments, resources, and risk or issues regarding the Revised State Radio Project and provide a report to the Joint Committee on Ways and Means during the 2012 legislative session on a complete strategy to achieve interoperability across the state.

Board of Accountancy – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	1,658,890	2,152,239	2,066,408	2,048,572
Total Funds	**$1,656,890**	**$2,152,239**	**$2,066,408**	**$2,048,572**
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. Additionally, a small amount of revenue is gained through the sale of public information and assessment of civil penalties.

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 continuing revenue reduction based on the number of out of state licensees and public accounting firms that are no longer required to pay registration fees to practice in Oregon as a result of the passage of SB 867 during the 2009 session (Chapter 531, Oregon Laws 2009). Although SB 867 also allowed the Board to increase the permit fee by $10 for individual licensees and $75 for firm registration to offset this lost revenue, the Board does not anticipate raising fees at this time.

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. The Board is challenged with regulating a changing profession and meeting the demand to provide more services to licensees, while ensuring more rigorous professional and ethical standards to protect the public without placing undue restrictions on licensees. For example, in addition to authorizing certain qualified accountants licensed in other states to practice accountancy in Oregon, SB 867 also increased the Board's ability to discipline based on the licensees' performance of public accounting services within a state, rather than restricting the Board's authority to only those holding a state license. In addition, 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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $2,048,572 represents a 4.82% decrease from the 2009-11 legislatively approved budget and a 0.86% decrease from the 2011-13 Governor's recommended budget. The budget reflects the phase out of the agency's online licensing project ($200,000), and includes $50,000 to allow the Board to continue to contract with qualified investigators to handle complex investigations.

Board of Chiropractic Examiners – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	1,112,908	1,243,565	1,303,051	1,261,261
Total Funds	**$1,112,908**	**$1,243,565**	**$1,303,051**	**$1,261,261**
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 2011-13 is projected to be 5.3% greater than 2009-11 estimates due to projected increases in the number of licensees.

Budget Environment

The Board of Chiropractic Examiners projects an increase in the total number of licenses issued or renewed in the upcoming biennium that will result in increased total revenues from the current biennium. This revenue however is more than offset by increased board costs. The Board reports that the factors impacting the increased costs include increased inquiries, verifications, and complaints and increased workload related to societal factors such as increased demand for alternative care, diversity and regulatory issues, and the scope of chiropractic care. The board currently charges the maximum licensing fee (by license type) allowed by statute.

Legislatively Adopted Budget

The legislatively adopted budget for the 2011-13 biennium increases by about 1.4% from the 2009-11 legislatively adopted budget and decreases by 3.3% from the 2011-13 Governor's recommended budget. The budget includes the conversion of a 1.00 FTE Investigator 2 position to a 1.00 FTE Compliance Specialist position, but no change to the total number of FTE for the agency. The Legislature approved statewide personal services reductions and elimination of inflationary adjustments that were included in the Governor's recommended budget, but did not approve a requested $45,045 Other Funds increase for Attorney General fees. SB 5508 provided a $3,255 Other Funds limitation increase to the agency to account for adjustments in service charges and fees for centralized services paid to other state agencies following the completion of those other agency's budgets.

Construction Contractors Board – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	14,693,323	15,082,530	14,373,739	15,137,443
Total Funds	**$14,693,323**	**$15,082,530**	**$14,373,739**	**$15,137,443**
Positions	85	80	70	76
FTE	81.94	76.50	70.00	76.00

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. HB 3127 (2009) established a certification program for locksmiths in the agency.

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. 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 2011-13 biennium are estimated to be approximately $1.15 million.

The agency was expecting a significant revenue shortfall for the 2011-13 biennium given the economic downturn in the construction industry. In spite of an anticipated $2.4 million beginning balance for the 2011-13 biennium, new revenues were not projected to cover the current service level budget. The Legislature approved keeping the contractor licensing and renewal fee at $325 for the 2011-13 biennium.

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, construction booms, and recessions that had a serious impact on the housing industry. The current economic environment continues impact the number of contractor licensees and therefore the revenues available to the agency.

Legislatively Adopted Budget

The adopted budget is $54,913 (0.4%) more than the 2009-11 approved budget. Given the limited revenues, the Governor's budget had proposed eliminating all dispute resolution services provided to consumers. The legislatively adopted budget maintains mediation services, but does eliminate the option of arbitration, if mediation does not work. The adopted budget also eliminated three long-term vacant positions to help offset the costs of providing the mediation services.

In addition, the budget contains funding for staffing of all legislatively mandated programs, the same number of field investigators as in the 2009-11 budget, and includes a three month ending balance.

Department of Consumer and Business Services (DCBS) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	196,631,590	208,092,819	200,492,670	200,775,789
Federal Funds	0	830,000	756,100	753,662
Other Funds (NL)	183,989,700	201,151,117	193,192,191	197,419,009
Total Funds	**$380,621,290**	**$410,073,936**	**$394,440,961**	**$398,948,460**
Positions	1,059	1,069	922	930
FTE	1,045.54	1,056.95	913.93	919.68

Both historical and current budget figures for the Oregon Medical Insurance Pool have been moved from this agency to the Oregon Health Authority (OHA) for budget display purposes. Under HB 2009 (2009), this entity was transferred to OHA by July 1, 2011.

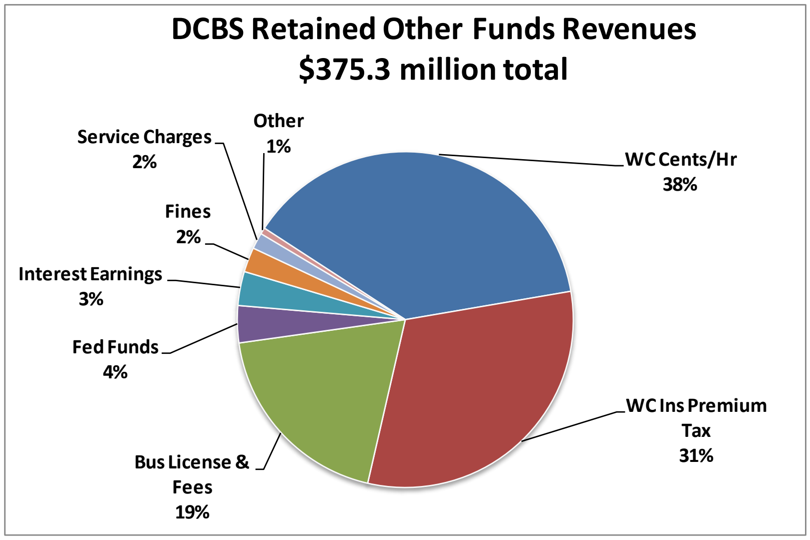
Agency Overview

The Department of Consumer and Business Services (DCBS) is organized into five broad program areas plus central administration:

- ***Shared Services*** includes administrative support, information management, and policy direction. Approximately 17% of the agency's full-time equivalent (FTE) staff is housed in Shared Services.
- ***Regulation and Enforcement of Workplace Safety and Health*** includes the Workers' Compensation Board, the Workers' Compensation Division, and the Oregon Occupational Safety and Health Administration (OR-OSHA). These programs collectively are also called the "Workers' Compensation System." Approximately 51% of the agency's full-time equivalent (FTE) staff is housed in the three Workers' Compensation System programs. The agency additionally maintains reserve accounts to finance workers' compensation payments to employees when self-insured employers become insolvent and are unable to make the payments. Approximately 10% of workers are employed by self-insured employers. Expenditures from these reserve funds are not limited in the budget and are categorized as Nonlimited Other Funds.
- ***Workers' Benefit Fund*** supports benefit increases to permanently- and totally-disabled workers and to the survivors of workers killed in workplace injuries, and funds return-to-work programs for injured workers. Payments from the Workers' Benefit Fund are not limited in the budget and are categorized as Nonlimited Other Funds.
- ***Insurance Division*** enforces the state's Insurance Code, including the review of and approving of certain premium rates; and the licensing of insurance companies (including financial regulation), agents, adjusters, and consultants. The Division also assists consumers in resolving complaints against agents and companies. Approximately 11% of the agency's full-time equivalent (FTE) staff is housed in the Insurance Division.
- ***Division of Financial and Corporate Securities*** regulates state-charted financial institutions (banks, credit unions, consumer finance companies, mortgage lenders, pawnbrokers, check cashers) and the sale of securities in the state (including the licensing of individuals who sell, advise, or manage investment securities). The Division also regulates prepaid funeral plans and maintains a reserve account to support consumers when these plans become insolvent or default on their obligations. Approximately 8.5% of the agency's full-time equivalent (FTE) staff is housed in this Division.
- ***Building Codes Division*** regulates Building Codes and other consumer services. Approximately 12.5% of the agency's full-time equivalent (FTE) staff is housed in the Buildings Codes Division.

Revenue Sources and Relationships

The agency is entirely funded by Other Funds, except for certain Federal grants received under provisions of the Affordable Care Act of 2010. Over 500 dedicated fees, assessments, and charges support the operation of DCBS. Other Funds revenues, in the 2011-13 legislatively adopted budget, are projected to total $628.5 million. Approximately 40% of these revenues (equal to $253.1 million in 2011-13), however, will be transferred outside the agency and not be available to support agency expenditures. The bulk of the transferred funds consist of revenue from two insurance taxes. The Department collects the retaliatory insurance tax, which is transferred directly to the General Fund, and an assessment on health insurance premiums that is transferred to the Oregon Health Authority primarily to support the Health Care for All Oregon Children (Healthy Kids) program. During the 2011-13 biennium, the agency is forecast to transfer $101 million of retaliatory insurance tax revenue to the General Fund, and transfer $116.6 million of health insurance premium assessment revenues to the Oregon Health Authority for Healthy Kids. The agency also will transfer an additional $15.6 million of revenues from licenses, fees, and fines to the General Fund, and transfer $18.5 million to the Department of State Police for the State Fire Marshal's office (from an assessment the Department levies on insurance policies covering fire perils).



After making these transfers, the agency will retain $375.3 million Other Funds as described below:

- Workers' Compensation Cents per Hour assessment revenue supports the Workers' Benefit Fund. The assessment rate has declined 33% since 1999. The current rate is 2.8 cents per hour worked for the calendar year 2011. Expenditures of money from this revenue source are Nonlimited in the budget.
- The Workers' Compensation Insurance Premium Tax supports workers' compensation-related programs. The total premium paid by employers continues to decline. The current workers' compensation premium assessment rate is 6.4% of earned premiums. The rate was increased from 4.6% on January 1, 2011. The 4.6% rate had been in effect since 2007. Since 1980, the assessment rate has varied from as low as 4.5% to as high as 16.8%.
- Business Licenses and Fees support regulatory programs in the Building Codes Division, Insurance Division, and the Division of Finance and Corporate Securities.
- 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, service charges, and other revenues support various Department programs.

Budget Environment

DCBS revenues are sensitive to the level of economic activity, and have fallen during the recession. By the first year of the 2009-11 biennium, revenues from the agency's largest limited Other Funds revenue source, the Workers' Compensation Insurance Premium Tax, had declined 14% from the level two years prior. Even though the agency recently increased the assessment rate to 6.4%, revenues in the 2011-13 biennium are not projected to return to the level prior to the recession. Other agency revenue declines have been even steeper. Revenues supporting the Building Codes Division, for example, have declined 37% over the past five years.

In total, agency revenues are forecast to be $20 million below the level needed to finance the current service level of expenditures and maintain prudent program fund balances. The modified current service level, which is a calculation of the current service level costs that can be supported by projected revenues, is therefore $20 million below CSL, leaving limited Other Funds expenditures totaling $211.3 million, only a 1.1% increase over the 2009-11 approved limited Other Funds spending level. Projected revenues will support 1,023 positions (916.39 FTE) agency wide, a 12.3% reduction from the FTE level in the approved spending level. Because of the revenue shortfall, the agency made 66 layoffs and held an additional 71 positions vacant during the 2009-11 biennium. These position and expenditure reductions have not been incorporated into the CSL calculation. The expenditure and staffing reductions discussed in this and the following paragraphs represent, to some extent, continuations of the reductions made in 2009-11.

The 2011-13 biennium revenue shortfalls, which vary from zero in the Insurance Division to a high of 12.9% of current service level costs in the Building Codes Division, are shown in the table below, in order of decreasing percentage of each program's CSL budget:

2011-13 Biennium Revenue Shortfall Expenditure and Staff Reductions From Current Service Level				
Division	**Dollars**	**FTE**	**% Cut**	**% FTE**
Building Codes Division	($3,904,933)	(27.72)	(12.9%)	(19.5%)
Finance & Corporate Securities Division	(1,888,257)	(9.75)	(10.3%)	(11.5%)
Shared Services	(4,411,919)	(20.32)	(10.0%)	(11.5%)
Workers' Compensation Division	(4,343,765)	(35.20)	(9.9%)	(15.1%)
OR - OSHA	(4,558,000)	(30.04)	(9.0%)	(13.5%)
Workers' Compensation Board	(880,232)	(5.76)	(3.9%)	(6.4%)
Insurance Division	0	0.00	0.0%	0.0%
TOTAL	**($19,987,106)**	**(128.79)**	**(8.6%)**	**(12.3%)**

Legislatively Adopted Budget

The 2011-13 biennium legislatively adopted budget is $7.3 million (or 3.5%) below the prior biennium level. This excludes the impact of the transfer of the Oregon Medical Insurance Pool program out of the Department to the Oregon Health Authority, and compares remaining DCBS programs to their funding levels in the prior biennium. Agency employment count, on a full-time equivalent (FTE) basis, is reduced by 137.27 FTE (or 13%) from the prior biennium.

The $7.3 million decline and position reductions are the net impact of a number of offsetting reductions and increases. The net figures include the elimination of 126 positions (128.50 FTE), and of $20.2 million of Other Funds expenditures, as a result of shortfalls in agency revenues. These amounts are comparable to figures in the above table, and reflect the direct impact of the recession on agency revenue and operations. Positions were eliminated in all of the agency's divisions, with the exception of the Insurance Division. The positions were generally vacant at the time of their elimination. The budget, however, retains forty-six vacant positions that are either currently under recruitment, or retained to support management actions to address potential work load increases as the economy recovers. It is understood that the agency will not fill these positions if sufficient revenue is unavailable.

DCBS – Shared Services

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	38,783,722	39,314,998	37,857,511	34,152,381
Other Funds (NL)	23,644	257,956	257,956	257,956
Total Funds	**$38,807,366**	**$39,572,954**	**$38,115,467**	**$34,410,337**
Positions	182	178	158	154
FTE	177.88	176.54	157.04	153.04

Program Description

Shared Services provides direction, leadership, and support services to the diverse divisions, offices, and boards within the Department.

- The Director's Office provides leadership, policy direction, general supervision of all programs, and liaison with other levels of government and the general public.
- The Information Management Division delivers DCBS information technology strategy and standards. In addition the unit collects, stores, processes, analyzes, and reports agency information used by the department, public, and policymakers.
- Fiscal and Business Services provides centralized purchasing and accounting services, collection services, payroll, purchasing, printing, ordering, and contract management services.
- Communication Services 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 provides human resources support, facilities services, mail services, telecommunication, safety, risk management, and training 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 spends these 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. Shared Services also monitors agency workload and statistics in support of the agency's key performance measures.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is $5.2 million (or 13%) below the prior biennium level. This amount is also $10 million (or 22.4%) below current service level. A large component of this change resulted from the transfer of the E-Permitting Program to the Building Codes Division. This transfer reduced Shared Services expenditures by $3.8 million and removed five positions (5.00 FTE). The budget also includes standard adjustments that were approved in most agency budgets on an across-the-board basis. These reductions from the current service level include a 5.5% reduction in personal services expenditures, and the elimination of spending increases for inflation in services and supplies and capital outlay costs.

In response to agency revenue shortfalls, the budget reduced Shared Services expenditures by $4.2 million and eliminated nineteen full-time positions. These adjustments represent a 10.5% reduction in expenditures, and an 11% reduction in employment, from the current service level.

DCBS – Workers' Compensation Board

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	18,996,696	20,164,074	20,477,780	20,419,889
Total Funds	**$18,996,696**	**$20,164,074**	**$20,477,780**	**$20,419,889**
Positions	93	90	84	84
FTE	93.00	90.00	84.00	84.00

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 eight other locations around the state.

The Workers' Compensation Board program includes three Divisions: Administrative Services, Hearings, and Board Review.

Revenue Sources and Relationships

The revenue source for the Board is the Workers' Compensation Premium Insurance Tax. The current tax rate is 6.4% of earned premiums, collected from SAIF, private, and self-insurers to be used for Department expenses. The rate was increased from 4.6% on January 1, 2011.

Budget Environment

The number of requested hearings and Board reviews has generally been on a declining trend since the mid-1990s. 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 Legislature has responded to the reduced number of filings by reducing staffing by 26.18 FTE since 1995-97 (7.50 in 1997-99, 12.00 in 1999-2001, 1.00 in 2001-03, 2.00 in 2003-05, 0.68 in 2007-09, and 3.00 in 2009-11), with a corresponding reduction in the growth of program expenditures.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is $255,815 (or 1.3%) above the prior biennium level. This amount is $2 million (or 8.8%) below current service level, however. The budget includes standard adjustments that were approved in most agency budgets on an across-the-board basis. These reductions from the current service level include a 5.5% reduction in personal services expenditures, and the elimination of spending increases for inflation in services and supplies and capital outlay costs.

In response to agency revenue shortfalls, the budget reduced Workers' Compensation Board expenditures by $941,973 and eliminated six full-time positions. These adjustments represent a 4.2% reduction in expenditures, and a 6.7% reduction in employment, from the current service level.

DCBS – Workers' Compensation Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	38,558,598	40,692,695	37,213,457	37,234,547
Other Funds (NL)	3,306,413	3,592,210	3,361,198	3,361,198
Total Funds	**$41,865,011**	**$44,284,905**	**$40,574,655**	**$40,595,745**
Positions	246	245	200	202
FTE	243.04	240.04	194.54	195.54

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 Ombudsman for Injured Workers receives, investigates, and assists in resolving workers' compensation complaints. The Small Business Ombudsman assists small businesses in obtaining workers' compensation coverage, intervenes in premium determination problems, and provides educational and outreach services programs to small businesses.

The Division has six program areas: Administration, Operations, Compliance, Medical, Benefit Services, and Workers' Compensation Assessments. The Ombudsman for Injured Workers and the Small Business Ombudsman also report to the Division Director.

Revenue Sources and Relationships

The primary revenue source for the Division is the Workers' Compensation Premium Insurance Tax. The current tax rate is 6.4% of earned premiums, collected from SAIF, private, and self-insurers to be used for Department expenses. The rate was increased from 4.6% on January 1, 2011. The Division also receives $1.5 million in interest income as well as $1.9 million in other revenue that includes civil penalties including those for non-complying employers. The Division also transfers $745,000 from the Workers' Benefit Fund to the Bureau of Labor and Industries to support investigations of alleged discrimination of injured workers. In addition, $3.4 million is transferred to Oregon Health and Science University Center for Research of Occupational and Environmental Toxicology (CROET), with an equal amount transferred from the Workers' Benefit Fund as Nonlimited Other Funds expenditures.

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 adjusted to deal with requirements of the reform.

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. Despite a 50% increase in the number of Oregon workers during the past 18 years, Oregon has maintained a low rate of uninsured employers. In addition, the number of accepted disabling claims decreased more than 50% from 1988 to 2007. In the past few years, the Workers' Compensation Division has seen an increase in the use of return-to-work programs such as the Employer-at-Injury program, that help injured workers return to work faster.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is $3.7 million (or 8.3%) below the prior biennium level. This amount is also $6.7 million (or 14.2%) below current service level. The budget includes standard adjustments that were approved in most agency budgets on an across-the-board basis. These reductions from the current service level include a 5.5% reduction in personal services expenditures, and the elimination of spending increases for inflation in services and supplies and capital outlay costs.

In response to agency revenue shortfalls, the budget reduced Workers' Compensation Division expenditures by $4.7 million and eliminated 36 full-time positions. These adjustments represent a 9.9% reduction in expenditures, and a 15.1% reduction in employment, from the current service level.

DCBS – Oregon Occupational Safety and Health Administration (OR-OSHA)

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	42,569,731	45,482,396	43,231,277	43,359,280
Total Funds	**$42,569,731**	**$45,482,396**	**$43,231,277**	**$43,359,280**
Positions	223	222	191	194
FTE	223.00	222.00	191.00	192.50

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 and Outreach Programs, which offer free, on-site safety evaluations and training for employers and workers; Enforcement, which ensures compliance with occupational safety and health rules; Policy and Technical, which develops policies relating to Administration concerns; and the Public Education and Conference Program, which provides conferences and workshops for employers and safety professionals.

Revenue Sources and Relationships

The primary revenue source for the Division is the Workers' Compensation Premium Insurance Tax. The current tax rate is 6.4% of earned premiums, collected from SAIF, private, and self-insurers to be used for Department expenses. The rate was increased from 4.6% on January 1, 2011. The Division also receives $11.8 million of federal funds (expended as Other Funds), as well as $3.3 million from OR-OSHA fines and forfeitures, most of which are transferred to the DCBS Fund to use for Department-wide workers' compensation-related costs. Other Funds ($320,000) 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 and of changes in the workplace and the mix of jobs, Oregon continues to experience a decrease in occupational illness and injury. In 2010, the Division conducted 5,261 health and safety inspections, 2,688 safety and health consultations, and hosted 18,930 Oregon workers and employers in training sessions. The number of illnesses or injuries per 100 full-time workers decreased from 8.7% in 1994 to 4.4% in 2009 (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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is $2.1 million (or 4.7%) below the prior biennium level. This amount is also $7 million (or 14%) below current service level. The budget includes standard adjustments that were approved in most agency budgets on an across-the-board basis. These reductions from the current service level include a 5.5% reduction in personal services expenditures, and the elimination of spending increases for inflation in services and supplies and capital outlay costs.

In response to agency revenue shortfalls, the budget reduced OR-OSHA expenditures by $4.8 million and eliminated 28 full-time positions. These adjustments represent a 9.6% reduction in expenditures, and a 12.6% reduction in employment, from the current service level.

DCBS – Nonlimited Accounts

Workers' Benefit Fund	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds (NL)	179,903,159	191,260,998	188,180,989	182,807,807
Total Funds	**$179,903,159**	**$191,260,998**	**$188,180,989**	**$182,807,807**

Workers Compensation Nonlimited Accts	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds (NL)	704,924	4,589,953	742,048	10,342,048
Total Funds	**$704,924**	**$4,589,953**	**$742,048**	**$10,342,048**

Program Description

This program area reports Nonlimited expenditures out of the Workers' Benefit Fund and the Workers Compensation Nonlimited Accounts, which consists of the Self-Insured Employer Adjustment Reserve and the Self-Insured Employer Group Adjustment Reserve.

Revenue Sources and Relationships

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 matching payment from the employer. 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.

Other Workers Compensation Nonlimited Accounts are funded with an additional 0.2% workers' compensation premium assessment from self-insured employers and employer groups. These Self-Insured Employer and

Employer Group Adjustment Reserves pay for injured worker claim costs from self-insured employers and self-insured employer groups that become insolvent.

Budget Environment

The 1995 Legislature directed the Department to reduce the balance of Workers' Benefit Fund 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, and workers. The Legislature subsequently directed the Department to maintain a Workers' Benefit Fund reserve balance of twelve months. This particular fund has a significant long-term liability.

Legislatively Adopted Budget

The Legislature reduced Workers' Benefit Fund expenditures by $5.4 million to reflect updated forecasts of reduced fund expenditures. The Legislature also increased expenditures from the Workers Compensation Nonlimited Accounts by $9.6 million reflecting increased forecasts of expenditures for bankrupt self-insured employers.

DCBS – Insurance Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	19,644,928	18,845,456	20,787,856	20,768,780
Federal Funds	0	830,000	756,100	753,662
Total Funds	**$19,644,928**	**$19,675,456**	**$21,543,956**	**$21,522,442**
Positions	94	101	100	100
FTE	93.50	96.87	99.50	99.50

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 provides independent customer advocacy and education, assists consumers in resolving complaints against agents and companies, enforces the Insurance Code, and collects and audits taxes of insurance companies. 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. The Division receives a federal grant in the amount of $1.2 million from the federal State Health Insurance Assistance Program (SHIP) grant from the Centers for Medicare and Medicaid Services (CMS), to fund the Oregon Senior Health Insurance Benefits Assistance Program (SHIBA). These funds are spent as Other Funds. The Division, beginning in 2009-11, also receives funds from other federal grants, primarily for enhancing the review of health insurance premium rates. Funds from these grants are spent as Federal Funds.

In the 2011-13 biennium budget, after paying operating expenses, $102.3 million in insurance premium taxes, fines, and interest earnings are forecast to be transferred to the General Fund for general governmental purposes, and $116.6 million of health insurance premium assessment revenue is to be transferred to the Oregon Health Authority for the Healthy Kids Program. In addition, $18.5 million from assessments on fire insurance premiums is to be transferred to the State Police Fire Marshal program.

Budget Environment

Increases in the complexity of insurance regulations, the demand for disaster insurance, an aging Oregon population, and statewide health reform efforts are significant workload factors for the Insurance Division. Recent federal health care legislation has also affected state regulation of health insurance policies. The Division has received some grant monies from the Federal government designed to assist states in improving the regulation of the health insurance market.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is $1.8 million (or 9.4%) above the prior biennium level. This amount is $319,000 (or 1.5%) below current service level, however. The budget includes standard adjustments that were approved in most agency budgets on an across-the-board basis. These reductions from the current service level include a 5.5% reduction in personal services expenditures, and the elimination of spending increases for inflation in services and supplies and capital outlay costs.

Unlike the agency's other programs, the Insurance Division does not face a revenue shortfall in the 2011-13 biennium. The budget does not include reductions beyond the standard adjustments described above, nor does it eliminate Insurance Division positions. The Legislature approved $756,100 of Federal Funds expenditures for continuing federal grants that were awarded in the prior biennium, and approved continuing three full-time positions funded by the grant monies. The grants are related to federal health care initiatives. The Legislature deferred approving a request by the Department to apply for a second federal health insurance rate review grant until after the 2011 session.

DCBS – Finance and Corporate Securities

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	13,945,214	16,182,692	16,653,551	16,635,403
Other Funds (NL)	308	650,000	650,000	650,000
Total Funds	**$13,945,522**	**$16,832,692**	**$17,303,551**	**$17,285,403**
Positions	79	86	79	79
FTE	74.62	86.00	79.00	79.00

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.

Revenue Sources and Relationships

The Division receives revenue from annual assessments on financial institution assets and from securities licensing, registration, and examination fees. The Division also receives $260,000 from interest earnings. A portion of the Division's revenues are transferred to the General Fund for general government purposes. This biennial transfer, though it has decreased since the last recession, has still increased from slightly less than $3 million in 2001-03 to a projected $15.6 million in 2011-13.

Budget Environment

A number of factors influence the workload and performance of DFCS. Recent changes in the economy and the financial crisis that became evident in 2008 have created the need for increased oversight of all financial institutions, specifically mortgage lenders and banks. Division revenues have fallen with the consolidation of the financial industry. The Division's license and fee revenue has fallen as firms have left the market. Although this decline in the number of financial firms reduces the Division's work load, the work load reduction is typically smaller than the associated revenue reduction, because expectations for oversight of the remaining firms have increased.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is $452,711 (or 2.7%) above the prior biennium level. This amount is $1.7 million (or 9.1%) below current service level, however. The budget includes standard adjustments that were approved in most agency budgets on an across-the-board basis. These reductions from the current service level include a 5.5% reduction in personal services expenditures, and the elimination of spending increases for inflation in services and supplies and capital outlay costs.

In response to agency revenue shortfalls, the budget reduced Division of Finance and Corporate Securities expenditures by $0.9 million and eliminated six full-time positions. These adjustments represent a 4.7% reduction in expenditures, and a 7.1% reduction in employment, from the current service level. The budget includes $1.3 million Other Funds for restoring expenditures and six positions in the positions that are otherwise eliminated due to revenue shortfalls in the Mortgage Lending and the Funeral Pre-Need Programs. The Department had increased fees in these programs during the prior biennium by administrative rule. The Legislature reduced the amount of the fee increases by half, and directed the Department to use other resources to maintain services in these two programs.

DCBS – Building Codes Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	24,132,701	27,410,508	24,271,238	28,205,509
Other Funds (NL)	51,252	800,000	0	0
Total Funds	**$24,183,953**	**$28,210,508**	**$24,271,238**	**$28,205,509**
Positions	142	147	110	117
FTE	140.50	145.50	108.85	116.10

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:

- fees for licenses, inspections, and permits, as well as surcharges on fees levied by state and local jurisdictions;
- Federal Funds (expended as Other Funds) to provide consumer assistance to individuals with complaints about manufactured homes;
- fines; and
- other revenue, including interest earnings.

Budget Environment

The downturn in construction has greatly affected the Division's workload and revenues. The Division has, though, seen an increase in activities related to sustainability and green building. The Division also continues to develop a statewide e-permitting system, to make it easier for contractors to do business. By law, the Division is required to provide building codes regulation and permits in three categories: in areas where local jurisdictions do not provide such service, in certain cases where permits are only issued on a statewide basis (pre-fabricated structures, boilers, recreational vehicles, elevators, and in-plant manufactured dwellings), and for permits for minor construction work that can be used anywhere in the state (minor labels).

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is essentially equal to the prior biennium level. This amount is $2.1 million (or 6.9%) below current service level, however. These figures understate the actual reductions in the Division's budget, however. The net reduction figures above include the effects of the transfer of the E-Permitting Program from Shared Services to the Building Codes Division. This transfer increased Building

Codes expenditures by $3.8 million and added five positions (5.00 FTE). Excluding the impact of this program shift, the budget is reduced $5.8 million (or 19.3%) from the current service level.

In response to agency revenue shortfalls, the budget reduced Building Code Division expenditures by $4.5 million and eliminated 31 full-time positions. These adjustments represent a 15% reduction in expenditures, and a 21.7% reduction in employment, from the current service level.

The budget also includes standard adjustments that were approved in most agency budgets on an across-the-board basis. These reductions from the current service level include a 5.5% reduction in personal services expenditures, and the elimination of spending increases for inflation in services and supplies and capital outlay costs.

Board of Licensed Professional Counselors and Therapists – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	666,367	925,809	998,835	932,509
Total Funds	**$666,367**	**$925,809**	**$998,835**	**$932,509**
Positions	3	4	5	4
FTE	2.50	3.00	4.00	3.50

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 eight-member board is appointed by the Governor and composed of three licensed professional counselors, two licensed marriage and family therapists, one faculty from a related program, and two public members.

Revenue Sources and Relationships

The 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 was greater than 2007-09 estimates based on continued growth in licensees. The 2011 Legislature approved the $47.25 administratively established fee for criminal background checks by the Department of State Police. The new fee is expected to generate approximately $10,395 in Other Fund revenue. These background checks will be conducted every 5 years, and licensees will only be charged the $47.25 when the check is done.

The Board has an ending balance of $363,748, which represents just over 9 months of operating expense.

Budget Environment

The agency has identified three main activities: licensing; consumer protection; and administration. Over the last four years, initial licenses, license renewals, and complaints have increased. The agency expects this trend to continue. This has a direct impact on licensing and consumer protection workload.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $932,509 Other Funds is an increase of $6,700 Other Funds (0.72%) and 0.50 FTE above the 2009-11 legislatively approved budget. Reductions include the elimination of inflation and a 5.5% reduction in personal services. The budget converts a half-time limited duration investigator position to a full-time permanent position. The budget includes an expenditure limitation increase of $10,395 Other Funds to pass through the Department of State Police cost of $47.25 for each criminal background check.

The budget is a decrease of $66,326 Other Funds (6.6%) below the Governor's recommended level. The adopted budget is an increase over the current service level, primarily as a result of the phase-out of the limited duration investigator position in the current service level and the additional cost for criminal background checks.

A policy option package to add 0.50 FTE Office Specialist was not approved. There is a budget note that authorizes the Board to monitor its workload. The Board may request this position in February 2012 if the need is supported by the workload.

Board of Dentistry – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	1,943,392	2,295,770	2,509,517	2,502,044
Total Funds	**$1,943,392**	**$2,295,770**	**$2,509,517**	**$2,502,044**
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 2011-13 is expected to exceed 2009-11 estimates by approximately 3.3%.

Budget Environment

There are no significant changes to the budgeting environment for the Board of Dentistry from the prior biennium. The projected workload and number of licensees remain nearly flat in the upcoming biennium. Some increased workload pressure is expected from managing the public's expectations of board functions and from regulatory and industry changes; the board reports that they are able to utilize collaborative relationships with professional associations and schools of dentistry to resolve some of these issues.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget increases the agency's budget by 9% over the 2009-11 legislatively approved budget. The budget increase is almost entirely due to the additional costs of participation in the Health Professional Service Program which is funded by a pass-through increase of $35 for licensees eligible to participate in the program. SB 5508 reduced the agency's budget by $7,473 Other Funds to account for adjustments in service charges and fees for centralized services paid to other state agencies.

Board of Examiners of Licensed Dieticians – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	71,185	76,354	103,773	0
Total Funds	**$71,185**	**$76,354**	**$103,773**	**$0**
Positions	1	1	1	0
FTE	0.30	0.30	0.30	0.00

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 Governor and approved by the Senate 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 and currently has approximately 600 active licensees renewed on a biennial basis. Other miscellaneous sources include late payment fines and interest income.

Budget Environment

The agency has an estimated 600 licensees, and has averaged about one complaint per year for the last decade.

Legislatively Adopted Budget

The Legislature approved the transfer of the Board to the Oregon Health Licensing Agency. The transfer includes the beginning balance, revenues, and expenditure limitation necessary to support the Board. The transfer does not include any positions or FTE. The statutory changes needed for the transfer were included in SB 939 (2011).

Health Licensing Agency – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	6,262,795	6,622,806	6,568,327	6,612,566
Total Funds	**$6,262,795**	**$6,622,806**	**$6,568,327**	**$6,612,566**
Positions	33	33	34	33
FTE	32.11	33.00	33.28	33.00

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 – HB 2243 (2009)
- Hearing Aid Specialist
- Midwifery, Direct Entry
- Permanent Color Technician
- Respiratory Therapy
- Tattoo Artist
- Sex Offender Therapists – HB 3233 (2007)
- Dietitians – SB 939 (2011)

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. The agency previously developed a cost allocation model to calculate standardized fees across all its boards, councils, and programs. The agency has undergone a review of the current fee structure and has adjusted the fees to better reflect direct usage of licensing, business services, and regulatory divisions of the agency. The agency continues to work toward the goal of having each board independently financed without subsidization from other board's revenues and maintaining a cash reserve of three months of operating costs. The agency adjusted several fees that are anticipated to increase revenue by $662,520 in 2011-13. The agency's projected ending cash balance of $1,713,690 equals approximately 6 months of operating costs.

Budget Environment

SB 939 (2011) transferred the Board of Dietitians to the Oregon Health Licensing Agency. The transfer includes the beginning balance, revenues, and expenditure limitation necessary to support the Board. The transfer does not include any positions or FTE.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $6,612,566 represents a less than 1% decrease from the 2009-11 legislatively approved budget. The Legislature approved 33 positions (33.00 FTE), including making five limited duration positions previously approved by the Legislature permanent and reclassifying two positions to better addresses the demand for services and increased consumer protection. The budget includes technical adjustments to better reflect agency expenditures, statewide personal services reductions, elimination of inflationary adjustments, and the elimination of a long-term vacant position. The budget also includes the transfer of the operations of the Board of Dietitians to the Health Licensing Agency. The agency was able to absorb the operations without an increase in positions.

The Legislature expressed concern regarding the number of fee changes and the distribution of costs and revenue among the programs within the agency. A budget note was added directing the agency to report back to the Legislature on the status of the fee changes and the cost distribution by program, including revenues, anticipated ending balances, and any proposals to adjust the fees based on the findings.

Bureau of Labor and Industries (BOLI) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	12,749,264	11,927,913	11,927,913	11,282,811
Other Funds	5,395,659	8,640,971	8,063,580	8,782,406
Federal Funds	1,326,011	1,412,409	1,356,446	1,355,627
Other Funds (NL)	1,832,995	2,403,950	2,200,000	2,200,000
Total Funds	**$21,303,929**	**$24,385,243**	**$23,547,939**	**$23,620,844**
Positions	111	110	99	102
FTE	110.00	107.38	99.00	101.00

Agency Overview

The Bureau of Labor and Industries (BOLI) is organized into four divisions with responsibilities in three broad program areas:

- ***Civil Rights*** – Enforcement of laws that prohibit unlawful discrimination in employment, housing, public accommodation, and career schools. These protections are provided 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, and for reporting illegal activity ("whistleblower" protection) or violations of family leave laws.
- ***Wage and Hour*** – Enforcement of laws relating to wages and hours worked (including prevailing wage rates on public works contracts) and terms and conditions of employment; investigation of claims and complaints from workers involving wages and working conditions, including the minimum wage and overtime; protection of children in the workplace; enforcement of regulations pertaining to private employment agencies; calculations of prevailing wage rates for public works projects, and licensing and regulation of farm and forest labor contractors.
- ***Apprenticeship and Training*** – Regulation of apprenticeship programs that promote the development of a highly skilled workforce.

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 portion (equal to 0.03% of taxable wages) of the unemployment insurance taxes paid by employers in one calendar quarter each biennium. This revenue, which is forecast to total approximately $3.9 million in the 2011-13 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 $270,000 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 $2.2 million during the 2011-13 biennium. The Fund is also used for administrative expenses, however. The $8.8 million of total Other Funds expenditures in the current service level includes $1,561,635 of Wage Security Fund revenue spent on agency administration.

The Prevailing Wage Rate program is forecast to receive $2.9 million in assessments on public works construction contracts; Technical Assistance Fees will generate $1.2 million; contract services with the Department of Consumer and Business Services (DCBS) for investigation of discrimination complaints against injured workers and against workers who have reported safety and health hazards will produce $1,065,437. The agency also receives Federal Funds under three federal programs. BOLI contracts with the Equal Employment Opportunity Commission (EEOC) and receives $787,200 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 $110,000 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

The agency's General Fund support has been reduced, with some interruptions, since it peaked in the 1995-97 biennium, and has fallen by 11.1% since that time. Staff count on a full-time equivalent basis has been decreased 32.5% since its 1993-95 biennium peak. 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.

More recently, program activities have remained relatively stable over the course of the past recession. The agency continues to investigate approximately 2,000 civil rights cases per year, although the number of inquiries, which had recently been in the 30,000 to 32,000 per year range, jumped to over 35,000 in the first year of the current biennium. Wage and Hour Division wage claim investigations have been stable at approximately 2,600 per year. Apprenticeship program activity, on the other hand, does vary with the economy. During recessions businesses offer fewer apprenticeships. The number of new apprentices registered declined to 946 in the first year of the current biennium, down from 2,491 two years earlier.

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.

Legislatively Adopted Budget

The total legislatively adopted budget for the Bureau is 3.1% below the prior biennium level, and is 3.2% below the current service level. General Fund is reduced by $0.6 million (5.4%) from the prior biennium and is $2.7 million (19.4%) below the current service level. Full-time equivalent employment count is reduced 5.9% from the prior biennium.

The budget includes standard adjustments that were approved in most agency budgets on an across-the-board basis. The reductions from current service level include the roll-up of 2009-11 biennium General Fund allotment reductions, a 5.5% reduction in personal services expenditures, the elimination of spending increases for inflation in services and supplies and capital outlay costs, an additional 6.5% reduction in General Fund appropriated for services and supplies, and a 3.5% hold back adjustment on General Fund for purposes of establishing a supplemental statewide ending balance.

The Governor's recommended budget proposed to effectively eliminate eight agency positions to help address the state's General Fund revenue shortfall. To operate within the General Fund amount in the Governor's budget, the agency would have eliminated these positions and closed its offices in Salem, Medford, Pendleton, and Bend. The Legislature increased the agency's expenditures of Other Funds to retain four of the eight positions slated for elimination, and to allow the agency to maintain its satellite offices. Funding for sixteen agency positions in the Commissioner's Office and Program Support Services Unit and in the Wage and Hour Division, with responsibilities in the Wage Security Fund and Prevailing Wage Rate programs, was partially shifted from General Fund to Other Funds, as were a portion of the agency's services and supplies expenditures. Expenditures of an additional $623,429 from the Wage Security Fund, and of an additional $108,908 from the Prevailing Wage Education and Enforcement Account, were authorized for these purposes.

BOLI – Commissioner's Office and Program Support Services

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	3,749,414	3,477,779	3,458,221	3,263,676
Other Funds	1,647,661	2,506,469	2,079,636	2,596,664
Federal Funds	258,347	202,127	157,628	157,543
Total Funds	**$5,655,422**	**$6,186,375**	**$5,695,485**	**$6,017,883**
Positions	27	27	22	25
FTE	27.00	26.00	22.00	24.50

Program Description

The Commissioner's Office and Program Support Services Unit provides overall policy direction and management for the Bureau. The program units are:

- 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 Services Unit receives 54% of its support from General Fund resources, down from 56% in the prior biennium. Other Funds revenues include $1.2 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 Hearings Unit has generally grown, 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 16 in 2008-09 and six in 2009-10. These 22 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 95 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.

Legislatively Adopted Budget

The $3.3 million of General Fund in the legislatively adopted budget is a 6.2% reduction from the prior biennium level, and is 24.1% below the current service level. The all funds budget is 8% below the current service level. The budget eliminates two positions (1.50 FTE), equivalent to a 5.8% reduction in staffing.

The budget eliminates one full-time Info Systems Specialist 6 as an outcome of the General Fund revenue shortfall. The Governor's recommended budget also eliminated this position. The Legislature, however, reduced General Fund in the Commissioner's Office and Program Support Services Unit to allow BOLI to avoid closing satellite offices and to avoid position reductions in other BOLI divisions. General Fund was reduced $447,730 through the reallocation of this amount of eligible expenditures to the Wage Security Fund and the Prevailing Wage Education and Enforcement Account (i.e., to Other Funds).

The budget for the Unit also includes standard adjustments that were approved in most agency budgets on an across-the-board basis. The reductions from current service level include the roll-up of 2009-11 biennium General Fund allotment reductions, a 5.5% reduction in personal services expenditures, the elimination of spending increases for inflation in services and supplies and capital outlay costs, an additional 6.5% reduction in General Fund appropriated for services and supplies, and a 3.5% hold back adjustment on General Fund for purposes of establishing a supplemental statewide ending balance.

BOLI – Civil Rights

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	2,824,881	2,717,908	2,730,929	2,747,999
Other Funds	844,936	1,092,073	1,056,482	1,055,632
Federal Funds	997,724	1,122,670	1,110,171	1,109,488
Total Funds	**$4,667,541**	**$4,932,651**	**$4,897,582**	**$4,913,119**
Positions	32	31	29	30
FTE	31.25	30.50	29.00	29.50

Program Description

The Civil Rights Division enforces laws that prohibit unlawful discrimination in employment, housing, public accommodation, and career schools. These protections are provided 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 million from OR-OSHA and the Workers' Benefit Fund. The Workers' Benefit Fund in DCBS provides the majority of these funds ($745,437) to investigate allegations of discrimination against injured workers. The $320,000 from OR-OSHA is used to investigate complaints of retaliation against employees for opposing unsafe or unhealthy working conditions. 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 $787,200 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 31,537 inquiries in Fiscal Year 2009 and 35,229 inquiries in Fiscal Year 2010, and investigates over 2,000 cases per year. These numbers have been relatively stable over recent years, and it is unclear whether the 2010 growth in inquiries represents a new trend or is an anomaly. Most of the Division's cases (95%) relate to discrimination in employment, with the rest relating to housing or public accommodations. The four principal areas of complaints relate to sex discrimination (25% of complaints), disability (25%), injured worker (21%), and race/color (17%). The Division is experiencing an increase in investigations of housing complaints. Since 1992, the federal government had been investigating Oregon complaints based on federal fair housing laws. Beginning in 2007, however, BOLI resumed investigating these complaints in Oregon.

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 20% to 23% of the Civil Rights Division's annual caseload and require the equivalent of four investigators.

Legislatively Adopted Budget

The $2.7 million of General Fund in the legislatively adopted budget is a 1.1% increase over the prior biennium level, but is 15% below the current service level. The all funds budget is 10.7% below the current service level. The budget eliminates one position (1.00 FTE), equivalent to a 3.2% reduction in staffing.

The budget eliminates one full-time Senior Civil Rights Investigator (Civil Rights Filed Representative 2) position as an outcome of the General Fund revenue shortfall. The Governor's recommended budget eliminated a second Investigator position too, but the Legislature reduced General Fund in other areas of the agency budget to allow BOLI to retain this second position and to avoid office shutdowns. General Fund in the other Divisions was reduced by allocating increased portions of their expenditures to the Wage Security Fund and the Prevailing Wage Education and Enforcement Account.

The budget for the Division also includes standard adjustments that were approved in most agency budgets on an across-the-board basis. The reductions from current service level include the roll-up of 2009-11 biennium General Fund allotment reductions, a 5.5% reduction in personal services expenditures, the elimination of spending increases for inflation in services and supplies and capital outlay costs, an additional 6.5% reduction in General Fund appropriated for services and supplies, and a 3.5% hold back adjustment on General Fund for purposes of establishing a supplemental statewide ending balance.

BOLI – Wage and Hour

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	3,362,908	3,035,476	2,869,026	2,472,855
Other Funds	2,800,339	3,432,080	3,289,572	3,492,274
Other Funds (NL)	1,832,995	2,403,950	2,200,000	2,200,000
Total Funds	**$7,996,242**	**$8,871,506**	**$8,358,598**	**$8,165,129**
Positions	34	34	30	29
FTE	33.75	33.50	30.00	29.00

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 $2.9 million from assessments on public construction contracts for the Prevailing Wage Rate (PWR) program, and $145,000 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 $3.9 million for the Fund in the 2011-13 biennium from a portion (equal to 0.03% of taxable wages) of the unemployment insurance taxes paid by employers in the last calendar quarter of the prior biennium. The Division will also receive $270,000 in interest and recoveries for the Wage Security Fund. Out of the total $4.15 million in Wage Security Fund revenues, the Division is projected to spend $2.2 million for actual wage claims as Nonlimited Other Funds. Approximately $1.6 million of Wage Security Fund revenues are spent on administration as Other Funds, 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 1,300 of these complaints relate to unpaid final wages involving businesses that have failed, where claims are made against the Wage Security Fund. The number of complaints fluctuates with the economy. The 3,900 remaining wage claims are split between roughly 1,400 minimum wage/overtime claims and 2,500 other wage collection disputes. The Division also investigates non-wage claims involving working conditions and child labor violations.

Legislatively Adopted Budget

The $2.5 million of General Fund in the legislatively adopted budget is an 18.5% reduction from the prior biennium level, and is 26.2% below the current service level. The all funds budget is 9.4% below the current service level. The budget eliminates five positions (4.50 FTE), equivalent to a 13.4% reduction in staffing.

The budget eliminates one full-time Wage and Hour Compliance Specialist position and one full-time Office Specialist 2 position as an outcome of the General Fund revenue shortfall. The Governor's recommended budget eliminated a second Wage and Hour Compliance Specialist position as well, and closed the agency's office in Salem. The Legislature reduced General Fund in the Division and in the Commissioner's Office and Program Support Services Unit to allow BOLI to retain this third position and avoid an office shutdown. General Fund was reduced by allocating increased portions of eligible expenditures to the Wage Security Fund and the Prevailing Wage Education and Enforcement Account.

The budget for the Division also includes standard adjustments that were approved in most agency budgets on an across-the-board basis. The reductions from current service level include the roll-up of 2009-11 biennium General Fund allotment reductions, a 5.5% reduction in personal services expenditures, the elimination of spending increases for inflation in services and supplies and capital outlay costs, an additional 6.5% reduction in General Fund appropriated for services and supplies, and a 3.5% hold back adjustment on General Fund for purposes of establishing a supplemental statewide ending balance.

BOLI – Apprenticeship and Training

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	2,812,061	2,696,750	2,869,737	2,798,281
Other Funds	102,723	1,610,349	1,637,890	1,637,836
Federal Funds	69,940	87,612	88,647	88,596
Total Funds	**$2,984,724**	**$4,394,711**	**$4,596,274**	**$4,524,713**
Positions	18	18	18	18
FTE	18.00	17.38	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

Until the 2009-11 biennium, the Apprenticeship and Training Division was almost exclusively funded with General Fund. In 2009-11, BOLI entered into a contract with the Oregon Department of Transportation to manage a program to help diversify the heavy highway construction workforce by expanding outreach, training, and support services to women, minorities, and young adults. This program is funded by $1.5 million per biennium of federal transportation dollars. BOLI receives and spends these monies as Other Funds. The

Division also anticipates receiving a federal grant of $110,000 from the Veterans' Administration in the 2011-13 biennium for on-the-job training of qualified veterans.

Budget Environment

Apprenticeship programs fluctuate with the economy. The Division registered 946 new apprentices during the 2010 fiscal year (the last year for which data are available), a 62% decline from the 2,491 new apprentices registered two years earlier. The Division also maintains a registry of 5,741 apprentices as of June 2010 (down from approximately 8,100 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 26 of the 168 active apprenticeship programs during the 2010 fiscal year, a decline from the 45 compliance reviews conducted two years earlier. As of June 2010, minorities represented 13.8% of apprenticeship program participants, and females represented 5.7%. This shows an increase in female participation from two years ago, when the female participation rate was 5.3%. The minority participation rate is unchanged from two years ago.

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 pilot 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. The 2009-11 biennium legislatively approved budget added a second new program, the ODOT Diversity Project, described below.

Legislatively Adopted Budget

The budget retains staffing at the prior biennium level. The $2.8 million of General Fund in the legislatively adopted budget is a 3.8% increase over the prior biennium level, but is 10.4% below the current service level. The all funds budget, however, is 35.1% above the current service level. This primarily reflects the addition of $1.5 million Other Funds in the budget for continuation of the ODOT Diversity Project – a contract with the Oregon Department of Transportation to manage a program to help diversify the heavy highway construction workforce by expanding outreach, training, and support services to women, minorities, and young adults. BOLI first received $1.5 million from ODOT in the 2009-11 biennium for this project on a pilot basis. Because the initial contract did not extend beyond the biennium, its continuation was not included in the current service level. The contract was renewed, however, and the Legislature included contract-related expenditures in the legislatively adopted budget.

Although the budget retains all Division staff, the Governor's recommended budget had proposed to eliminate two Apprenticeship Representative positions, located in Medford and Bend. The Legislature acknowledged the benefit of regional staff to apprenticeship programs outside of the Willamette Valley, and reduced General Fund in other areas of the agency budget to allow BOLI to retain the two positions and to avoid office shutdowns. General Fund in the other Divisions was reduced by allocating increased portions of their expenditures to the Wage Security Fund and the Prevailing Wage Education and Enforcement Account.

The budget for the Division also includes standard adjustments that were approved in most agency budgets on an across-the-board basis. The reductions from current service level include the roll-up of 2009-11 biennium General Fund allotment reductions, a 5.5% reduction in personal services expenditures, the elimination of spending increases for inflation in services and supplies and capital outlay costs, an additional 6.5% reduction in General Fund appropriated for services and supplies, and a 3.5% hold back adjustment on General Fund for purposes of establishing a supplemental statewide ending balance.

Medical Board – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	8,614,946	9,532,401	10,179,398	10,028,550
Total Funds	**$8,614,946**	**$9,532,401**	**$10,179,398**	**$10,028,550**
Positions	37	40	40	40
FTE	35.30	38.67	38.79	38.79

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, and registration fees. Other miscellaneous revenue includes the sale of lists and directories, and fines or forfeitures imposed as disciplinary measures. Revenue in 2011-13 is projected to be $9.2 million which is an 11% increase from 2009-11 levels and the projected ending cash balance of $2.3 million equals approximately 5.5 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 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.

Legislatively Adopted Budget

The 2009-11 legislatively adopted budget of $10,028,550 represents a 5.2% increase from the 2009-11 legislatively approved budget. The legislatively adopted budget includes funding for: workforce data fees required by HB 2009 (2009), increased fees associated with interagency mail security, and increased costs associated with increased billing rates from the Office of Administrative Hearings. In addition, the legislatively approved budget includes a 6% fee increase on most license renewal fees.

Board of Medical Imaging – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	569,574	612,737	754,416	749,594
Total Funds	**$569,574**	**$612,737**	**$754,416**	**$749,594**
Positions	3	3	4	4
FTE	3.00	3.00	3.25	3.25

Agency Overview

The mission of the Board of Medical Imaging is to promote, preserve, and protect the public health, safety, and welfare of Oregonians when being exposed to ionizing radiation for the purpose of medical diagnosis or radiation therapy. The twelve-member board is appointed by the Governor and composed of four licensed physicians representing different medical specialties (at least one radiologist and one licensed medical imaging specialist), three public members, and one member from each of the five major medical imaging modalities (MRI technology, nuclear medicine technology, radiation therapy, radiography, and sonography).

The 2009 Legislative Assembly approved HB 2245 which established the Board's authority to require licensure for nuclear medicine technologists, sonographers, and MRI technologists. In addition to the three new licenses, the Board continues to license diagnostic or therapeutic technologists and diagnostic technicians; administers limited permit examinations for radiologic technicians to determine initial competence to practice; approves continuing education offerings to assure continuing competence; and defines and enforces the scope of practice for all licensees.

Revenue Sources and Relationships

The 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. The Board currently has approximately 4,600 permanent medical imaging and limited x-ray machine operator licensees and 439 active temporary licensees and fees are prorated based on birth month and are on a biennial renewal basis. The Board has gradually implemented the new license modalities that took effect July 1, 2010 in order to keep a sustainable workload with current staffing levels. The Board anticipates an increase of approximately 66% in revenues during 2011-13. This is a result of the three new license modalities, expected to add 600+ new licensees, as well as a $1 per month fee increase to all licensees that was ratified by the 2009 Legislature. The Board's projected ending cash balance of $143,724 equals approximately 4.5 months of operating costs.

Budget Environment

The agency has identified four main activities: licensing; regulatory compliance; education; and governance and administration. As a result of the three new licensure types, including sonography, which was previously unregulated or licensed in any state, and the statutory authority to conduct background checks, the Board anticipates an increase in the number of complaints received and subsequent investigations.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $749,594 represents a 22.3% increase from the 2009-11 legislatively approved budget level. The legislatively adopted budget includes a part-time limited duration position (0.25 FTE) to assist the Board with the anticipated increase in investigation workload as a result of the regulation of three new licensure types. Additionally, the budget includes $56,000 of expenditure limitation for pass through payments associated with the national examination costs for licensees. Also included in the legislatively adopted budget are statewide personal services reductions and the elimination of inflationary adjustments.

Mortuary and Cemetery Board – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	1,032,009	1,256,294	1,310,960	1,320,994
Total Funds	**$1,032,009**	**$1,256,294**	**$1,310,960**	**$1,320,994**
Positions	5	6	6	6
FTE	5.00	6.00	5.71	5.71

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 2011-13 is expected to be slightly below 2009-11 levels and the projected ending cash balance of $281,934 equals approximately 5 months of operating costs.

Budget Environment

The agency regulates individuals and facilities engaged in the care, preparation, processing, transportation, and final disposition of human remains through 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. The Board has over 2,400 active licensees on a two-year renewal cycle.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $1,320,994 represents a 5.2% increase from the 2009-11 legislatively approved budget level. The legislatively adopted budget includes statewide personal services reductions and the elimination of inflationary adjustments.

Board of Naturopathic Examiners – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	478,567	543,608	655,139	598,123
Total Funds	**$478,567**	**$543,608**	**$655,139**	**$598,123**
Positions	2	3	3	3
FTE	2.00	2.33	2.50	2.50

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 and currently has approximately 900 active licensees renewed on a biennial basis. Other miscellaneous sources include fines for late payments, interest income, and the sale of mailing lists and copies of public records. Revenue in 2011-13 is anticipated to increase due to the growing popularity of naturopathic medicine for primary health care, insurance companies providing benefits for naturopathic care, and increased enrollment of students at naturopathic accredited colleges. The Board's projected ending cash balance of $128,646 equals approximately 4.7 months of operating costs.

Budget Environment

The Board received authority to hire a limited duration part-time Investigator position in response to an increase in the number of licensees, statutory authority to conduct background checks, and increased number of complaints.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $598,123 represents a 10% increase from the 2009-11 legislatively approved budget level and a 10.4% decrease from the 2011-13 Governor's recommended budget. The legislatively adopted budget includes a fee increase of $50,000 to allow the Board to maintain an adequate ending cash balance; the continuation of the part-time investigator position (0.50 FTE) that was approved by the Legislature in February 2010 as a limited duration position; and a $32,511 unspecified reduction to services and supplies to achieve the target of holding the Board's budget to no more than an 8% increase from the 2009-11 approved budget level. End of session adjustments to assessments and charges for services in SB 5508 (2011) increased the legislatively adopted budget to 10% above the 2009-11 approved budget level. The budget also includes statewide personal services reductions and the elimination of inflationary adjustments.

Board of Nursing – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	10,236,464	12,760,411	14,171,248	13,988,205
Total Funds	**$10,236,464**	**$12,760,411**	**$14,171,248**	**$13,988,205**
Positions	47	50	47	47
FTE	43.75	47.75	46.75	46.75

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 Program. The agency expects to receive approximately $1.2 million from DHS in 2011-13.

Budget Environment

The agency's budget is influenced by the number of licensees, complaint investigations, background checks, and participants in the Health Professionals' Service Program (HPSP). 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.

Legislatively Adopted Budget

The legislatively adopted budget is a 9.6% increase from the 2009-11 legislatively approved budget. The 2011-13 legislatively adopted budget includes continuing funding for Information Technology infrastructure improvements, increased costs associated with CNA testing, and increased costs associated with HPSP.

Occupational Therapy Licensing Board – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	256,951	337,191	391,377	363,959
Total Funds	**$256,951**	**$337,191**	**$391,377**	**$363,959**
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. The agency currently has over 1,800 licensees renewed on a biennial basis. 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 and, as a result, reduced licensing fees by $10 per year for Occupational Therapists and Occupational Therapist Assistants. The agency anticipates an increase in the total number of licensees, but a slight decrease in licensing revenue due to the renewal fee reductions and a significant decrease in interest income. The Board's projected ending cash balance of $253,836 equals approximately 16.7 months of operating costs. The Board needs to maintain at least nine months of operating reserves due to its licensing renewal cycle, which occurs once a biennium.

Budget Environment

The agency has identified four main activities: licensing; continuing education monitoring; compliant investigation; and administration. Compliant investigation workload appears relatively stable, averaging approximately eight complaints per biennium.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $363,959 represents an 8% increase from the 2009-11 legislatively approved budget level and a 7% decrease from the 2011-13 Governor's recommended budget. The legislatively adopted budget includes a $6,301 unspecified reduction to services and supplies to achieve the target of holding the Board's budget to no more than an 8% increase from the 2009-11 approved budget level. The budget also includes statewide personal services reductions and the elimination of inflationary adjustments.

Board of Pharmacy – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	4,387,662	5,105,407	5,109,140	5,111,603
Federal Funds	19,360	0	0	0
Total Funds	**$4,407,022**	**$5,105,407**	**$5,109,140**	**$5,111,603**
Positions	22	20	18	18
FTE	21.00	19.00	17.75	17.75

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 2011-13 is projected to be about 31.7% more than 2009-11 estimates. The legislatively approved budget includes various license fee increases that produce the nearly 32% weighted-average change in total revenue. Licensing and related fees account for approximately 92% of the total revenues generated. The remaining revenue sources include fines, interest earnings, and other revenue. The last time the board increased fees was in 2001.

Budget Environment

The board's budget is primarily impacted by the number of licensees and the complexity of the work that is undertaken. As the population of the state continues to grow and to demographically skew to an older average population, the use of prescription and non-prescription drugs continues to increase. There is a marked increase in the number of drugs and devices available to consumers and these are becoming more sophisticated and potent. These factors, combined with functionally no growth in the number of pharmacists, have resulted in a sharp increase in the number and complexity of consumer complaints and inquiries handled by the board. Additional workload increases are a result of keeping up with technological and market driven changes in drug distribution and retail sales, participation in public safety cooperative programs with other state and federal agencies, and increased investigations of counterfeit, diverted or stolen drugs.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $5,111,603 represents a 0.1% increase from the 2009-11 legislatively approved budget and with the slight adjustment for certain statewide centralized services costs provided in SB 5508, the end of session bill, is equal to the Governor's recommended budget. This increase is the net result of increased services and supplies costs, predominantly professional services and Attorney General expenses, offset by a 5.5% general reduction in personal services expenditures and the elimination of two positions comprising 1.25 FTE.

Although the legislatively adopted budget includes a nearly 32% increase in total revenue in the 2011-13 budget from the 2009-11 legislatively approved budget, the budget remains substantially flat because the increase in fees are to bring revenues in line with previous budget increases that had been funded through the agency's excess fund balance. The 2011-13 legislatively adopted budget produces a structurally balanced budget for the agency with an projected ending fund balance that represents approximately two months of working capital.

Board of Psychologist Examiners – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	995,663	1,041,395	1,008,437	965,662
Total Funds	**$995,663**	**$1,041,395**	**$1,008,437**	**$965,662**
Positions	4	4	4	4
FTE	3.58	4.00	3.50	3.50

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, and examines and licenses individuals to practice psychology. The Board also investigates alleged violations of the statutes and imposes appropriate sanctions. The nine-member board is appointed by the Governor and is composed of six psychologists and three public members.

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. The 2009-11 legislatively adopted budget included increases in the Board's license fees, and Other Funds revenues were estimated to increase by approximately $326,000. The fees funded a limited duration Office Specialist 2 position in 2009-11 and also strengthened the Board's ending balance.

The Board has an ending balance of $340,831 Other Funds, which represents just over eight months of operations.

Budget Environment

The agency has identified three main activities: 1) consumer protection; 2) licensing, examination, and continuing education; and 3) board support and administration. The agency workload has remained constant.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $965,662 Other Funds is a $75,733 Other Funds decrease (7.27%) from the 2009-11 legislatively approved budget and includes a reduction of 0.50 FTE. The budget is a $42,775 Other Funds decrease (4.2%) from the Governor's recommended level. Budget reductions included the elimination of inflation and a 5.5% reduction in personal services. The budget includes conversion of the full-time limited duration office specialist position to a 0.50 FTE permanent position. This position assists the Board with clerical duties, customer service, and enables other Board staff to make administrative improvements.

Public Utility Commission (PUC) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	33,845,411	39,787,023	39,666,574	39,556,887
Federal Funds	476,384	2,910,317	4,813,961	4,813,925
Other Funds (NL)	96,460,209	94,778,703	75,120,603	75,120,603
Total Funds	**$130,782,004**	**$137,466,043**	**$119,601,138**	**$119,491,415**
Positions	126	129	132	132
FTE	124.00	127.25	129.50	129.00

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. This rate is expected to generate $6 million in the 2011-13 biennium.
- ***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 (5.3%) which is estimated to generate $76.1 million during the 2011-13 biennium.
  - RSPF is supported by a surcharge not to exceed $0.35 per month to retail subscribers who have access to relay services. The current surcharge rate is 12 cents per line per month, and the program was extended through 2020. The program was expanded by the passage of SB 144 (2011) to allow Oregonians with less severe hearing deficiencies have access to telecommunications assistive devices.
  - ***Electric utilities*** are assessed a gross revenue fee of no more than 0.25%, which is expected to generate approximately $17.6 million in the 2011-13 biennium. 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). The passage of SB 863 (2011) allows PUC to collect an additional $5 million per year for low income assistance, until January 1, 2014, if certain economic conditions prevail.

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%.

PUC receives no General Fund support.

Budget Environment

The 2011-13 legislatively approved budget does not accommodate increases in services and supplies expenditures attributable to inflation. In addition, personal services expenditures increased at a lesser rate than previous biennia, in anticipation of savings assumed through labor-management contract negotiations.

Revenue from fees assessed by PUC on telecommunications are projected to decrease by 4.6% per year, as customers continue to 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.

PUC is 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.

PUC – Utility Program

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	9,259,218	16,442,333	16,963,583	16,871,531
Federal Funds	476,384	2,910,317	4,813,961	4,813,925
Other Funds (NL)	96,460,209	94,778,703	75,120,603	75,120,603
Total Funds	**$106,195,811**	**$114,131,353**	**$96,898,147**	**$96,806,059**
Positions	41	75	74	74
FTE	40.5	73.33	73.00	72.50

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.

Legislatively Adopted Budget

Total funds expenditures for the utility program are decreasing 15.1% from the 2009-11 legislatively approved budget and 2% from the Governor's recommended budget due to a decrease in the amount of Other Funds Nonlimited, attributable to the Oregon Universal Service Fund. The legislatively adopted budget eliminated inflation on services and supplies expenditures, and reduced personal services expenditures by 5.5% from the current service level. The adopted budget continues 3 limited duration positions (2.00 FTE) to close out a federal American Recovery and Reinvestment Act grant awarded during the 2009-11 biennium. The grant is for the Oregon Electricity Regulators Assistance Project. The positions will conclude research and manage dockets related to development of regulatory standards for electric vehicles, energy efficiency, smart grid, renewable energy, and energy storage. The legislatively adopted budget also includes $3.55 million to implement a supplemental grant for the State Broadband Data and Development program, which will focus on broadband adoption, digital literacy and technical assistance, and local E-government projects.

PUC – Residential Service Protection Fund

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	8,735,424	11,615,779	10,587,894	10,587,608
Total Funds	**$8,735,424**	**$11,615,779**	**$10,587,894**	**$10,587,608**
Positions	7	8	8	8
FTE	6.50	7.50	7.50	7.50

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*** 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*** 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*** 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."

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is an 8.9% decrease from the 2009-11 legislatively approved budget. The adopted budget eliminated inflation on services and supplies expenditures, and reduced personal services expenditures by 5.5% from the current service level. The Legislature approved $178,187 in additional Other Funds expenditure limitation attributable to the passage of SB 144 (2011). SB 144 changed the eligibility of a person to receive adaptive equipment from "severely hard of hearing or severely speech impaired," to "hard of hearing or speech impaired." In addition, the legislatively adopted budget made permanent an internal auditor position to ensure the proper assessment and collection of the RSPF surcharge. Program utilization, the number of phone line subscribers, and the ongoing costs associated with a permanent auditor will determine whether PUC has a sufficient fund balance to keep the RSPF at the current rate of $0.12 per month, or whether a $0.01 increase for one year is necessary.

PUC – Policy and Administration Program

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	15,603,399	11,415,583	11,795,873	11,778,808
Total Funds	**$15,603,399**	**$11,415,583**	**$11,795,873**	**$11,778,808**
Positions	77	49	49	49
FTE	76.00	48.00	48.00	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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is a 3.2% increase from the 2009-11 legislatively approved budget and a 0.14% decrease from the Governor's recommended budget. The adopted budget eliminated inflation on services and supplies expenditures, and reduced personal services expenditures by 5.5% from the current service level.

PUC – Board of Maritime Pilots

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	247,370	313,308	319,224	318,940
Total Funds	**$247,370**	**$313,308**	**$319,224**	**318,940**
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 2011-13 are estimated to be $410,570 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. The annual license fee will be $2,718 per year for 2012 and 2013.

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for the Board of Maritime Pilots represents a 1.8% increase over the 2009-11 legislatively approved budget. This increase is due to inflation in personal service costs. The adopted budget eliminated inflation on services and supplies expenditures, and reduced personal services expenditures by 5.5% from the current service level. A new performance measure related to tracking the number and severity of maritime incidents occurring with vessels under the direction of regulated pilots was approved by the Joint Committee on Ways and Means.

Real Estate Agency – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	6,939,595	8,377,812	7,876,904	7,461,430
Total Funds	**$6,939,595**	**$8,377,812**	**$7,876,904**	**$7,462,430**
Positions	33	31	30	30
FTE	32.55	30.63	30.00	30.00

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 other services. 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

Over the past few years, the real estate market has slowed from the October 2007 peak when there were 24,613 individual real estate licensees in Oregon. In 2009, there were 22,835 licensees. In 2010, there are 21,810. 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. As market conditions tighten, more licensed real estate professionals are electing to place their license in inactive status upon renewal. Because of this trend to maintain a presence in the industry, the agency does not expect to see further decline in its licensee base. However, if a large number of inactive licensees do not renew their licenses in the 2011-13 biennium, the agency could experience a decline in its revenue.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $7,461,430 represents a 10.9% decrease from the 2009-11 legislatively approved budget, and a 5.27% decrease from the 2011-13 Governor's recommended budget. The adopted budget includes the following adjustments:

- $96,839 for the agency to update its server and software.
- Elimination of one permanent part-time position ($120,844 and 0.63 FTE). This position was created in the 2005-07 biennium to address workload issues related to rewriting of rules and proposition of statutory changes that were occurring at the time. This work has been completed, and other duties associated with this position have been absorbed by existing staff.
- A reduction in printing and postage expenses ($100,000) resulting from distributing the Oregon Real Estate News Journal and other publications online.
- Currently, the agency collects licensing examination fees from applicants, and then pays these same fees to an examination provider and to the Department of State Police, essentially passing those fees through the agency. As part of the agency's commitment to streamlining, the agency has negotiated a new contract in which the vendor will provide examination and background check services and collect fees directly from the applicant at the test site, which will create a "one-stop" process for the license applicant. The budget reflects a decrease in examination ($400,000) and background check ($378,444) fees and expenses that will now go directly from applicant to vendor.

Board of Licensed Social Workers – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	793,311	1,039,435	1,256,572	1,244,968
Total Funds	**$793,311**	**$1,039,435**	**$1,256,572**	**$1,244,968**
Positions	5	5	6	6
FTE	3.50	4.00	5.45	5.45

Agency Overview

The mission of the Board of Licensed Social Workers is to protect the citizens of Oregon by setting a strong standard of practice and ethics through the regulation of clinical social workers. The Board oversees a voluntary licensing program for individuals who want to use the title "licensed clinical social worker." The Board is responsible for developing and enforcing ethical standards for licensed individuals; investigating complaints; and disciplining licensed individuals who violate ethical standards, Board rules, or state licensing laws. The seven-member board is appointed by the Governor and composed of four licensed clinical social workers and three public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from application and licensing fees. Other miscellaneous sources include late fees and publication sales. Revenue in 2009-11 was projected to be 39.1% greater than 2007-09 estimates due to the 2009-11 fee increases, which was used to fund a limited duration investigator position and provide funds for expert witnesses. The 2011 Legislature approved a fee bill that ratified administratively established fees for the two new categories of social worker licenses created in SB 177 (2009). The bill also had an increase in the late fee charged when Social Worker license renewals are submitted late. The late fee increase is not designed to raise revenue but is intended to act as a deterrent to late license renewals. This fee is expected to generate approximately $1,800. The new license fees are expected to generate approximately $107,500 in Other Fund revenues.

The 2009-11 projected ending balance of $ $193,496 equals approximately four months of operating costs.

Budget Environment

The agency has identified two main activities: public protection (30%) and licensing (70%). Passage of SB 177 in 2009 added two new categories of licensing: Registered Bachelors of Social Work and Licensed Masters of Social Work. This increased both the licensing and the compliance workload of the Board. The bill also added criminal background check requirements for licensees.

Legislatively Adopted Budget

The legislatively adopted budget is an increase of $205,533 Other Funds (16.51%) over the 2009-11 legislatively approved budget, and includes an increase of 1 position (1.45 FTE). The budget is a decrease of $11,604 (0.9%) below the Governor's recommended level. The increase from 2009-11 is primarily due to the implementation of SB 177, which was passed by the 2009 Legislature. This bill established two new categories of social workers and made social worker licensing mandatory. Permanent funding for the expanded program was delayed into the 2011-13 biennium and is supported by fees from the new categories of social worker licensees. The budget also includes expenditure limitation to pass through the Department of State Police cost of $47.25 for each criminal background check.

Board of Examiners for Speech-Language Pathology and Audiology – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	290,440	373,188	560,437	404,495
Total Funds	**$290,440**	**$373,188**	**$560,437**	**$404,495**
Positions	2	2	3	2
FTE	1.40	1.40	2.50	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 and currently has approximately 1,900 active licensees renewed on a biennial basis. Other miscellaneous sources include late fees, interest income, and the sale of mailing lists and copies of public records.

The Board had cash flow concerns coming out of the 2009 legislative session and would not have had a sufficient ending cash balance at the conclusion of the 2009-11 biennium. The Board administratively increased fees effective July 1, 2009, however the increases were not ratified by the Legislature and the fee schedule is adjusted to the 2009 level. As a result, licensure revenue in 2011-13 is anticipated to be approximately $295,990. The Board's projected ending cash balance of $239,302 equals approximately 14 months of operating costs.

Budget Environment

The agency has identified three main activities: licensing; investigation; and administration. The budget is 70% personal services. The Board has seen a significant increase in the number of complaints, investigations, and disciplinary cases in 2009-11 due in part to an increase in the number of licenses over that time period.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $404,495 represents an 8% increase from the 2009-11 legislatively approved budget level and a 28% decrease from the 2011-13 Governor's recommended budget. The legislatively adopted budget includes continued funding for certain items approved by the Emergency Board in December 2010 and an increase of $22,866 to services and supplies to address the agency's investigation, administration, and information technology needs. The increase achieves the target of holding the Board's budget to no more than an 8% increase from the 2009-11 approved budget levels. The budget also includes statewide personal services reductions and the elimination of inflationary adjustments.

The Legislature approved a budget note directing the agency to report to the Emergency Board before the 2013 regular session on its current ending balance forecast and any new proposed fee changes. The report is to include proposals for fee increases that will sustain the existing budgeted resources and maintain an appropriate ending balance.

Board of Tax Practitioners – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	1,000,861	1,016,527	1,233,405	1,098,646
Total Funds	**$1,000,861**	**$1,016,527**	**$1,233,405**	**$1,098,646**
Positions	5	4	5	4
FTE	5.00	4.00	4.60	4.00

Agency Overview

The Board of Tax Practitioners is a seven-member citizen board appointed by the Governor 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 1,900 tax consultants, 2,500 tax preparers, and about 1,400 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 $1,150,000 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 2011-13 biennium.

Budget Environment

The demand for licensed tax practitioners is expected to increase with the population as more returns are filed, resulting in increased total licensing and fee revenue for the agency. However, a portion of this demand may be mitigated by stagnant or decreased personal income that leads to reduced spending on professional services. The Board reports that approximately 39% of the returns filed with the Oregon Department of Revenue are filed by practitioners. Higher levels of unemployment may also increase the number of tax practitioners as the part-time or seasonal nature of the work may be more attractive during an economic downturn than during a period of high employment. The total number of licensees reported by the agency has increased by about 10% from the prior biennium report

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is 8.1% above the 2009-11 legislatively approved budget due to base budget adjustments for personal services from reconciling actual position expenditures to budgeted amounts for positions that were filled after the prior budgeting cycle was completed. The legislatively adopted budget is 10.9% lower than the Governor's recommended budget. Executive proposed items that were rejected by the Legislature include a $40,000 public awareness program and 1.00 FTE Office Specialist position.

Veterinary Medical Examining Board – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	557,881	658,855	696,996	701,629
Total Funds	**$557,881**	**$658,855**	**$696,996**	**$701,629**
Positions	3	3	3	3
FTE	2.25	2.75	2.75	2.75

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. The agency has over 3,000 veterinary and certified veterinary technician licenses on a biennial renewal basis. The Board anticipates licensing revenue to remain relatively static; however, revenue is projected to decline slightly in 2011-13 due to decreased interest income and the Board eliminating a fee for veterinary candidates to take veterinary exams through national testing organizations. Previously candidates would need to pre-qualify through the Board, but improvements to the national exam now allow candidates to apply directly through the national organization conducting the tests. The Board's projected ending cash balance of $236,868 equals approximately 8 months of operating costs.

Budget Environment

The agency has identified two main activities: licensing and investigations. The number of complaints reviewed by the Board has increased from 228 during the entire 2007-09 biennium to over 300 in 2009-11 (as of August 2010). The growing number of complaints has coincided with changes to the laws that govern the industry and low-cost insurance provided by the American Veterinary Medical Association that pays up to $25,000 for legal representation for veterinarians that face Board discipline. This insurance option may result in more contested case hearings that could increase the administrative and legal costs of the Board.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $701,629 represents a 6.5% increase from the 2009-11 legislatively approved budget level. The legislatively adopted budget includes statewide personal services reductions and the elimination of inflationary adjustments.

Department of Administrative Services (DAS) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	8,238,635	12,644,865	6,932,367	8,172,526
Lottery Funds	0	5,334,247	6,301,489	6,438,013
Other Funds	884,303,187	947,527,753	903,928,328	895,571,789
Other Funds (NL)	105,997,841	134,553,183	122,415,320	122,415,320
Federal Funds	0	47,000	0	0
Federal Funds (NL)	0	1	1	1
Total Funds	**$998,539,663**	**$1,100,107,049**	**$1,039,577,505**	**$1,032,597,649**
Positions	926	824	746	774
FTE	910.65	810.41	742.67	770.67

Totals are different from those in Executive Branch budget documents 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 Oregon Historical Society; and c) Other Funds expenditure limitation for OPB investments funded with the sale of Lottery Bonds.

In addition, both historical and current budget figures for the Public Employees Benefit Board and the Oregon Educators Benefit Board have been moved from this agency to the Oregon Health Authority (OHA) for budget display purposes. Under HB 2009 (2009), these two entities are transferred to OHA by July 1, 2011.

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 generally from fees charged for services provided to state agencies and statewide assessments. DAS establishes rates for 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 assessment-supported services cannot be directly measured and tied to each agency receiving the service, the Department makes an effort to allocate the assessment equitably. Payments by state agencies to DAS are controlled through their budget review and approval process. A significant portion of DAS revenues received through assessments and charges originate in agency budgets as General Fund or Lottery Funds.

Budget Environment

The Department provides services along two primary tracks: 1) governance and policy direction, such as budget, accounting practices, and human resource policies; and 2) infrastructure and business services, such as printing, mail, fleet, and custodial services. Handling the simultaneous leadership and service-provision roles is an ongoing challenge for the Department. Tension between DAS and state agencies has increased in recent biennia as General Fund constraints have reduced agency budgets, but not necessarily the need for DAS functions. Since state government service charges and rates are typically funded within the current service level, regardless of whether they support an existing or enhanced level of DAS services, the perception is that agency expenditures supporting DAS are protected while an agency's direct expenditures on state agency programs end up receiving the brunt of budget reductions.

State agencies are particularly sensitive to paying for policy oversight, which has a less tangible value, or services for which they might prefer to forego, purchase elsewhere, or support on their own. Based on a 2010 survey of state agencies, those services include leasing, risk consulting, and facilities planning services.

For the 2009-11 biennium, DAS received a budget note targeted at trying to resolve the dichotomy between the agency's policy and service functions. The budget note directed the agency to convene a workgroup to review certain aspects of the agency, including: the potential benefits of separating the Department's policy functions from its service functions; validity of the current methodologies used to develop DAS assessments and service charges; and overall value and effectiveness of DAS functions and services. The primary recommendation from the workgroup was for the agency to adopt a business model that allows for services to be clearly defined and attached to one of three service delivery categories.

Consequently, the Department has adopted Entrepreneurial Management (EM) as the primary tool it will use to improve services and provide clarity about its roles. DAS services and functions will be sorted into leadership, utility and marketplace categories. Then DAS customers will take agency dollars "into the marketplace," where they will have more choices about how much of which services they purchase from DAS and whether to purchase some services from vendors on the open market. Customer boards will contribute to decisions (such as pricing) that will affect state agencies that are DAS customers.

Another concern of state agencies and the Legislature is the extent to which services, particularly "back office" or administrative functions, are duplicated across state government. The agency's 2011-13 budget bill (SB 5502) includes a budget note targeted at reducing administrative functions (information technology, human resources, budgeting, accounting, etc.) across state government and reducing the number of underutilized motor pool vehicles. DAS will develop a plan for reducing those services, in the 2013-15 budget, by 10% across the Executive Branch of state government.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $1 billion total funds is 6.1% below the 2009-11 legislatively approved budget and about 1% below the Governor's recommended budget. Along with standard statewide reductions in compensation and inflation, the agency took targeted reductions in services and supplies and in positions. The Legislature worked with the DAS director to make changes that create budget savings and reduce costs for other state agencies while retaining core services and providing capacity to move forward on statewide initiatives.

Overall, the budget includes about $20 million Other Funds and 27 permanent positions in program reductions, which is equivalent to about 12% of the agency's operating budget. "Operating" for this purpose excludes nonlimited, pass-through, and debt service expenditures. The reductions affect most agency programs and services to other state agencies, including information technology resources, training, budget services, facilities operations, information technology resources, statewide payroll and warrant support, and motor pool services. Corresponding expenditures for associated assessments and rates in other state agency budgets were also reduced. The budget does add resources to support entrepreneurial management, replace critical systems, meet federal requirements, and complete capital projects.

The agency's budget was subject to standard actions taken to balance the statewide budget. These include the elimination of inflation and a 5.5% across-the-board reduction in compensation. Most General Fund components of the budget were reduced to meet statewide targets for the supplemental ending balance hold back; exceptions were made for special projects included in SB 5508.

The budget contains $1.3 million General Fund for several legislative priorities: the Confluence Project, the Boardman Health Clinic, Southwestern Oregon Community College's Curry Campus project, and Port Orford's marine research center. Also included is $19.5 million in revenues from lottery-backed bonds for distribution to several projects around the state along with about $900,000 Lottery Funds for debt service on these projects.

Subsequent sections of this document discuss details for each Division. Document content primarily reflects the agency's budget as approved in SB 5502, the agency's primary budget bill, and SB 5508, the omnibus statewide reconciliation bill. Other pieces of legislation with budget or other significant impacts on agency programs are noted throughout the analysis.

DAS – Office of the Director

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	221,439	240,918	0	272,059
Other Funds	4,638,939	4,325,756	4,568,461	4,327,720
Total Funds	**$4,860,378**	**$4,566,674**	**$4,568,461**	**$4,599,779**
Positions	18	15	14	14
FTE	18.00	15.00	14.00	14.00

Program Description

The Director is responsible for managing and coordinating the policies, programs, and services of the divisions within the Department. Under the current Governor, the DAS director also serves as the Chief Operating Officer for Oregon and has been tasked with reviewing outdated systems, streamlining departments, and creating efficiencies and cost savings in state government. The Director is responsible for coordinating policy among state agencies and setting guidelines for developing and executing the Governor's budget. The Office of the Director has four primary functions:

- ***Agency Administration*** provides management oversight and policy direction to DAS divisions.
- ***Office of Economic Analysis*** produces the Oregon Economic and Revenue Forecast and Criminal Justice Population Forecast. 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.

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is less than a 1% change from the 2009-11 legislatively approved budget and from the Governor's recommended budget. Along with standard statewide adjustments, the budget includes the elimination of a communications manager position. A position responsible for producing the juvenile and adult corrections forecast was retained in the Office of Economic Analysis; the Governor's budget contemplated moving this position to the Criminal Justice Commission. This action results in an increase of $272,059 General Fund from the Governor's budget.

DAS – Budget and Management Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	9,872,373	8,222,141	8,200,208	7,508,864
Total Funds	**$9,872,373**	**$8,222,141**	**$8,200,208**	**$7,508,864**
Positions	36	28	28	25
FTE	34.17	28.00	28.00	25.00

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is 8.7% below the 2009-11 legislatively approved budget and 8.4% below the Governor's recommended budget. Along with standard reductions, the budget includes the elimination of three positions working on statewide budget systems, auditing, and reporting.

DAS – State Controllers Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	15,860,883	18,593,077	17,796,022	17,157,303
Total Funds	**$15,860,883**	**$18,593,077**	**$17,796,022**	**$17,157,303**
Positions	51	48	55	52
FTE	49.96	47.00	53.50	50.50

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 and direct charges for processing warrants and payroll documents. Assessments and charges are based on analyses of services provided and their costs.

Legislatively Adopted Budget

The 2001-13 legislatively adopted budget is 7.7% below the 2009-11 legislatively approved budget and 3.6% below the Governor's recommended budget. The budget includes the $1.3 million Other Funds and 6 limited duration positions to continue the Economic Recovery Executive Team for another biennium. This unit, which was established to coordinate, track, and report on the infusion of federal stimulus dollars into Oregon, was previously part of the Governor's Office.

An accountant position was also added to comply with the federal Tax Increase Prevention and Reconciliation Act of 2005. The act requires 3% to be withheld from payments for goods and services by all federal, state and local governments beginning January 1, 2012.

Along with standard reductions the budget includes the elimination of three permanent positions; an accountant and two analyst positions.

DAS – Enterprise Information Strategy and Policy Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	40,651,861	34,477,017	23,295,910	22,240,078
Federal Funds	0	47,000	0	0
Total Funds	**$40,651,861**	**$34,524,017**	**$23,295,910**	**$22,240,078**
Positions	37	22	27	21
FTE	35.92	22.00	27.00	21.00

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 75% of revenues, while charges for direct services account for the remainder. These revenues support the Division's budget, including debt service payments on COPs primarily sold to fund enterprise security projects.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is 35.6% below the 2009-11 legislatively approved budget and 4.5% below the Governor's recommended budget. The bulk of decrease between biennia reflects the retirement of debt on information technology projects approved in prior budget periods.

However, the budget also includes standard reductions and the elimination of three positions providing information technology, management, and administrative services.

The Legislature approved $1.8 million Other Funds to support receipt of federal funding (through the Public Utility Commission) to obtain consultant services for broadband service area data collection.

The agency's request for three positions in the E-government program was not approved. The program's transition to a different framework and funding model is still in flux and the level of positions and resources needed is indeterminate at this time. The agency may come back to the 2012 legislative session or the Emergency Board for additional resources once those requirements are refined.

DAS – Human Resource Services Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	17,261,747	15,067,129	17,634,559	13,123,836
Total Funds	**$17,261,747**	**$15,067,129**	**$17,634,559**	**$13,123,836**
Positions	62	56	47	44
FTE	59.67	45.57	46.71	43.71

Program Description

The Human Resource Services Division (HRSD) provides central personnel-related services to help agencies obtain and retain a skilled workforce. Through administrative rules and policies and collective bargaining agreements, HRSD 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 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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is 13% below the 2009-11 legislatively approved budget and 26% below the Governor's recommended budget. Key budget changes are as follows:

- Eliminate a proposal to use $4.5 million in Lottery bond proceeds to identify and purchase a commercial off-the-shelf system to replace the state's personnel system. The budget package also included three positions (3.00 FTE).
- Add permanent funding of $861,712 Other Funds and 3 positions (3.00 FTE) to continue maintaining and expanding online statewide learning services and tools. Online services have been used to replace some of HRSD's capacity lost in recent biennia.
- Fund the purchase of a Software As A Service solution, at $300,000 Other Funds, to improve the enterprise classification and compensation system. The planned changes will allow the ability to match employee work performed to the most appropriate job family and to locate comparable work in other states, local governments, and published surveys for compensation comparisons.

The budget also implements standard statewide reductions in compensation, inflation, and supplies.

DAS – Facilities Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	0	3,900,391	6,932,367	0
Lottery Funds	0	358,068	0	0
Other Funds	84,930,164	97,230,320	79,000,117	72,160,192
Other Funds (NL)	2,895,221	17,884,482	0	0
Total Funds	**$87,825,385**	**$119,373,261**	**$85,932,484**	**72,160,192**
Positions	217	177	106	160
FTE	210.64	176.50	105.46	159.46

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.

The agency owns approximately 2.76 million square feet, primarily office space, or about a fourth of the State's total occupied square footage. The Division also manages a portfolio of over 600 short-term and long-term leases for over 4.4 million square feet of space, mostly in the form of office space that is privately owned. The facilities are located all over the state. Growth in other state agencies and demand for new or improved facilities has a direct impact on Division activities.

Revenue Sources and Relationships

The Division is funded from several sources; its two major sources are uniform rent, assessed on all tenant agencies, and parking fees. The legislatively adopted budget assumes the rent rate for office space in 2011-13 is $1.27 per square foot, which is about an 8% decrease from the rate of $1.38 per square foot built into the Governor's budget.

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.

Legislatively Adopted Budget

The legislatively adopted budget is 40% below the 2009-11 legislatively approved budget and 16% below the Governor's recommended budget. The large decrease from 2009-11 is primarily due to one-time Other Funds

Nonlimited of $17.9 million used to facilitate bond refunding during 2009-11. Along with standard reductions, other changes from the Governor's budget include:

- Retention of 57 custodial positions (57.00 FTE) that were eliminated in the Governor's budget. Janitorial services would have been contracted out instead. An additional three Operations and Maintenance positions (3.00 FTE) were eliminated to help drive down costs.
- Approval to use of $8 million Other Funds to pre-pay 2011-13 debt service during the 2009-11 biennium, which reduces 2011-13 uniform rent charges for all agencies from $1.38 to $1.27 per square foot.
- A technical adjustment moving the budget for Mill Creek and Go! Oregon debt service (about $6.6 million General Fund) from the Facilities budget structure to the Special Governmental Payments budget.

DAS – State Services Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	199,079	0	0	0
Other Funds	129,973,067	102,812,158	104,018,479	102,578,302
Other Funds (NL)	85,210,348	97,194,475	99,561,407	99,561,407
Total Funds	**$215,382,494**	**$200,006,633**	**$203,579,886**	**$202,139,709**
Positions	250	226	207	203
FTE	248.12	225.50	206.50	202.50

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 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 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 based on a share of forecasted statewide claims costs. Statewide needs are developed from independent actuarial forecasts for workers' compensation, property, and liability costs and estimated legal costs. The amount and types of property owned, the number of employees and their work, and the types of programs agencies have all contribute to the need for risk management services and products, principally insurance.

To help balance the statewide budget in 2009-11, $30 million was transferred from the Insurance Fund to the General Fund. While it is estimated that the fund can manage claims with a reduced fund balance, the fund is not currently meeting statutory requirements around actuarial soundness.

The State Procurement Office operations are supported through an assessment, which is based on volume of transactions and number of agency positions. The Office also receives revenue through 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.

State and Federal Surplus Property operations generate revenue from service fees. For state surplus items, the fees are based on the value of the items sold for the state agencies disposing of the surplus property. For federal surplus property, the service fees 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 and a statewide assessment for shuttle mail service.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is about 1% above the 2009-11 legislatively approved budget and about 1% below the Governor's recommended budget. Along with standard statewide reduction actions, the budget includes the following:

- Approval of $3.9 million Other Funds to join a regional contract to replace the Oregon Procurement Information Network (ORPIN). Current system usage has exceeded capacity, which is driving a substantial decrease in system performance and impacting accessibility for agency and vendor users.
- Restoration of four positions (4.00 FTE) eliminated in the Governor's budget. These are responsible for bidding out private sector printing contracts for state agencies and providing procurement training.
- Elimination of eight other positions (8.00 FTE/$1.4 million Other Funds); one in Risk Management, three in Fleet, and four in Publishing and Distribution.

DAS – Operations Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	22,460,085	19,976,579	26,228,913	21,665,884
Total Funds	**$22,460,085**	**$19,976,579**	**$26,228,913**	**$21,665,884**
Positions	94	88	96	92
FTE	93.42	87.50	95.50	91.50

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is 8.5% below the 2009-11 legislatively approved budget and 17.4% below the Governor's recommended budget. Along with standard reductions, the decrease from the Governor's budget reflects the following:

- Denial of a request to use $2.2 million in Lottery bond proceeds to develop a statewide performance management database to provide decision makers the necessary data to determine performance against key measures. The Legislature used Lottery bond proceeds for other higher priority projects.
- Elimination of four Policy Analyst 4 positions (4.00 FTE) of the ten proposed in the Governor's budget for the Office of Transformation. The Office was funded at a lower level with the expectation that these resources will permit the DAS director to deliver on initiatives discussed during the agency and budget review process.
- Support for the agency's Entrepreneurial Management effort, but at a reduced level of funding.

DAS – Oregon Progress Board

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	467,588	0	0	0
Other Funds	322,506	0	0	0
Total Funds	**$790,094**	**$0**	**$0**	**$0**
Positions	2	0	0	0
FTE	1.75	0.00	0.00	0.00

Program Description

Due to General Fund constraints, the 2009 Legislature eliminated all state funding for the Oregon Progress Board. However, DAS continues to host the Board's web content, and the Secretary of State's office has been maintaining data for the Oregon Benchmarks.

DAS – State Data Center

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	166,409,592	165,273,020	150,570,477	148,498,819
Total Funds	**$166,409,592**	**$165,273,020**	**$150,570,477**	**$148,498,819**
Positions	159	164	166	163
FTE	159.00	163.34	166.00	163.00

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.

SDC faced many challenges in its first years of operations. These included 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.

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. Four 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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is 10.2% below the 2009-11 legislatively approved budget and 1.4% below the Governor's recommended budget. Along with standard statewide budget reduction actions, the

Legislature eliminated three Information Specialist 3 positions (3.00 FTE) and suppressed other non-personal services spending.

The budget includes resources to increase mainframe and storage capacity through shifting from contracted to employee supported services; the overall cost of $4.1 million Other Funds and 9 positions (9.00 FTE) includes purchasing hardware and other equipment to meet increasing demands on capacity. Also approved was $2.7 million Other Funds to make sure computing services for critical state programs are recovered within an acceptable timeframe in the event of a disaster.

The full impact of information systems projects and initiatives approved in SDC client agencies has not been incorporated into the SDC budget. Once the costs of those projects and impacts on SDC are identified and quantified, DAS may need to seek an adjustment in the SDC's Other Funds expenditure limitation during the interim in order to provide adequate project support.

DAS – Capital Improvements

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	4,142,724	3,611,608	4,931,401	4,681,401
Total Funds	**$4,142,724**	**$3,611,608**	**$4,931,401**	**$4,681,401**

Program Description

The Capital Improvements program pays for remodeling and renovation projects that cost less than $1 million.

Revenue Sources and Relationships

Capital improvement activities are funded out of the Capital Projects Fund, which 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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is a 30% increase from the 2009-11 legislatively approved budget and a 5% decrease from the Governor's recommended budget. The Legislature did not approve $250,000 in sustainability initiatives that was part of the Governor's budget. The budget provides a core level of resources to maintain buildings and facilities, includes projects deferred in prior budget periods, and does not require any debt financing.

DAS – Capital Construction

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	17,272,025	10,356,221	16,338,554	13,243,854
Total Funds	**$17,272,025**	**$10,356,221**	**$16,338,554**	**$13,243,854**

Program Description

The Capital Construction Program includes major remodeling, renovation, and new construction or acquisition projects costing more than $1 million in the aggregate.

Revenue Sources and Relationships

Other Funds for capital construction comes from the Capital Projects Fund and from COPs.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget (HB 5006) funds nine projects, which will be supported by Other Funds from the agency's Capital Projects Fund and Parking Fund (no debt financing required). These include heating and cooling system projects, roof replacements, fire panel upgrades, building exterior weatherization projects, facilities system integration, planning, and parking projects.

DAS – COP Issuance Costs for Capital Construction Projects

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	282,693	110,000	0	0
Total Funds	**$282,693**	**$110,000**	**$0**	**$0**

Program Description

This program accounts for the cost of issuing COPs specifically for Capital Construction projects. These costs are primarily one-time costs and are normally 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.

Legislatively Adopted Budget

No new COPs were approved for Capital Construction projects, so the legislatively adopted budget does not include any issuance costs.

DAS – Miscellaneous Distributions

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	1,841	5,698	0	0
Other Funds (NL)	17,892,272	19,474,226	22,853,913	22,853,913
Total Funds	**$17,894,113**	**$19,479,924**	**$22,853,913**	**$22,853,913**

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget supports anticipated mass transit assessment collections and distributions based on budgeted employment numbers.

DAS – Bonds

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	0	0	449,406,827	449,406,827
Federal Funds (NL)	0	1	1	1
Total Funds	**$0**	**$0**	**$449,406,828**	**$449,406,828**

Program Description

This is a new budget structure set up to separately display primarily expenditures for debt service and debt management costs on Pension Obligation Bonds ($303.9 million) and debt service on Appropriation Bonds ($144.6 million). Previously these budget elements were captured in the Special Governmental Payments program unit.

Revenue Sources and Relationships

Pension Obligation Bond debt service is supported by an assesment on the PERS employer payrolls. Tobacco Settlement revenues are used to pay the debt service on Appropriation Bonds. The $1 Federal Funds Nonlimited is a placeholder for potential federal bond refunding opportunities, such as those offered under the Build America Bonds program.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is set at a level to cover bond debt service based on existing schedules and budget projections.

DAS – Special Governmental Payments

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	7,350,529	8,503,556	0	7,900,467
Lottery Funds	0	4,976,179	6,301,489	6,438,013
Other Funds	370,222,687	467,467,029	1,938,400	18,978,709
Total Funds	**$377,573,216**	**$480,946,764**	**$8,239,889**	**$33,317,189**

Program Description

This is a catch-all category that reports payments that are not directly related to the mission of the Department of Administrative Services. These are frequently for one-time special projects or legislative priorities. The Other Funds expenditures recorded in the historical columns above are primarily for debt service on Pension Obligation and Appropriation Bonds; starting with the 2011-13 biennium the budget for these items have been moved to the Bonds program unit.

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget includes the items listed below; the bulk of these were not part of the Governor's recommended budget.

General Fund:

- $100,000 for the Confluence Project, a collaborative effort of Pacific Northwest tribes, civic groups from Washington and Oregon, artists, architects, and landscape designers.
- $400,000 for the Boardman Health Clinic, which gives Columbia River Community Health Services the amount needed to complete the funding package for this project. The new 15,000 square foot medical facility replaces a 5,000 square foot building that can no longer expand with the existing footprint.
- $400,000 for Southwestern Oregon Community College's Curry Campus project. The money will help finish equipping and furnishing the facility.
- $425,000 for Port Orford to purchase a building for the planned marine reserve research and interpretive center.
- $6.6 million for debt service on Go! Oregon projects and Mill Creek Infrastructure; these projects were approved in prior biennia and funded with proceeds from Certificates of Participation.

Lottery Funds:

- Over $5 million to pay debt service obligations on projects from prior biennia that were supported by lottery-backed bonds. These projects include Port of Newport NOAA, Lane Transit EmX, Coos Bay Railway, Court Facilities, and Pendleton Round Up.
- About $900,000 to cover debt service on new projects backed with Lottery Bonds; the projects and associated costs are outlined in the Other Funds section below.

Other Funds:

- $3.2 million for the Port of Morrow to complete Willow Creek/Sage Center Improvements, including construction of sidewalks or other walkways.
- $6.5 million for disbursement to the City of Hermiston for the purpose of acquiring, developing, constructing, and equipping the Eastern Oregon Trade Center.
- $3 million for disbursement to the Milton-Freewater Water Control District for public infrastructure improvements, including levee restoration/repair projects and bridge projects in Milton-Freewater and surrounding areas.
- $4.3 million to the Lane Transit District for the West Eugene EmX Extension; this project supports the acquisition, construction, and procurement of an extension of the bus rapid transit system in west Eugene.
- $75,000 to allow DAS to pay expenses incurred in the initial appointment and organization of the Citizen's Initiative Review Commission established by HB 2634 (2011). The agency will be reimbursed by the Commission once it has received sufficient revenue, which is expected to come from outside contributors.

Advocacy Commissions Office – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	334,556	387,791	387,792	368,932
Other Funds	17,728	75,000	75,000	40,000
Total Funds	**$352,284**	**$462,791**	**$462,792**	**$408,932**
Positions	2	2	2	2
FTE	2.00	2.00	2.00	2.00

Agency Overview

The Oregon Advocacy Commissions Office (OACO) 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 (actual amounts received through May 2011 for the 2009-11 biennium was $21,273). 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. Of the donations made in 2009-11, nearly 75% were received by the Commission for Women.

Budget Environment

The OACO supports the work of the individual Commissions by providing all administrative functions including budgeting and financial oversight, coordinating meetings and speakers, taking minutes, preparing reports and media releases, building partner relationships, providing information and referrals for members of the public and elected officials, managing distribution lists, and maintaining Commission websites. The agency's General Fund operating budget is about 80% personal services and 20% services and supplies. Other Funds expenditure authority for the donation funds is budgeted in the services and supplies category.

Legislatively Adopted Budget

The legislatively adopted budget for the Office consists of $368,932 General Fund, $40,000 Other Funds, and two positions (2.00 FTE). The budget represents a 4.9% General Fund decrease from the 2009-11 legislatively approved level and from the Governor's recommended budget. The adopted budget also reduced Other Funds revenues and expenditures from $75,000 to $40,000 to more closely reflect actual experience. The adopted budget included standard reductions to continue allotment reduction savings from the 2009-11 biennium, the elimination of inflation, a cap on personal services growth, an additional 6.5% reduction in services and supplies, and the 3.5% supplemental ending balance hold back. The supplemental ending balance adjustment to the budget equaled $13,389 General Fund and is subject to restoration to the agency in February 2012 depending on the state's overall fiscal situation.

Citizens' Initiative Review Commission – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	0	0	0	1
Total Funds	**$0**	**$0**	**$0**	**$1**

Agency Overview

The Citizens' Initiative Review Commission was established by the Legislature in HB 2634 (2011) to convene citizen panels to review initiative measures in a fair and impartial manner. The Commission is to summarize findings and write recommendations for voter information pamphlets. While the initial Commission consists of seven members, it will eventually be comprised of 11 members. The Commission is also authorized to appoint an executive director and to enter into contracts to hire staff.

If there is sufficient funding, the Commission is required to select citizens for panels to review state measures proposed by initiative petition that are to be voted on in a general election. A determination of sufficient funding is to be made by the Commission no later than four months before the date of the general election in an even-numbered year. The Commission is to select one or more state measures to review and establish a separate citizen panel to review each selected measure. Each citizen panel is to consist of at least 18 but not more than 24 electors. Selections of the citizen panel members are to be made from survey sampling methods from a representative sample of anonymous electors. The panel members are to be compensated for each day served on the panel using an amount calculated using the average weekly wage of workers in covered employment in Oregon as determined by the Employment Department. Panel members are also eligible for reimbursement of travel expenses.

Revenue Sources and Relationships

The Commission is authorized to accept contributions and assistance from public and private sources.

Budget Environment

The original Citizen Initiative Review process was established by HB 2895 (2009) which authorized the Secretary of State to have non-profit organizations form citizen panels to review and create official statements on ballot initiative measures. The initial panels produced reviews on Measures 73 and 74 on the November 2010 ballot. Each review gave a Citizens' Initiative Review statement that had a shared agreement statement from the entire panel plus statements on the pros and cons of each measure.

A fiscal analysis on HB 2634 (2011) estimated the staffing, operational, and reimbursement costs of the Commission would be approximately $622,500 Other Funds for the 2011-13 biennium.

Legislatively Adopted Budget

Since the Commission was not yet formed, the legislatively adopted budget was set at $1 Other Funds until sufficient collections and donations are obtained. In addition, the Department of Administrative Services (DAS) was directed to pay expenses incurred in the initial appointment and organization of the Commission. When the Commission has received sufficient revenue, it is to reimburse DAS for these expenses. For the purpose of making the initial payments, DAS was provided $75,000 Other Funds expenditure limitation. It is expected that the Commission will present a budget proposal to the Legislature during the February 2012 session that will include a request for additional expenditure limitation for the biennium, any necessary position authority, as well as a plan for repayment of any expenses incurred by DAS.

County Fairs – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Lottery Funds	3,557,141	2,807,758	3,706,169	3,576,453
Total Funds	**$3,557,141**	**$2,807,758**	**$3,706,169**	**$3,576,453**

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 pass-through funding going directly to county fairs from the Department of Agriculture (ODA) 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.

A portion of the funding – not to exceed $40,000 under statute – is still transferred to the Department of Agriculture where it is expended to support the County Fair Commission. The Commission administers the funding distributed to each county fair and ensures that the county fair boards are meeting reporting and auditing requirements. Pass-through expenditures are technically included in the budget of the Department of Administrative Services, but are displayed separately in Legislative Fiscal Office publications.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget provides $3,576,453 Lottery Funds for payments to county fairs. For Commission support, the ODA budget contains just under $22,000 for those activities. The total allocation of about $3.6 million Lottery Funds is consistent with the statutory funding mechanism, as adjusted for the change in the Consumer Price Index.

Employment Relations Board (ERB) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	1,781,460	1,623,327	0	932,803
Other Funds	1,581,906	1,758,626	3,745,109	1,862,696
Total Funds	**$3,363,366**	**$3,381,953**	**$3,745,109**	**$2,795,499**
Positions	13	13	13	13
FTE	13.00	12.50	13.00	13.00

Agency Overview

The Employment Relations Board (ERB) mission is to resolve disputes concerning labor relations. ERB provides four main services to help employers, employees, and labor organizations resolve their disputes: labor mediation; contested case hearings; labor appeal cases; and union representation elections.

The Board for ERB is comprised of a three member panel appointed by the Governor and approved by the Senate. The Board Chair, designated by the Governor, serves as the executive director of the agency.

ERB is governed by the collective bargaining law that covers public employees of the State of Oregon and its cities, counties, school districts, and other local governmental units, such as special districts; State Personnel Relations Law, which creates appeal rights for non-union state employees who believe they were treated unfairly in the workplace; and private sector labor-management relations law, which addresses collective bargaining for private sector employers who are exempt from federal law under the National Labor Relations Act.

Thirteen positions (13.00 FTE), organized into the following four program areas, support the mission of ERB:

- ***Board and Administration program*** ($1.3 million, 5.00 FTE) includes the Board, which acts as the state's "labor appeal court" for labor and management disputes within state and local government.
- ***Conciliation and mediation services program*** ($651,851, 3.50 FTE) is staffed by three mediators who attempt to resolve bargaining disputes, contract grievances, unfair labor practices, and state personnel disputes.
- ***Hearing program*** ($841,213, 4.00 FTE) is staffed by three administrative law judges who hear and decide unfair labor practice complaints, personnel appeals, and contested representation elections.
- ***Elections program*** ($37,255, 0.50 FTE) is staffed by a part-time 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.

Revenue Sources and Relationships

ERB is funded with 33.4% General Fund and 66.3% Other Funds. ERB receives General Fund revenue and charges fees to support labor relations functions conducted on behalf of local government. State government is supported by an Other Funds assessment on state agencies.

ERB expects to have $2.5 million in Other Fund revenue to support its legislatively adopted budget of $1.9 million. This includes a beginning balance of $691,965 and an ending balance of $604,419, which represents 7.8 months of reserves.

The ERB state agency assessment is based on the number of covered employees, including non-unionized employees from the Legislative and Judicial branches and temporary employees. The employer rather than the employee pays the assessment. The projected state agency assessment revenue for 2011-13 is $1,624,757, which is based on a $1.70 assessment per month for approximately 37,632 state employees. State agency assessment revenue has a General Fund component since some agencies use General Fund to pay their assessment.

ERB expects to receive $239,750 in Other Funds fees and document charges revenue. SB 5556 increased the fees to file and to respond to unfair labor practice complaints from $250 to $300. The fee is estimate to raise an additional $10,500 in revenue and bring the overall total to $61,250 per biennium. The bill also changed the fee charged for mediation of disputes between local public employers and their collective bargaining units. Current law allows the Board to charge up to $1,000 regardless of the number of mediation sessions conducted. The Board can now charge $1,000 for the first two mediation sessions, $500 for the third session, $750 for the fourth session, and $1,000 for each additional session. Mediation fees are split equally between the public employers and bargaining units. The new mediation fee schedule is expected to generate $12,750 in additional revenue, which brings the total revenue for the fee schedule to $141,750 per biennium.

The legislatively adopted budget shifts a portion ($47,672) of a mediator position from Other Fund fee revenue to state agency assessment revenue. The mediator position has been vacant due to insufficient fee revenue being generated to fully fund the position.

The budget increases funding for a mediator and an administrative law judge from three-quarters time to permanent full-time, which was funded from new fee revenue and the shift to funding from fees to state agency assessment revenue.

The agency also charges fees for hard copies of documents, many of which are available online at no cost, administrative fees including copies, filing via facsimile, grievance mediations, arbitrator fee panel, and the hourly rate charged for mediation training. These fees are estimated to generate $36,750 for the 2011-13 biennium and were last increased during the 2009 legislative session.

Budget Environment

ERB's caseload is driven by state and local government, with the majority of its mediation and hearings cases being attributable to local government. Until this year, ERB has not handled a private sector case since 2002. Private sector cases are infrequent because all but the smallest of companies with union representation fall under the jurisdiction of the National Labor Relations Board.

In the ten years between 2001 and 2010, ERB has averaged 72 mediation cases and 124.6 contested cases per fiscal year. In fiscal year 2010, ERB had 64 mediation cases and 130 contested hearings. Caseloads for ERB are cyclical (i.e., vary by fiscal year) and influenced by the renegotiation of multi-year labor contacts.

Over a ten year period, 87% of ERB's mediation cases and 73% of contested cases were for local as opposed to state government. The caseload for state government can be more complicated and time consuming than local government because they may involve single individuals seeking remedy under state personnel law.

The timely disposition of cases continues to be an issue for the agency. This has been driven largely by budget reductions (i.e., furloughs), a shortfall in fee revenue, employee turnover, and positions funded at less than permanent full-time. On average, it takes 485 days from filing to final order for a case to be processed and 66 days until a mediator is able to hold the first mediation session. There is a backlog of 64 hearings cases and 14 cases that are on appeal to the Board.

The timely disposition for mediations and contested hearings is expected to improve with the filling of a vacant mediator position and increases in a mediator and an Administrative Law Judge (ALJ) positions from three-quarters to permanent full-time.

The agency's mediation/conciliation service successfully resolves 94% of contract negotiation disputes for strike-permitted employees and 40% for non-strike-prohibited employees. It typically takes two mediation sessions to resolve a dispute.

While approximately 21% of Board orders are appealed to the Oregon Court of Appeals, none of the Board's decisions have been reversed since fiscal year 2008.

For budgetary reasons, ALJ no longer travel to the site of the dispute. Instead, all hearings are conducted in Salem. This means that instead of one ALJ traveling to the community where most of the witnesses work or reside, the public employer and the union must pay to have witnesses travel to Salem, which can be a significant expense to the jurisdictions involved.

A recurrent proposal, which is discussed below, is the concept to replace ERB's General Fund budget with an assessment on local government.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $2.8 million is $949,610, or 25.4%, less than the Governor's recommended budget and is $586,454, or 17.3%, less than the 2009-11 legislatively approved budget and includes 13 positions (13.00 FTE). The budget is comprised of $2.3 million personal services (84%) and $451,174 services and supplies (16%).

The LAB General Fund budget of $932,803 is a 100% increase over the Governor's recommended budget and is $690,524, or 42.5%, less than the 2009-11 legislatively approved budget. The LAB Other Funds budget of $1.9 million is $1.9 million, or 50.3%, less than Governor's recommended budget and is $104,070, or 5.9%, more than the 2009-11 legislatively approved budget.

The budget reflects a reduction of $98,511 General Fund and $93,498 Other Funds for standard reductions that include: a 5.5% reduction to personal service; a 6.5% reduction to services and supplies; the elimination of the standard inflation increase; and an adjustment to state government service charges and assessments charged to most agencies. The budget also removes $18,678 of Other Funds expenditure limitation related to a one-time purchase of computer equipment.

The 2011-13 Governor's recommended budget proposed replacing ERB's General Fund budget with an assessment on local government. The Legislature instead appropriated one fiscal year of General Fund ($932,803) to allow the agency to provide services to local governments. There is no General Fund for local government services in the second year of the biennium.

The Legislature then directed through a budget note that the Governor's Office establish a workgroup of employers and employee representatives to develop a local government assessment model for funding of the second fiscal year of the biennium. Similar, although unsuccessful, efforts have been undertaken as recently as 2003.

ERB was also directed by budget note to prepare plans to operate in the second year of the 2011-13 biennium serving only those jurisdictions that provide funding to the agency (e.g., state agencies), as a contingency against the possibility that the workgroup is unable to reach an agreement.

ERB – Administration

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	1,102,447	1,054,927	0	571,532
Other Funds	683,795	721,056	1,838,522	693,648
Total Funds	**$1,786,242**	**$1,775,983**	**$1,838,522**	**$1,265,180**
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. Board orders can be appealed to the Oregon Court of Appeals, but have been rarely overturned.

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. ERB contracts with the Department of Administrative Services – Shared Client Services to provide additional financial support services.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $1.3 million is $573,342, or 31.2%, lower than the Governor's recommended budget and is $510,803, or 28.8%, lower than the 2009-11 legislatively approved budget, and includes five positions (5.00 FTE).

The program's budget is comprised of $890,774 personal services (70%) and $374,406 services and supplies (30%).

The budget reflects a reduction of $56,947 General Fund and $33,497 Other Funds for standard reductions that include: a 5.5% reduction to personal service; a 6.5% reduction to services and supplies; the elimination of the standard inflation increase; and an adjustment to state government service charges and assessments charged to most agencies. The budget also removes $18,678 of Other Funds expenditure limitation related to a one-time purchase of computer equipment.

ERB – Mediation and Conciliation Services

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	292,341	242,033	0	159,589
Other Funds	415,863	474,122	811,439	492,262
Total Funds	**$708,204**	**$716,155**	**$811,439**	**$651,851**
Positions	4	4	4	4
FTE	3.50	3.25	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.
- Maintaining a list of qualified arbitrators and providing related services and information. This includes processing arbitrator applications; handling questions from arbitrators and parties; responding to concerns and complaints from and about panel members; a biannual review of panel member selection rates; suspension or removal of arbitrators; processing requests for arbitration panels; maintaining a library of arbitration awards; and publishing interest arbitration awards on ERB's website. 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.
- Training in methods of alternative dispute resolution, collective bargaining, labor-management cooperation, and related issues.

Mediation and conciliation services are non-mandatory services.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $651,851 is $159,588, or 19.7%, lower than the Governor's recommended budget and is $64,304, or 9%, lower than the 2009-11 legislatively approved budget, and includes four positions (3.50 FTE).

The program's budget is comprised of $617,924 personal services (95%) and $33,927 services and supplies (5%).

The legislatively adopted budget shifts a portion ($47,672) of a mediator position from Other Fund fee revenue to state agency assessment revenue. The mediator position has been vacant due to insufficient fee revenue being generated to fully funding the position. The budget also increases a three-quarter time mediation position to permanent full-time at a cost of $41,631 Other Funds.

The budget reflects a reduction of $18,289 General Fund and $25,497 Other Funds for standard reductions that include: a 5.5% reduction to personal service; a 6.5% reduction to services and supplies; and the elimination of the standard inflation increase.

ERB – Hearings

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	326,702	251,723	0	170,467
Other Funds	475,585	557,678	1,011,678	670,746
Total Funds	**$802,287**	**$809,401**	**$1,011,678**	**$841,213**
Positions	4	4	4	4
FTE	4.00	3.75	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 "proposed" decisions. All proposed decisions are forwarded to the Employment Relations Board for automatic review and the issuance of a final order. The Employment Relations Board does not have to concur with the ALJ proposed decision. Parties, who disagree with the ALJ's proposed decision, have the right to appeal the decision as it is being reviewed by the Employment Relations Board. Parties can appeal the Employment Relations Board's final orders to the Oregon Court of Appeals.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $841,213 is $170,465, or 16.8%, lower than the Governor's recommended budget and is $31,812, or 3.9%, more the 2009-11 legislatively approved budget, and includes four positions (4.00 FTE).

The program's budget is comprised of $798,339 personal services (95%) and $42,814 services and supplies (5%).

The budget increases a three-quarter time Administrative Law Judge position to permanent full-time at a cost of $58,212 Other Funds.

The budget reflects a reduction of $19,642 General Fund and $34,439 Other Funds for standard reductions that include: a 5.5% reduction to personal service; a 6.5% reduction to services and supplies; and the elimination of the standard inflation increase.

ERB – Elections

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	59,970	74,644	0	31,215
Other Funds	6,663	5,770	83,470	6,040
Total Funds	**$66,633**	**$80,414**	**$83,470**	**$37,255**
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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $37,255 is $46,215, or 55.4%, lower than the Governor's recommended budget and is $43,159, or 53.7%, lower than the 2009-11 legislatively approved budget and includes 0.50 FTE or part of a position shared with Conciliation Services program.

The program's $37,255 budget is comprised entirely of personal services.

The budget reflects a reduction of $3,633 General Fund and $352 Other Funds for standard reductions that include: a 5.5% reduction to personal service; a 6.5% reduction to services and supplies; and the elimination of the standard inflation increase.

Government Ethics Commission – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	1,257,474	162,912	0	0
Other Funds	1,523	1,381,699	1,684,230	1,615,856
Total Funds	**$1,258,997**	**$1,544,611**	**$1,684,230**	**$1,615,856**
Positions	7	8	8	8
FTE	6.26	8.00	8.00	8.00

Agency Overview

The mission of the Government Ethics Commission 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. 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.

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 documents. Due to the increased availability of Commission documents on the Internet, this revenue is no longer material. The agency's 2011-13 budget does not anticipate any revenue from this source.

From imposing civil penalties, the Commission collects fines and forfeitures. These revenues are transferred to the General Fund and are not used to support agency operations. The Commission collected more than $40,000 in fines and forfeitures during 2009-11 and estimates collecting $75,000 in 2011-13.

Beginning with the 2009-11 biennium, the agency's funding base was changed to an assessment model with about 89% of the budget supported with those revenues, which are budgeted as Other Funds. For that first biennium, some General Fund was retained to ensure adequate cash flow during the transition. This change, which resulted from ethics reform legislation passed in 2007, better aligns revenues with the agency's actual workload. There are an estimated 200,000 public officials subject to agency jurisdiction, with the vast majority serving at the local government level. On average, only about 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.

Under the General Fund budget model, the Commission received no direct revenues from local government entities for their combined 85% share of the workload. In addition, seeking General Fund from the very same legislators whose conduct is subject to Commission review had also presented challenges. The current funding mechanism removes direct General Fund support from the budget and instead equally shares operating costs between state agencies and 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 2011-13, the Commission is entirely supported with assessments.

The Commission's 2011-13 legislatively adopted budget includes $1.6 million in assessment revenue; the amount was adjusted downward from the Governor's budget based on the agency's projected ending balance and approved expenditures. This revenue level is expected to provide short-term stability in rates for assessed entities while maintaining adequate cash flow for the agency.

Budget Environment

After several biennia of declining funding and staffing, the Commission was revitalized by the 2007 Legislature as part of ethics reform legislation (HB 2595 and SB 10) passed during the regular session. Law changes included additional reporting requirements for lobbyists, lobbying entities, and public officials. 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. Due to several issues that surfaced with the 2007 reform legislation, the 2009 Legislature passed SB 30 which clarified certain requirements and delayed the implementation of an online reporting system.

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. Historically, due to the unpredictable nature of such legal costs, including the award of attorney fees to prevailing parties, the Commission would request supplemental General Fund from the Emergency Board during the interim or from the Legislature during session. Under the current assessment budget model, the Commission would look to its cash balance to cover extraordinary costs and seek an increase in expenditure limitation if needed.

Legislatively Adopted Budget

The Commission's 2011-13 legislatively adopted budget is $1.6 million Other Funds and eight positions (8.00 FTE); the budget reflects the complete phase-out of General Fund from the agency's budget. The total funds budget is a 4.6% increase over the 2009-11 legislatively approved level, but a decrease of 4% from the Governor's recommended budget. Along with eliminating inflation and reducing services and supplies by 6.5%, the adopted budget decreases personal services expenditures based on updated projections. These actions help lower assessments on state and local government

The budget includes a permanent administrative position initially authorized by the Emergency Board as limited duration in June 2008. The position processes forms and reports, maintains databases, and helps conduct audits of those documents. The Commission will continue to rely heavily on paper processes, since no funding was approved to create the statutorily-required electronic reporting system for both lobbyist and Statement of Economic Interest filings. That system is estimated to cost over $600,000. In SB 939, the budget program change bill, the operative date for this statutory requirement was delayed until January 1, 2015.

A limited duration training position was also continued for the 2011-13 biennium. While approved, support for this position was not overwhelming; legislative members were concerned that the agency was not using the most efficient and cost-effective ways to conduct training. Consequently, a budget note was adopted directing the Commission to report in February 2012 on progress in streamlining its training program using technology.

Office of the Governor – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	11,223,550	10,071,418	10,905,192	13,339,757
Lottery Funds	2,049,136	1,941,910	1,941,910	1,855,731
Other Funds	2,261,593	4,909,229	2,741,773	2,740,911
Federal Funds	16,734	0	0	825,616
Total Funds	**$15,551,013**	**$16,922,557**	**$15,588,875**	**$18,762,015**
Positions	64	71	61	57
FTE	62.56	70.00	61.00	56.00

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 Diversity and Inclusion Office, a Citizen's Representative Office, an Economic and Business Equity function, the Arrest and Return program, and provides clerical support for appointing members to boards and commissions. SB 909 (2011) created the Oregon Education Investment Board and the Early Learning Council. Both of these functions are currently funded in the Governor's Office, but may be transferred to a more appropriate entity at a later date. The Economic Recovery Executive Team (ERET), which was another statewide activity, was transferred to the Department of Administrative Services for the 2011-13 biennium.

Revenue Sources and Relationships

The Office of the Governor is supported mainly by General Fund. Lottery Funds are used for the Regional Solutions program (formally known as the Economic Revitalization Team). Other Funds includes revenue transfers from the Departments of Administrative Services and Consumer and Business Services. These transfers finance the Diversity and Inclusion and Economic and Business Equity programs. The Diversity and Inclusion program is funded from the transfer of a Department of Administrative Services Human Resource Services Division assessment estimated at $1.17 million for the biennium. The Economic and Business Equity 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 2007-09 were carried forward from a 2005-07 grant for the Office of Rural Policy. New Federal Funds are included from a State Early Childhood Advisory Council grant that was awarded during the 2009-11 biennium.

Additional Other Funds are again provided this biennium through revenue transfers from a number of other state agencies to fund policy advisors and general support staff in the Office.

Budget Environment

The budget is driven by the number of staff and programs operated out of the Governor's Office. In the past, the Office 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. With the election of a new Governor in November 2010, the Office was reorganized in an attempt to meet his needs, and to recognize the scarcity of General Fund resources available for agency operations.

Legislatively Adopted Budget

The 2011-13 adopted budget for the Office of the Governor is $3,268,339 General Fund (32.5%) more than the 2009-11 approved budget. Lottery Funds are $86,179 (4.4%) and Other Funds are $2,168,318 (44.2%) less than the approved budget level. The large increase in General Fund and the new Federal Funds can be attributed to the establishment of the Early Learning Council and Oregon Education Investment Board. Both of these new programs were high priorities for the Governor during the 2011 legislative session. Funding for these programs may be moved to a more appropriate agency after more time can be spent deciding how these programs are best implemented. Without these new programs, the General Fund for the agency would have increased from the 2009-11 approved budget by $268,339 (2.8%) and positions would have decreased by 17 (16.50 FTE) or 24%.

The General Fund budgets of all agencies were reduced by 3.5% to create a statewide supplemental ending balance. Some or all of those reductions may be restored during the February 2012 legislative session.

Oregon Historical Society – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	2,609,668	577,215	0	0
Lottery Funds	0	0	0	225,133
Other Funds	0	0	0	2,549,322
Total Funds	**$2,609,668**	**$577,215**	**$0**	**$2,774,455**

Agency Overview

The Oregon Historical Society (OHS) was chartered by the state in 1898 to gather and preserve documents, manuscripts, publications, films, recordings, and artifacts. The organization also supports local historical societies, museums, and heritage efforts statewide. Agency facilities include the Oregon History Center's regional research library and museum and other sites. OHS offers education programs through the Society's mobile museum and school services. The agency produces the *Oregon Historical Quarterly* and books from its press. The Society also coordinates the Century Farms and Ranch Program, the Oregon Geographic Names Board, and liaison with more than 120 heritage organizations statewide.

Revenue Sources and Relationships

OHS is a nonprofit organization that is financed largely by membership fees, contributions, and publication sales. State support has been intermittent 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.

The 2009 Legislature passed SB 961, which authorizes the Oregon Department of Transportation to issue a "Pacific Wonderland" license plate and collect an associated $100 surcharge. Net revenues from the surcharge are split evenly between the Oregon Historical Society and Oregon State Capitol Foundation; the surcharge is estimated to bring in about $1.3 million for each entity over the first two biennia of the program. The bill allows for issuance of up to 40,000 specialty plates; 7,186 plates were sold in calendar year 2010.

In November 2010, Multnomah County voters approved a five-year property tax levy expected to provide OHS about $1.75 million a year, or about 45% of the society's $3.9 million budget. It is likely OHS will continue to seek state General Fund even with this additional funding in hand. Many supporters, including some legislators, believe that the Legislature has an obligation to help finance the Society.

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 initially 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. The 2007-09 budget was reduced by $190,332 General Fund in March 2009 during the 2007-09 rebalance.

The 2009-11 budget originally included $625,000 General Fund for OHS operations; that amount was reduced to $577,215 due across-the-board General Fund allotment reduction actions.

Pass-through grant expenditures are technically included in the budget of the Department of Administrative Services, but are displayed separately in Legislative Fiscal Office publications.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget includes $2,549,322 Other Funds to pay off the mortgage on the Society's storage facility in Gresham. Revenue to support the payment comes from the sale of Lottery bonds; the budget also includes $225,133 Lottery Funds to cover debt service on those bonds.

Oregon State Library (OSL) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended*	2011-13 Legislatively Adopted
General Fund	3,207,437	3,128,064	3,250,771	2,888,189
Other Funds	6,862,070	7,176,422	6,418,622	6,325,531
Federal Funds	4,160,813	4,710,785	4,749,472	4,747,696
Total Funds	**$14,230,320**	**$15,015,271**	**$14,418,865**	**$13,961,416**
Positions	45	44	44	43
FTE	43.26	42.26	42.26	41.26

** The Governor's recommended budget has been adjusted to include $1,448,693 for the Ready to Read Grant program that the Governor had originally proposed be transferred to The Early Learning Council.*

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. The Oregon State Library Board of Trustees consists of seven members appointed by the Governor who are responsible for setting policy for OSL and adopting long-range plans for library services statewide. The State Librarian is appointed by the Oregon State Library Board of Trustees.

Forty-three positions (41.26 FTE), organized into the following four program areas, support the mission of OSL:

- ***Administration*** ($1.3 million, 5.68 FTE) coordinates the mission and goals of the agency and manages the finance, human services, and volunteer functions of the agency.
- ***Library Development*** ($6.4 million, 6.00 FTE) 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.
- ***Talking Book and Braille Services*** ($1.5 million, 8.74 FTE), in cooperation with the Library of Congress, provides books, book players, and postage at no cost to Oregonians, and provides reading materials in audio-recorded or Braille formats to individuals with limited vision or other disabilities that prevent the use of conventional books and printed materials. OSL is responsible for maintaining the inventory of materials and distribution.
- ***Government Research and Electronic Services*** ($4.8 million, 20.84 FTE) provides research assistance to state government; develops and maintains the State Library collection; OSL's online information services; and the Oregon.gov search engine. In addition, the general public obtains special information concerning state and federal government publications, Oregon history, and genealogy through a partnership with the Willamette Valley Genealogical Society.

Revenue Sources and Relationships

OSL is funded with 21% General Fund, 45% Other Funds, and 34% Federal Funds.

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 (approximately $6.8 million); donations and interest income ($454,051); reimbursements from local libraries for their portion of costs associated with database licensing ($150,000); and miscellaneous receipts ($48,050).

The OSL state agency assessment is based two-thirds on the number of state agency full-time equivalents and one-third on the use of OSL by agencies during the prior biennium. The projected state agency assessment revenue for 2011-13 is $5,382,620. State agency assessment revenue has a General Fund component since some agencies use General Fund to pay their assessment. The 2011-13 assessment was reduced by $1.3 million to eliminate excess cash reserves above the typical three months of operating expenditures.

OSL expects to have $8.3 million in Other Funds revenue to support its 2011-13 legislatively adopted budget, which includes a beginning balance of $2.2 million. OSL's ending balance is estimated to be $1.9 million, which represents a reserve of 3.3 months.

OSL's Other Funds include donations and bequests, most of which are attributable to the Talking Book and Braille Services (TBABS) *Donation* Fund and the TBABS *Endowment* Fund. The Funds have a projected beginning balance of $231,767 and $869,005, respectively. 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), however, recently interest earnings from the Endowment Fund have been used for operating expenses. OSL plans to expend approximately $363,760 TBABS donation funds on operations and enhancements, leaving a projected combined ending balance for the TBABS Donation and Endowment Funds of $737,012.

OSL receives Federal Funds from the Institute of Museum and Library Services under the Library Services and Technology Act (LSTA) per a population-based formula. The budget assumes Federal Funds pursuant to this grant in the amount of $4.9 million. There is also $150,000 of unspent Federal Funds carry forward from the 2009-11 biennium. The LSTA 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 serves approximately 1,600 local libraries through its Library Development Services program. OSL reports that 165,487 children participate in Summer Reading Programs, which is its highest point in the last five fiscal years. In fiscal year 2011, the program made 128 Ready to Read grants at $0.67 per child to local libraries for a total of $529,972. Utilization of online library service such as Oregon School Library Information System and the L-Net/E-Reference website continue to increase over prior years.

The Talking Books and Braille Services program serves approximately 4,800 Oregonians per fiscal year, which is down from the 2005 high of 7,156 Oregonians served. The switch to digital talking books in September of 2009 is thought to have stopped the decline in registered users. Only 10% of eligible Oregonians are registered for the program, which is down from the 2005 high of 14%. The program also provides daily audio newspaper service for three of Oregon's newspapers to blind and print-disabled Oregonians. OSL and the Blind Commission were unsuccessful in receiving legislative approval to use the Residential Service Protection Funds overseen by Public Utility Commission to expand the number of audio newspapers for the blind and print disabled.

Approximately 9,500, or one out of four state employees, is registered to use the Government Research Services program's information services.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $14 million is $457,449, or 3.2%, less than the Governor's recommended budget and is $1.1 million, or 7%, less than the 2009-11 legislatively approved budget and includes 43 positions (41.26 FTE). The General Fund portion of the budget totals $2.9 million and is $362,582, or 11.2%, less that than the Governor's recommended budget and is $239,875, or 7.7%, less than the 2009-11 legislatively approved budget. Other Funds totals $6.3 million and is $93,091, or 1.5%, less that than the Governor's recommended budget and is $850,891, or 11.9%, less than the 2009-11 legislatively approved budget. Federal Funds total experienced less than a 1% increase from the Governor's recommended budget and the prior biennium's approved budget.

OSL's budget is comprised of $6.1 million (44%) personal services, $3.8 million (27%) services and supplies/ capital outlay, and $4 million (29%) special payments primarily to local libraries.

The Ready to Read Grant program was funded at $1,215,466, which is the same level of funding as the 2009-11 biennium.

The allotment reductions taken during the 2009-11 biennium were carried forward into the 2011-13 biennium, but were adjusted to reflect 24 months of savings. For OSL, this reduction totaled $309,101 General Fund.

The budget reflects a reduction of $122,638 General Fund, $306,367 Other Funds, and $140,765 Federal Funds for standard reductions that include: a 5.5% reduction to personal service; a 6.5% reduction to services and supplies; the elimination of the standard inflation increase; and an adjustment to state government service charges and assessments charged to most agencies. The budget also removes $737,477 of Other Funds expenditure limitation (participating libraries) related to a reduction in a statewide database licensing contract. The entire cost of the contract can now be paid exclusively with Federal Funds.

The budget was reduced by $90,309 Other Funds and one position (1.00 FTE) to eliminate a long-term vacant position that was determined to not be critical for supporting the agency's core program. A state library specialist position (1.00 FTE) continues for a second biennium to be funded with $95,712 Other Funds (donation funding) rather than General Fund as it had originally been funded.

The budget also includes a supplemental statewide ending balance holdback adjustment of $104,820 General Fund. This reduction may be restored later in the biennium depending on statewide economic conditions.

The Legislature directed through a budget note that the Governor's Office, Secretary of State, and the Chief Justice establish a workgroup to develop options and make recommendations on the consolidation and improvement of library and archive services across various agencies. The Department of Administrative Services was also directed by budget note to unschedule $1.5 million General Fund, $3.2 million Other Funds, and $2.4 million Federal Funds pending the submission of the workgroup's report to the Legislature.

OSL – Administration

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	299,596	242,292	120,430	113,425
Other Funds	820,629	944,705	1,072,365	1,072,365
Federal Funds	113,344	118,147	121,254	121,254
Total Funds	**$1,233,569**	**$1,305,144**	**$1,314,049**	**$1,307,044**
Positions	6	6	6	6
FTE	6.00	6.00	5.68	5.68

Program Description

This program coordinates the mission and goals of the agency and manages the finance, personnel, and volunteer functions of the agency.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $1.3 million is $7,005, or 0.5%, less than the Governor's recommended budget and is $1,900, or 0.1%, more than the 2009-11 legislatively approved budget and includes six positions (5.68 FTE).

The budget reflects a reduction of $17,974 General Fund, $48,398 Other Funds, and $7,057 Federal Funds for standard reductions that include: a 5.5% reduction to personal service; a 6.5% reduction to services and supplies; the elimination of the standard inflation increase; the prior biennium allotment reduction roll-up; and an adjustment to state government service charges and assessments charged to most agencies.

The budget also includes a supplemental statewide ending balance holdback adjustment of $7,005 General Fund. This reduction may be restored later in the biennium depending on statewide economic conditions.

OSL – Library Development

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended*	2011-13 Legislatively Adopted
General Fund	1,573,636	1,706,808	1,936,898	1,670,449
Other Funds	887,997	886,501	141,517	141,517
Federal Funds	4,006,032	4,544,382	4,580,190	4,578,414
Total Funds	**$6,467,665**	**7,137,691**	**$6,658,605**	**$6,390,380**
Positions	6	6	6	6
FTE	6.00	6.00	6.00	6.00

** The Governor's recommended budget has been adjusted to include $1,448,693 of the Ready to Read Grant program that the Governor had originally proposed be transferred to The Early Learning Council.*

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $6.4 million is $268,225, or 4%, less than the Governor's recommended budget and is $747,311, or 10.5%, less than the 2009-11 legislatively approved budget and includes six positions (6.00 FTE).

The Ready to Read Grant program was funded at $1,215,466, which is the same level of funding as the 2009-11 biennium. The budget removes $737,477 of Other Funds expenditure limitation (participating libraries) related to a reduction in a statewide database licensing contract. The entire cost of the contract can now be paid exclusively with Federal Funds.

The budget reflects a reduction of $312,461 General Fund, $24,385 Other Funds, and $130,913 Federal Funds for standard reductions that include: a 5.5% reduction to personal service; a 6.5% reduction to services and supplies; the elimination of the standard inflation increase; the prior biennium allotment reduction roll-up; and an adjustment to state government service charges and assessments charged to most agencies.

The budget also includes a supplemental statewide ending balance holdback adjustment of $28,397 General Fund. This reduction may be restored later in the biennium depending on statewide economic conditions.

OSL – Talking Book and Braille Services

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	1,334,205	1,178,964	1,193,443	1,104,315
Other Funds	235,387	310,499	363,831	363,760
Total Funds	**$1,569,592**	**$1,489,463**	**$1,557,274**	**$1,468,075**
Positions	10	9	9	9
FTE	9.42	8.42	8.74	8.74

Program Description

In cooperation with the Library of Congress, which provides books, book players, 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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $1.5 million is $89,199, or 5.7%, less than the Governor's recommended budget and is $21,388, or 1.4%, less than the 2009-11 legislatively approved budget and includes nine positions (8.74 FTE).

A state library specialist position (1.00 FTE) continues for a second biennium to be funded with $95,712 Other Funds (donation funding) rather than General Fund as it had originally been funded.

The budget reflects a reduction of $101,304 General Fund and $17,803 Other Funds for standard reductions that include: a 5.5% reduction to personal service; a 6.5% reduction to services and supplies; the elimination of the standard inflation increase; the prior biennium allotment reduction roll-up; and an adjustment to state government service charges and assessments charged to most agencies.

The budget also includes a supplemental statewide ending balance holdback adjustment of $69,418 General Fund. This reduction may be restored later in the biennium depending on statewide economic conditions.

OSL – Government Research and Electronic Services

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	4,918,057	5,034,717	4,840,909	4,747,889
Federal Funds	41,437	48,256	48,028	48,028
Total Funds	**$4,959,494**	**$5,082,973**	**$4,888,937**	**$4,795,917**
Positions	23	23	23	22
FTE	21.84	21.84	21.84	20.84

Program Description

Government Research and Electronic Services (GRES) provides research assistance to state government; develops and maintains the State Library collection, OSL's online information services, and the Oregon.gov search engine. 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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $4.8 million is $93,020, or 1.9%, less than the Governor's recommended budget and is $287,058, or 5.6%, less than the 2009-11 legislatively approved budget and includes 22 positions (20.84 FTE).

A long-term vacant position (1.00 FTE) within the program was eliminated for a savings of $90,309 Other Funds.

The budget reflects a reduction of $215,781 Other Funds and $2,795 Federal Funds for standard reductions that include: a 5.5% reduction to personal service; a 6.5% reduction to services and supplies; the elimination of the standard inflation increase; and an adjustment to state government service charges and assessments charged to most agencies.

Oregon Liquor Control Commission (OLCC) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	120,573,770	134,285,467	44,937,464	133,668,473
Other Funds (NL)	0	0	90,688,426	0
Total Funds	**$120,573,770**	**$134,265,467**	**$135,625,890**	**$133,668,473**
Positions	232	238	239	239
FTE	224.72	230.72	231.72	231.72

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%). Unless otherwise directed, a statutory distribution formula specifies that 50% of the privilege tax revenues ($38 million for 2011-13) are first allocated for payments to the Mental Health Alcoholism and Drug Services Account ($18.7 million), and $654,000 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). The excess balance is apportioned to the state General Fund (56%), and to city (34%) and county (10%) general funds.

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.

The 2011-13 legislatively adopted budget is expected to result in gross "regular" liquor sales amounting to $891.4 million, and $29 million in revenue from the continuation of a $0.50 per bottle surcharge first imposed in 2009. Per SB 939 (2011), all revenue resulting from the surcharge, after dispenser discounts and liquor agent's compensation, will be credited exclusively to the state General Fund. After liquor purchases, dispenser discounts, agency expenses, and compensation to liquor agents based on an average of 8.88% of assumed sales, the total amount of revenue estimated to be available to the General Fund is $218.8 million for the 2011-13 biennium. Other revenue distributions are assumed as follows: $67.8 million for cities; $47.4 million for city revenue sharing; and $33.9 million for counties.

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. In addition, OLCC is one of a few agencies that contribute resources to the state budget.

While gross sales for 2009-11 were not as high as initially projected ($927 million) due to the economic recession, gross sales were still above 2007-09 levels ($867.5 million vs. $825 million for 2007-09). Consumption was also up, with the percentage of case sales exceeding the projected percentage increase in population.

Budget and policy considerations overlapped on several occasions during the 2011 legislative session, resulting in delay of the OLCC budget work session by the Joint Committee on Ways and Means. Issues discussed included whether the formula for compensation to agents resulted in unpredictable payments in the latter half of the biennium; questions about whether the agency accurately represented the fiscal impact of grocery stores as wine distributers; the potential of proposed spending reductions to disproportionately affect line staff rather than management, sales revenue, and public safety; and delays by the Commission in approving a continuation of the bottle surcharge. To address some of these issues, the following budget note was approved:

> The Oregon Liquor Control Commission is directed to utilize available expenditure limitation in a way which maximizes revenue generation without unduly jeopardizing public safety. Reductions in expenditure limitation attributable to amounts resulting from the reduction to services and supplies, and the supplemental ending balance hold back (in policy option packages 801 and 819) are not to be applied to bank card fees, wholesale services, store operating expenses, or enforcement and compliance services. Further, the Oregon Liquor Control Commission is directed to report on a quarterly basis to the Legislative Fiscal Office and the interim Joint Committee on Ways and Means or the Emergency Board regarding revenue and expenditures compared to projections of gross sales, quarterly allotment allocations, and expenditure limitation by program; whether additional expenditure limitation for agents' compensation is anticipated to be required to maintain an average compensation rate of 8.88% of sales on a consistent quarterly basis; and whether additional expenditure limitation is anticipated to be required to enable the continued utilization of bank cards in liquor stores.

Legislatively Adopted Budget

The 2011-13 legislatively approved budget assumes total expenditures of $133,668,473, and maintains agents' compensation at an average rate of 8.88% of sales, budgeted as Other Funds Limited. The budget is a 0.4% decrease from the 2009-11 legislatively approved budget, and a 1.4% decrease from the Governor's recommended budget. The 2011-13 legislatively adopted budget applied a standard 5.5% reduction from the 2011-13 current service level to personal services, and eliminated inflation for services and supplies expenditures. Further reductions to services and supplies and a 3.5% reduction to limitation to "hold back" expenditures in the event of declines in the state's revenue forecast were applied to select programs, because of the direct nature between OLCC administrative expenditures and resulting revenue available for distribution to the General Fund and local partners.

OLCC – Distilled Spirits

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	16,007,903	18,481,362	9,928,375	18,778,121
Other Funds (NL)	0	0	8,982,426	0
Total Funds	**$16,007,903**	**$18,481,362**	**18,910,801**	**$18,778,121**
Positions	65	71	71	71
FTE	61.42	67.42	67.42	67.42

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%, plus a $0.50 per bottle surcharge which generate 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 246 retail outlets run by contract agents. Funding for agents' compensation is in a separate program, although it is related to the Retail Services Division of the Distilled Spirits program.

Budget Environment

OLCC continues to experience a positive rate of revenue growth. OLCC realized approximately $867.5 million for 2009-11 biennium, a figure that was up about $42 million from the previous biennium, despite the economic recession occurring during this period.

The 2011-13 legislatively adopted budget assumes gross sales of $891.4 million, plus an additional $29 million from continuation of the bottle surcharge.

Legislatively Adopted Budget

The Legislature approved standard reductions to personal services and eliminated inflation associated with services and supplies for both divisions in the Distilled Spirits program. In addition, the Legislature approved a further 6.5% reduction to services and supplies, and held back 3.5% of total expenditures associated with purchasing activities, Retail Services, and liquor sales support. While the Governor's budget designated expenditures related to bank card fees as Nonlimited expenditures, the Legislature did not approve this change, based on the ability to predict expenses, largely due to set administrative fees negotiated by the Treasurer's Office and ongoing analysis of sales throughout the biennium. The agency was directed through a budget note to report quarterly on the need for additional expenditure limitation to pay bank card fees, so that the Emergency Board has ample opportunity to address this issue in the event that actual sales exceed projections.

OLCC – Public Safety Services

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	16,633,190	18,313,893	19,299,848	19,087,224
Total Funds	**$16,633,190**	**$18,313,893**	**$19,299,848**	**$19,087,224**
Positions	108	104	108	108
FTE	105.00	107.00	105.00	105.00

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 has improved performance in its licensing application process, presumably due in part to additional resources which were provided for the 2009-11 budget. The licensing process took an average of 111 days to complete in 2009, and by 2010, the figure had improved to 90.3 days. Meanwhile, the number of licensed businesses has grown since last biennium, from 10,000 licensed businesses at the end of the 2007-09 biennium to around 13,500 in 2010, while the number of enforcement and compliance services personnel has remained constant at 65. The total number of licensees is around 14,532, and includes businesses that sell alcohol, distilleries, servers, wineries, and breweries.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget continues – for the third biennium in a row – a 1.00 FTE limited duration licensing investigator position to enable OLCC to maintain gains in performance related to licensing application review and approval. In addition, the adopted budget provides a limited duration information systems specialist position to facilitate completion of the agency's automated licensing and enforcement data system. Efficiencies realized by this project are expected to render the licensing investigator position unnecessary in subsequent biennia, while assisting enforcement and compliance personnel in the field. The legislatively adopted budget includes standard reductions to personal services and eliminates inflation associated with services and supplies expenditures. A further 6.5% reduction to services and supplies, and a holding back of 3.5% of expenditures associated with license services and server education were also approved.

OLCC – Administration and Support Services

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	14,966,383	14,955,847	19,299,848	13,940,677
Total Funds	**$14,966,383**	**$14,955,847**	**$19,299,848**	**$13,940,677**
Positions	59	60	60	60
FTE	58.30	59.30	59.30	59.30

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 in the process of trying to modernize and enhance IT systems related to license processing, enforcement databases, and the distilled spirits business system. Challenges include adjusting licensing and auditing functions to new business models among licensees, and providing service to an increasing number of stores.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget maintains FTE and core services for the administration and support program. However, inflation for services and supplies was eliminated and a standard 5.5% reduction from current service level for personal services was applied to the program. A further 6.5% reduction to services and supplies, and a holding back of 3.5% of expenditures associated with the Administration and Support Services program were also approved.

OLCC – Store Operating Expenses

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	72,768,617	82,318,400	0	81,706,000
Other Funds (NL)	0	0	81,706,000	0
Total Funds	**$72,768,617**	**$82,318,400**	**$81,706,000**	**$81,706,000**

Program Description

This program includes an expenditure limitation for liquor revenues to pay contract agents who operate the state's 246 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

Statute gives the Commission authority to determine the compensation of liquor agents. However, agents' compensation comprises 61% of all OLCC expenditures, and is by far the largest program in the agency's budget. Changes to the rate or amount of compensation approved could have major implications to OLCC expenditures, and, by extension, the amount of revenue distributed to the General Fund and the budgets of other state agencies. By limiting the amount available for agents' compensation and utilizing the Emergency Board to grant additional limitation when sales exceed initial projections, the state is afforded the certainty needed to maintain a balanced budget. OLCC has requested multiple times that payments to liquor agents be categorized as Other Funds Nonlimited. The Legislature, for reasons noted above, has repeatedly denied this request.

The rate of monthly compensation for agents was originally determined annually. In 1979, the Commission started calculating compensation monthly as a percentage of actual monthly sales. Biennial adjustments were made to this basic formula until 1980. From 1980 to 1985 the basic formula did not change, but the Legislature added annual cost of living increases to the formula. In 1985, the Legislature directed OLCC to allocate agents' compensation based on a re-designed compensation schedule. The store formula is reviewed and adjusted by the agency every six months. The goal is to provide basic support, while encouraging sound retail practices and rewarding sales performance. Agents' compensation increases when consumption or prices increase. OLCC requests an increase in the expenditure limitation from the Emergency Board if actual sales exceed forecasted amounts. 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.

The amount of actual compensation received by an agent is influenced by class of store; base commission; consumer sales; dispenser sales; and the amount of deferred compensation agents elect to have matched by OLCC as noted above. To the extent that any of those four factors change, the actual monthly rate earned by an agent will change, to maintain the 8.88% system-wide average. The formula is complicated enough that questions regarding its application persist from agents and legislators.

Legislatively adopted budgets have included expenditure limitation to produce the following average rates of compensation based on the above formula and sales:

- 1995-97: 8.2%
- 1997-2003: 8.54%*
- 2003-present: 8.88%**

* During a special session of the Legislature in 2003, OLCC's request to the Emergency Board for additional expenditure limitation to maintain agents' compensation at an average of 8.54% was not entirely granted, resulting in an effective average rate of 8.48% of sales.

** A $1.9 million reduction to agents' compensation in 2009 was partially restored by imposition of a $0.50 per bottle surcharge; $1.4 million was restored to agents with surcharge revenue, resulting in an effective average rate of agents' compensation of 8.82%, versus the legislatively adopted budget average rate of 8.88%.

Legislatively Adopted Budget

Expenditure limitation in the amount of $81.7 million is authorized for the 2011-13 legislatively adopted budget, equivalent to an average rate of 8.88% of forecasted sales. This amount represents a 0.7% decrease from the 2009-11 legislatively approved budget, which estimated gross sales in excess of actual sales for the period. In the event that actual sales exceed the forecast, OLCC can request additional expenditure limitation from the Emergency Board to maintain this level of compensation to contracted liquor agents.

In the 2011-13 legislatively adopted budget, no reductions were applied to the Agents' Compensation program, because the program consists of pass-through payments to contracted liquor agents; the program has neither employees, nor tangible "services and supplies" expenditures.

OLCC – Capital Improvements and Construction

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	197,677	215,965	221,148	208,406
Total Funds	**$197,677**	**$215,965**	**$221,148**	**$208,406**

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. A second warehouse acquired in 2007 will accommodate the agency's projected space needs to meet consumer demand for additional variety and volume of products for another 10 to 13 years.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget enables OLCC to perform routine maintenance and upkeep, according to a perpetual ten-year maintenance plan. Scheduled projects include repairs to the boiler system, repair to sections of the warehouse exterior; roof repair; carpet replacement; restroom upgrades; and energy conservation projects. The legislatively adopted budget is a 3.5% reduction from the 2009-11 legislatively approved budget, and a 5.8% reduction from the Governor's recommended budget.

Oregon Public Broadcasting – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	0	115,443	0	0
Lottery Funds	1,725,427	1,882,590	1,877,990	1,501,197
Other Funds	3,024,167	0	0	0
Other Funds (NL)	0	689,790	0	0
Total Funds	**$4,749,594**	**$2,687,823**	**$1,877,990**	**$1,501,197**

Agency Overview

Oregon Public Broadcasting (OPB) is an educational and public broadcasting network serving Oregon through noncommercial public television and radio stations. The network consists of five television and 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 eliminated beginning with the 2003-05 biennium, but was partially restored for the 2009-11 budget period.

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 technically included in the budget of the Department of Administrative Services, but are displayed separately in Legislative Fiscal Office publications.

Budget Environment

OPB has sought reinstatement of the operating grant. Until 2009-11, budget constraints precluded the Legislature from providing any grants. For that biennium, the network originally received $125,000 General Fund for operations; that figure was since subject to allotment reduction actions.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget continues to cover debt service on lottery bonds but does not provide any funding for OPB operations.

Public Employees Retirement System (PERS) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	83,094,363	84,685,027	80,881,654	79,429,420
Other Funds (NL)	6,085,705,691	6,781,885,664	7,434,012,310	7,434,012,310
Total Funds	**$6,168,800,054**	**$6,866,570,691**	**$7,514,893,964**	**$7,513,441,730**
Positions	394	368	368	364
FTE	393.50	363.18	367.50	364.08

Agency Overview

The Public Employees Retirement System (PERS) administers the retirement system covering employees of state agencies; public school districts; and most cities, counties, and special districts in Oregon. The agency 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. The Oregon Investment Council manages 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.

System-wide employer contribution rates for the 2009-11 biennium averaged 5.2% of PERS covered payroll after applying side account offsets. For 2011-13, primarily because of 2008 investment losses, employer rates (net of side accounts) increase by a system-wide average of 5.6% to a total of 10.8% of PERS-covered payroll. The actual rate increase varies by employer based on funded status and side account utilization; these rates are based on the December 31, 2009 valuation. The estimated fiscal impact of the 2011-13 net rate increase is about $550 million per year across state agency, school district, and local government budgets.

The rate increases have generated substantial interest in system reforms or cost-cutting strategies. In December 2010, PERS staff analyzed several concepts derived from public discussion that are targeted at mitigating or reducing PERS costs. These include cost allocation strategies, such as eliminating or reducing the employer "pick-up" of member IAP contributions, and benefit modification ideas, such as creating a fourth tier of defined benefits for new hires. The analysis also addresses system financing concepts. Estimated cost savings range from a few million dollars for limiting employer "pick-up" rates to about a billion dollars for across the board benefit reductions. The only change the 2011 Legislature made related to these proposals was to repeal the out of state tax remedy for certain members who retire on or after January 1, 2012 (HB 2456).

PERS – Tiers 1 and 2 Plan

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds (NL)	5,976,479,107	6,533,531,664	7,225,836,810	7,225,836,810
Total Funds	**$5,976,479,107**	**$6,533,531,664**	**$7,225,836,810**	**$7,225,836,810**

Program Description

The Tiers 1 and 2 Plan program unit captures account balance refunds and retirement benefit payments ($6.9 billion); health insurance premiums and subsidy payments ($346 million); and third-party health insurance plan administrator costs ($6.8 million). This program is now a closed program because of PERS reform legislation passed during the 2003 legislative session. Tier 1 plan members are employees that were hired before January 1, 1996. Tier 2 members are employees hired on or after January 1, 1996 and have a different level of benefits. The program unit's administrative costs are budgeted under the PERS Operations program and are supported by revenue transfers from this program to Operations.

Revenue Sources and Relationships

The Other Funds revenue is mainly from employer contributions to the retirement system ($1.5 billion) and retirement trust fund investment earnings (about $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.

Legislatively Adopted Budget

The legislatively adopted budget is set at a level expected to cover projected retirement system benefit payments, health insurance premiums, and related costs.

PERS – Oregon Public Service Retirement Plan

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds (NL)	109,226,584	248,354,000	208,175,500	208,175,500
Total Funds	**$109,226,584**	**$248,354,000**	**$208,175,500**	**$208,175,500**

Program Description

The 2003 Legislature established a new Oregon Public Service Retirement Plan (OPSRP) with 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 ($4.7 million) and anticipated payments out of members' individual accounts ($203.5 million). The other administrative costs of this program are budgeted under PERS Operations below.

Revenue Sources and Relationships

Other Funds revenue is mainly from employer and employee contributions to the retirement system ($1.5 billion) and retirement trust fund investment earnings ($590 million). Employer contribution rates are established by the Public Employees Retirement Board based upon advice from its consulting actuary.

Legislatively Adopted Budget

The legislatively adopted budget is based on projected benefit payments and administrative costs.

PERS – Operations

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	77,385,163	83,261,952	79,463,054	78,010,820
Total Funds	**$77,385,163**	**$83,261,952**	**$79,463,054**	**$78,010,820**
Positions	394	368	368	364
FTE	393.50	363.18	367.50	364.08

Program Description

The Operations program is responsible for the administrative costs, including employer/employee account maintenance, retirement processing, determination of disability retirement benefits, and payment of retirement benefits. It also administers group health insurance plans for retirees, the federally mandated Social Security Administration program, and deferred compensation programs for state employees and employees of local governmental units. Operations activities are organized 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.				
	2007-09 Actual	2009-11 Leg Approved	2011-13 Gov Recommended	2011-13 Leg Adopted
Other Funds	$3,199,219	$5,189,520	$5,277,699	$5,231,399
Positions	17	26	24	24
FTE	17.00	26.00	24.00	24.00

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.				
	2007-09 Actual	2009-11 Leg Approved	2011-13 Gov Recommended	2011-13 Leg Adopted
Other Funds	$11,850,606	$11,691,158	$11,633,593	$11,582,473
Positions	106	79	79	79
FTE	106.00	79.00	79.00	79.00

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.				
	2007-09 Actual	2009-11 Leg Approved	2011-13 Gov Recommended	2011-13 Leg Adopted
Other Funds	$14,281,343	$13,501,425	$16,247,597	$15,860,080
Positions	51	40	47	47
FTE	51.00	39.92	47.00	47.00

Information Systems provides all data processing and telecommunications services for the agency. In June 2011, the Division deployed the final piece of functionality for the new *jClarety* system, which replaced the agency's legacy information system. The Division also provides systems development services, and handles the scheduling and processing of agency data.				
	2007-09 Actual	2009-11 Leg Approved	2011-13 Gov Recommended	2011-13 Leg Adopted
Other Funds	$30,134,142	$30,621,799	$23,010,823	$22,551,215
Positions	96	88	79	77
FTE	96.00	87.63	79.00	77.00

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.				
	2007-09 Actual	2009-11 Leg Approved	2011-13 Gov Recommended	2011-13 Leg Adopted
Other Funds	$3,269,379	$4,417,379	$4,888,362	$4,605,920
Positions	13	14	16	16
FTE	12.50	14.00	16.00	16.00

Customer Services oversees employer reporting, maintains member employment and account information, and provides employee member counseling, education, and communications services.				
	2007-09 Actual	2009-11 Leg Approved	2011-13 Gov Recommended	2011-13 Leg Adopted
Other Funds	$14,650,474	$17,840,671	$18,404,980	$18,179,733
Positions	111	121	123	121
FTE	111.00	116.63	122.50	121.08

Revenue Sources and Relationships

The Operations program revenue is derived mainly from revenue transfers received from the Tiers 1 and 2 and OPSRP programs ($71.7 million). Additionally, revenue to support the deferred compensation program is from a charge of 0.08 of 1% on deferred compensation trust fund assets ($1.6 million). Revenue from charges for IAP administrative costs is estimated to be $2.4 million. Revenues also are from other administrative fees assessed on participants and employers for social security administration activities and other miscellaneous non-customary services ($200,000).

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 was 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 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.

Post-reform, the Board has operations essentially stabilized. However, the level of system and human resources needed to manage three retirement plans – for an ever increasing number of retirees – will continue to drive some growth in the agency's budget.

Several policy bills related to PERS programs were passed by the 2011 Legislature and approved by the Governor. HB 2113 contained several technical corrections: modifications to the retirement plan options for legislators; clean-up of the eligible trustee to trustee transfer retirement credit purchases; fixing the vesting dates for OPSRP and IAP account; dealing with the dual membership problem of members who withdraw from the IAP but are prohibited from withdrawing from OPSRP Pension; and authorizing OSGP to offer a Roth IRA account to conform to the change in federal law. The bill provides Other Fund limitation of $475,600 for implementing the change in OPSRP vesting.

Other law changes include HB 2456, which prohibits PERS from paying an increased benefit (out of state tax remedy) under certain conditions and SB 76, which clarifies the definition of "correction officer" for police and fire benefit eligibility purposes.

Legislatively Adopted Budget

Along with base budget resources, the legislatively adopted budget includes funding for 9 permanent positions performing work previously handled by limited duration positions since the 2003-05 biennium. Eight of these positions process all incoming and outgoing forms, which require proofing and data entry. The agency is moving toward electronic workflow but many retirees are still only comfortable with paper forms. The other position provides building support for leased space that is expected to be needed well into the future.

The budget also supports 29 limited duration positions; most of these are for business process improvements and data quality/data verification activities. While the *jClarety* system is now fully deployed, the agency still needs to ensure business processes are structured to leverage the system's capabilities and maintain data integrity. Agency staffing levels continue to decline from a position count peak of 420 during the 2003-05 biennium.

One of the limited duration positions was added to support HB 2456, which eliminates a benefit for certain PERS retirees who reside out of state. PERS retirees living in Oregon receive an increased benefit to offset Oregon income taxes on their retirement benefits. However, retirees that subsequently move out of state continue to receive the benefit even though they no longer pay taxes to the State of Oregon. The law change prohibits the increased benefit in these cases, but only for employees retiring on or after January 1, 2012. While this change should reduce some future benefit payments, that reduction is indeterminate and directly tied to member retirement behavior. If the bill does decrease system liabilities, the earliest employer rates would be affected is in the 2015-17 biennium. The bill includes $570,412 Other Funds expenditure limitation for the agency to make system changes and complete manual adjustments until the system changes are in place; the position is needed to perform these adjustments.

Other Funds expenditure limitation was also added to improve system disaster recovery and continue leasing office space. Increases were offset by standard statewide reductions, which results in a 2011-13 legislatively adopted budget that is 6.3% below the 2009-11 legislatively approved budget. The change from the Governor's recommended budget is a decrease of $1.5 million Other Funds, or 1.8%.

Some legislators expressed concern over the data verification workload created by SB 897 (2009) and the effect on retirement calculation error rates. While the budget does include 6 positions (2 permanent, 4 limited duration) for the program, the approved staffing level for the program is lower than what the agency requested. To alleviate staff anxiety and potential errors, the agency plans to prioritize verification requests by eligible retirement dates (those closest to retirement will be processed first) in order to minimize the staff's need to rush through the verifications. The agency may come back to the Legislature during the February 2012 session or to the Emergency Board to request additional resources if, with a few months of experience after the July 1, 2011 start up of the verification process, they can demonstrate a need due to higher than anticipated number of member requests or high error rates.

In addition, the agency seeing a higher than normal number of retirement applications, so the agency will have to handle that workload as well.

PERS – Debt Service

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	5,709,200	1,423,075	1,418,600	1,418,600
Total Funds	**$5,709,200**	**$1,423,075**	**$1,418,600**	**$1,418,600**

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; this debt was paid off in May 2009.

Revenue Sources and Relationships

Revenue transfers from the retirement programs support 2011-13 debt service payments.

Legislatively Adopted Budget

The legislatively adopted budget is set to cover existing debt service requirements.

Racing Commission – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	5,663,042	5,941,351	5,241,417	5,5192,629
Total Funds	**$5,663,042**	**$5,941,351**	**$5,241,417**	**$5,192,629**
Positions	16	16	15	15
FTE	14.52	14.52	13.27	13.27

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 2011-13 are projected to remain static. The 2011 Legislature passed SB 148 (Chapter 32, Oregon Laws 2011) requiring totalizator companies that provide the hardware that processes wagers, and other functions, to pay a fee to obtain a business license through the Commission; and SB 149 (Chapter 501, Oregon Laws 2011) authorizing the Commission to establish by rule license fees for race meet participants, including employees of pari-mutuel companies, trainers, jockeys, horse owners, agents, veterinarians, and judges. The bill limits the maximum license fee that can be charged to $30 per year, and requires the Commission to review the amount of fees charged for similar licenses in other states before the fees can be changed. Fees have not been raised since they were first implemented in 1979. With passage of SB 148 and SB 149, the Commission projects that the increase in fees will raise approximately $50,000 in the second year of the 2011-13 biennium.

The 1997 Legislature authorized the establishment of hub racing 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 2011-13 current service level projects $1,053,752 in these transfers. The remaining two-thirds are 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 the eleven Hubs currently licensed in Oregon.

Budget Environment

Both live and simulcast hub racing are in an era of uncertainty in Oregon. The industry has failed to attract younger consumers. As the core racing patron demographic ages, a new generation of patrons must be cultivated in order for the industry to survive. Furthermore, state-run lotteries, video poker, online gambling, and tribal casinos compete for some of the same money spent on racing, offering modern day consumers additional gambling opportunities. In addition to demographic trends, competition, and the national economic downturn, the industry is plagued by accusations of substance and animal abuse.

The sustainability of Portland Meadows, the only remaining commercial meet in Oregon, is uncertain. Magna Entertainment, the parent company, recently completed a bankruptcy process. They continue to own Oregon Racing, Inc., doing business as Portland Meadows. In late 2007, Magna Entertainment announced that it will sell its interest in Portland Meadows.

Currently, there are eleven hubs licensed in Oregon. Revenue from hub racing has saved live racing at the county fairs and has contributed to the purses at the Portland Meadows commercial race meet. The jockey incentive program, regulatory video, regulatory photo finish, summer stabling, safety improvements, and Greyhound Adoption Kennel have also received funds generated by hub revenue. Although the Commission has implemented a number of initiatives in an effort to make it easier for hubs to do business in Oregon, as more states have established laws to govern hub racing, Oregon hubs have the option of relocating. The 2011-13 revenue projections assume that eleven hubs will be licensed throughout the biennium and each will operate 364 days per year. The relocation of hubs to other states would have a significant negative impact on the Commission's fiscal health.

Expenditures at the current service level would have resulted in a revenue shortfall (approximately $537,581) for the Commission. The legislatively adopted budget includes measures to reconcile expenditures with declining revenues from pari-mutuel tax from multi-jurisdictional hubs:

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $5,192,629 represents a 12.6% decrease from the 2009-11 legislatively approved budget and a 1% decrease from the 2011-13 Governor's recommended budget. The Legislature funded the agency at the Governor's recommended level, less standard statewide adjustments in assessments and rates. The legislatively adopted budget reflects the following measures to reconcile expenditures with declining revenues from pari-mutuel tax from multi-jurisdictional hubs:

- Eliminate one Licensing/Public Service Representative position. Reduce a Veterinary Assistant position ($116,900 and 1.25 FTE) to adjust to available workload.
- Reduce distributions to county fairs and other agencies ($586,839).
- Reduce services and supplies, and Attorney General expenses ($190,052).

This budget leaves the Commission with an estimated ending balance of approximately $300,000, which is equivalent to about 1.5 months of operations.

Department of Revenue (DOR) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	145,212,294	143,053,692	151,329,855	146,373,434
Other Funds	30,475,737	37,750,575	44,962,544	34,230,088
Other Funds (NL)	240,508	263,830	1,945,006	1,945,006
Total Funds	**$175,928,539**	**$181,068,097**	**$198,237,405**	**$182,548,528**
Positions	1,035	1,109	1,053	1,051
FTE	959.96	1,027.14	992.84	990.84

Agency Overview

The Department of Revenue (DOR) administers the state's income tax and property tax programs. The agency also collects revenue from a variety of sources and transfers it to 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 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.

DOR's budget has historically been appropriated at the agency-wide level. The agency uses a series of sections, division, and programs to carry out its duties.

Revenue Sources and Relationships

The Department is mainly supported by the General Fund. Other Funds revenue, which supports about 20% of agency operations costs, is derived from charges to various tax, fee, assessment, and other programs. 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 legislatively adopted budget accommodates the agency's reconciliation of revenue accounts to align with adjustments to various revenue streams consistent with updated revenue forecasts and legislative changes.

Budget Environment

The agency is dependent on General Fund to support core programs. Very few of the agency's programs can be reduced without directly impacting the state's General Fund revenue stream. During the 2009-11 biennium, the agency's proposed allotment reductions brought this issue to the forefront. Due to concerns about potential field office closures and an associated loss in General Fund revenue, in December 2010 the Emergency Board allocated $1.9 million General Fund to help keep field offices open in the short-term. DOR initially expected to need an additional $2.5 million before the end of the 2009-11 biennium, but was instead able to mitigate that gap by further deferring projects, continuing to hold vacant positions open, and suppressing other spending.

Altogether, the agency was able to handle close to $10 million in 2009-11 allotment reductions through a series of management actions. Most of these actions were one-time in nature and are not able to be continued into the 2011-13 biennium without have a negative impact on revenue generation.

There is a funding shortfall in the agency's Senior and Disabled Citizens' Property Tax Deferral program, under which DOR makes annual property tax payments to counties on behalf of participants. Program repayments are not coming in as initially forecasted, which leaves the program's revolving fund short. The 2011 Legislature took some actions to help resolve this issue; specifics are included in the program narrative.

Over the last two biennia, DOR has been focused on developing and implementing a business case for a comprehensive overhaul of its current technology foundation and organization. This project to replace core information technology systems with industry best-practice solutions is a key component of the agency's strategic plan and process reengineering initiative. In its 2009-11 budget, DOR requested $10.7 million General Fund for the initial phase of the project. The agency did not receive that funding, but continued to work on a business case and funding strategy.

DOR is now proposing to fund the overall project, which is estimated to cost $92 million over seven years, with dedicated revenue sources. A portion of the funding would potentially come from increasing the rate charged on tax deficiencies and delinquencies; this change is estimated to provide $10-15 million in each of the 2013-15 and 2015-17 biennia. The remainder of the project would be funded through a performance-based procurement, also known as benefits-based funding. Under this type of contract, the service provider typically agrees to invest upfront in the process and technology solutions with the promise of payment when future benefits from the investment are realized. The business case, funding model, and performance expectations/outcomes will need to be thoroughly vetted, understood, and approved by the Legislature for this initiative to move forward.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is about 1% above the 2009-11 legislatively approved budget and 7.9% below the Governors' recommended budget. The budget allows the Department to retain positions associated with revenue production and to reprioritize audit revenues. These actions are expected to bring in an additional $32.7 million General Fund over the 2011-13 biennium.

Like other agencies supported by General Fund, the agency's budget was subject to standard actions taken to balance the statewide budget. These include the elimination of inflation, reductions in state government service charges/assessments, a 5.5% across-the-board reduction in compensation, and a 6.5% reduction from total services and supplies expenditures. The agency's budget was also reduced by $5.3 million General Fund for its share of the supplemental ending balance hold back.

From the base budget, a net total of 35 vacant permanent positions were eliminated; almost all of these are located in the agency's Administration and Property Tax Divisions.

The Legislature restored Governor's budget reductions in programs assisting elderly renters by adding $3 million General Fund directly to the agency's budget and setting aside $2.9 million General Fund in a special purpose appropriation to the Emergency Board. A budget note directing the Department to work with other state agencies to review and report on these programs was also approved. Budget notes regarding the agency's system replacement project, leadership strategies, and enforcement revenue forecasting were also adopted.

The 2011 Legislature passed several policy bills relating to taxation and department programs. Generally, the workload associated with these bills fall within the agency's budget for policy change and implementation activities. Some implementation components may requires additional expenditure limitation when final costs are known; adjustments can be made during the interim as needed. Detailed information on DOR-related legislation can be found in publications produced by the Legislation Revenue Office.

DOR – Executive Section

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	3,273,001	3,226,439	3,547,901	3,352,571
Other Funds	601,580	405,042	499,044	499,044
Total Funds	**$3,874,581**	**$3,631,481**	**$4,046,945**	**$3,851,615**
Positions	16	15	15	15
FTE	16.00	14.74	15.00	15.00

Program Description

The Executive Section is responsible for overall administration of the agency and for coordinating the agency's legislative, rulemaking, communications, and internal audit functions.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is 6.1% above the 2009-11 legislatively approved budget and a 4.8% reduction from the Governor's recommended budget. Along with standard statewide reductions, the budget includes the carry forward of 2009-11 allotment reductions; one clerical position and one public affairs specialist position are eliminated in this program unit.

DOR – Strategic Planning Division (formerly General Services Section)

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	8,500,671	4,448,140	5,528,049	4,918,892
Other Funds	2,760,306	482,175	11,964,719	1,299,877
Other Funds (NL)	0	0	1,674,844	1,674,844
Total Funds	**$11,260,977**	**$4,930,315**	**$19,167,612**	**$7,893,613**
Positions	0	0	9	8
FTE	0.00	0	9.00	8.00

Program Description

Historically, as the General Services Section, this program unit was 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. Kicker distributions are also recorded here, which will result in expenditure spikes; the 2007-09 actual data above reflects payouts of the 2007 kicker.

With the 2011-13 budget, the agency has reorganized this unit, now called the Strategic Planning Division (SPD), to also include the agency's resources and budget for strategic planning activities. In the near term, these are primarily focused on the proposed core information technology replacement project.

Legislatively Adopted Budget

The legislatively adopted budget is a 60% increase from the 2009-11 legislatively approved budget and a 59% decrease from the Governor's recommended budget. The large change between biennia reflects the agency's realignment of positions to create SPD staffing resources, along with the addition of an Other Funds Nonlimited budget component to facilitate the recovery of third-party collection costs.

The decrease from the Governor's recommended budget is due to denial of the agency's policy package for its core system replacement project ($10.7 million Other Funds). Through a budget note, the Legislature directed the agency to complete work on the project's business case and foundational planning documentation. The Department is also refining both project costs and the specifics of the funding model. With these work products completed, the agency would likely bring forward a budget request during the 2012 legislative session.

The budget shifts the cost of third-party collection activities away from the General Fund and directly to delinquent taxpayers. The agency will continue to incur these costs, but will pay them with revenue from a charge passed on to the delinquent taxpayer, as allowed under ORS 293.231. The amount charged cannot exceed the actual collection fee of the private collection agency or other third-party service provider.

Along with taking standard statewide reductions, one management position was abolished. Another budget note, which reflects discussion around the agency's core systems replacement project and how it fits within DOR's overall strategy to improve business processes and performance outcomes, was also adopted.

DOR – Administrative Services Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	46,954,834	47,566,382	48,309,703	45,284,930
Other Funds	6,878,103	6,284,328	6,935,445	6,867,831
Total Funds	**$53,832,937**	**$53,850,710**	**$55,245,148**	**$52,152,761**
Positions	338	340	304	303
FTE	287.45	292.69	259.11	258.11

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 purchasing, personnel, facilities management, accounting, and 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.

Legislatively Adopted Budget

The legislatively adopted budget is 3.2% below the 2009-11 legislatively approved budget and 5.6% below the Governor's recommended budget. The budget includes the roll-up of allotment reductions taken in 2009-11 and standard statewide reductions for compensation, inflation, assessments, and rates. Allotment and vacant position reductions account for the elimination of 28 positions; these are in the areas of information technology, data entry, administrative support, management, and policy. The base budget also reflects the movement of positions from this program unit to SPD.

DOR – Property Tax Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	19,110,387	15,004,560	14,465,904	13,775,755
Other Funds	7,537,822	10,643,850	10,654,567	10,654,567
Total Funds	**$26,648,209**	**$25,648,410**	**$25,120,471**	**$24,430,322**
Positions	122	123	105	105
FTE	118.89	119.89	102.33	102.33

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 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 will continue to focus on helping counties find ways to keep programs intact during difficult financial times.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is 4.8% below the 2009-11 legislatively approved budget and 2.8% below the Governor's recommended budget. The budget includes standard reductions in compensation, inflation, assessments, and rates. Allotment and vacant position reductions account for the elimination of 13 positions; about half the positions perform appraiser analyst functions, while the rest are program and technical support positions. The budget also reflects the realignment of positions within the agency.

DOR – Personal Tax and Compliance Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	47,298,698	51,127,400	58,284,169	55,776,536
Other Funds	1,131,926	4,050,810	1,245,041	1,245,041
Total Funds	**$48,430,624**	**$55,178,210**	**$59,529,210**	**$57,021,577**
Positions	372	408	395	395
FTE	363.49	392.67	386.49	386.49

Program Description

The Personal Tax and Compliance Division administers the personal income tax program. Responsibilities include auditing and encouraging voluntary compliance for the personal income tax, collecting delinquent personal income taxes, and collecting local option taxes. In addition, the Division provides help to taxpayers by telephone (Tax 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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is 3.4% above the 2009-11 legislatively approved budget and 4.2% below the Governor's recommended budget. The budget retains positions that would have otherwise been eliminated if 2009-11 allotment reductions were carried forward. It also reflects standard statewide reductions in compensation, inflation, assessments, and rates.

The budget includes $2.5 million General Fund to continue funding two audit units that were funded in 2009-11 with Other Funds from the Tax Amnesty program; amnesty revenue will not be available in 2011-13. The additional revenue that is generated by these units previously funded the Building Opportunities for Oregon Small Business Today (BOOST) program. However, the Legislature approved directing the additional $18 million in gross revenue agency-wide projected to be generated by these units in 2011-13 to the General Fund to support more critical budget priorities. There is a companion adjustment in the Business Division.

Due to the retention of positions noted previously, $14.7 million in General Fund revenue above the December 2010 revenue forecast will be generated for 2011-13 (agency-wide). The 21 affected positions are a mix of revenue agent, audit, filing enforcement, customer service, and support positions. The net decrease in positions between biennia reflects the realignment of positions within the agency and other administrative changes.

DOR – Business Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	13,651,812	15,945,566	21,194,129	20,264,750
Other Funds	11,566,000	15,884,370	13,663,728	13,663,728
Total Funds	**$25,217,812**	**$31,829,936**	**$34,857,857**	**$33,928,478**
Positions	187	223	225	225
FTE	174.13	207.15	220.91	220.91

Program Description

The Business Division administers several tax programs, including corporate income and excise taxes, the employer withholding tax, the transit payroll and self-employment taxes, the fiduciary, inheritance, and cigarette taxes, and other agency accounts and special programs. Responsibilities include auditing tax returns and collecting delinquent taxes and other delinquent accounts. The Division also provides debt collection services for state and local agencies and for state and municipal courts in all 36 counties.

Budget Environment

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. The agency partners with the Department of State Police and the Department of Justice to carry out education, enforcement, and collection efforts.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is 6.6% above the 2009-11 legislatively approved budget and 2.7% below the Governor's recommended budget. The budget retains positions that would otherwise have been eliminated if 2009-11 allotment reductions were carried forward. It also reflects standard statewide reductions in compensation, inflation, assessments, and rates.

The budget includes $3.5 million General Fund to continue funding two audit units that were funded in 2009-11 with Other Funds from the Tax Amnesty program; amnesty revenue will not be available in 2011-13. There is a companion adjustment in the Personal Income Tax and Compliance Division (PTAC); agency-wide these resources are expected to generate an additional $18 million General Fund in 2011-13.

Due to the retention of positions noted above and in other divisions, an additional $14.7 million in General Fund (agency-wide) revenue above the December 2010 revenue forecast will be generated for 2011-13. For the

Business Division, the 10 affected positions collect liabilities for withholding and corporate tax programs; audit domestic, multi-state/limited, and multi-jurisdictional corporations; and analyze tax policy.

Thirteen positions in the Other Agency Accounts unit are authorized as permanent, at a cost of $1.4 million Other Funds. These positions were initially approved as limited duration in 2009-11 due to uncertainty about a Judicial Department proposal to expand its in-house collection efforts. That proposal did not go forward and, instead, Judicial increased the number of accounts being sent to the Department of Revenue for collection from about 12,000 new account assignments per month up to 16,000-20,000 new accounts per month. Collection costs are recovered through fees charged to the client agencies.

DOR – Multistate Tax Commission

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds (NL)	240,508	263,830	270,162	270,162
Total Funds	**$240,508**	**$263,830**	**$270,162**	**$270,162**

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.

Legislatively Adopted Budget

The legislatively adopted budget adjusts for updated 2011-13 actual cost projections by adding $6,332 Other Funds Nonlimited.

DOR – Elderly Rental Assistance

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	6,422,891	5,735,204	0	3,000,000
Total Funds	**$6,422,891**	**$5,735,204**	**$0**	**$3,000,000**

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 declining participation over the last several biennia. 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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget is about one-half of the 2009-11 legislatively approved budget and 100% greater than the Governor's recommended budget, which completely zeroed out this program. This funding level is expected to cover the agency's program costs in the first year of the biennium.

Another $2.9 million General Fund was set aside in a special purpose appropriation to the Emergency Board, to be used in the second half of the biennium. A budget note was adopted directing the Department to work with state agencies to evaluate potential program changes and funding requirements. A report from this workgroup is due during the February 2012 legislative session and is expected to inform decision makers on how best to plan for the future of these programs and eventually allocate funding from the special purpose appropriation.

DOR – Senior Citizens' and Disabled Citizens' Property Tax Deferral

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	0	1	0	0
Total Funds	**$0**	**$1**	**$0**	**$0**

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; 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 the Disabled Citizen's Property Tax Deferral, applicants must also meet income tests and be determined eligible to receive, or are receiving federal Social Security disability benefits.

Budget Environment

The program is designed to help low income seniors and disabled citizens remain in their homes by allowing them to defer their property taxes until the home is sold. Initially, the Legislature funded the program through General Fund appropriations. However, as homes were sold and revenue began flowing back into the program surpluses were generated starting in the mid 1990s. The Legislature allocated these surpluses to other purposes over the last decade.

Starting in 2007, the collapse of the housing market in Oregon sharply reduced the inflow of revenue as home sales slowed dramatically. At the same time, the number of new applicants increased as financially stressed individuals looked for ways to cut costs. During 2009-11, the program experienced a severe cash flow problem and had to delay payments to counties in the last fiscal year of the biennium. Since projections for the 2011-13 biennium showed the program in a substantial deficit position, the 2011 Legislature passed HB 2543 to make structural changes to the program in order to keep it solvent for the long term.

The bill requires program participants to re-apply every two years. Along with meeting an annual household income limit of $39,500, participants must meet additional criteria to qualify. These include home market value and occupancy standards and asset value limits. Under the revised program, homes having reverse mortgages and anyone with outstanding or canceled liability from the program are disqualified. HB 2543 also retains the 6% interest requirement of the existing program but changes the calculation from simple interest to compound interest. The measure also places a 5% cap on allowable growth for the program beginning with the 2012-13 property tax year.

Overall the changes are expected to improve the net fiscal position of the Senior Property Tax Deferral Revolving Account by $11.2 million in 2011-13 and $19.6 million in 2013-15. Despite these positive effects on the account it is expected to close the 2011-13 biennium in deficit. In order to address this issue the Legislature approved SB 939 which directs the State Treasurer to loan the program $19 million from the Common School Fund for two years. The deferral program is to repay the Common School Fund by June 15, 2013 with funds available in the account. If sufficient funds are not available in the account (a near certainty given current projections), SB 939 directs the Legislature to appropriate the amount necessary to repay the loan no later than June 15, 2013. SB 939 also requires the Legislature to make a determination regarding the long-term financial viability of the program.

Legislatively Adopted Budget

Historically, the program has been budgeted $1 General Fund as a placeholder for funding obligations; the 2009-11 legislatively adopted budget does not include the placeholder. As indicated in the previous narrative, the Legislature is aware of the program's funding shortfall and has taken steps to maintain cash flow in the short term. It is likely the program will need an infusion of General Fund prior to the end of 2011-13.

Since the program operates through revenue transfers in and out of its revolving fund, the budget display does not record expenditures.

Secretary of State (SOS) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	13,964,221	13,386,882	11,639,792	12,040,291
Other Funds	36,525,613	37,641,052	44,871,880	42,099,026
Federal Funds	6,421,887	7,505,935	4,812,513	7,559,402
Total Funds	**$56,911,721**	**$58,533,869**	**$61,324,185**	**$61,698,719**
Positions	199	198	200	197
FTE	198.50	197.30	199.30	195.60

Note: The General Fund amount shown for the 2011-13 Governor's recommended budget is $3,970,193 less than the sum of the General Fund amounts for the program areas shown below. The Governor's recommended budget included a $3,970,193 General Fund reduction that was unspecified and that was not applied to any program area.

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.

The agency's major divisions include the: ***1) Elections Division***, which 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; ***2) Audits Division***, which carries out the Secretary's constitutional duties as auditor of public accounts to assure that public funds are properly accounted for and spent in accordance with legal requirements; the Division performs, or contracts for, financial and compliance audits and performance audits of state agencies; ***3) Archives Division***, which 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; and ***4) Corporation Division***, which is responsible for three major programs: Business Registry – the filing of business names, Uniform Commercial Code (UCC) – the filing of secured transactions, and Notary Public – commissioning and regulating notaries. The agency also has additional divisions that provide administrative support and executive oversight, including the Executive Office which houses the Secretary and her immediate staff.

Revenue Sources and Relationships

The $12 million of General Fund in the 2011-13 biennium legislatively adopted budget finances one-fifth (19.5%) of total agency expenditures. General Fund support varies considerably, however, by agency program. The General Fund supports 90% of the Elections Division budget ($5.8 million General Fund), 53% of the Archives Division budget ($3.5 million General Fund), and 10% of the historically federally funded Help America Vote Act program ($796,489 General Fund). The remaining $1.7 million of General Fund finances 11% of central administrative expenses. The Audits and Corporation Divisions receive no General Fund and are fully supported by Other Funds, however, portions of the Audits Division assessments to state agencies are financed by General Fund appropriations to those agencies.

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), which 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. Audits Division assessments and billings are projected to total $21.2 million in 2011-13, and will support the Division's direct costs plus a portion of the agency's central administrative costs (these include the Executive Office, the Information Systems Division, and internal administrative functions). The Audits Division houses 71 full-time positions (approximately 36% of agency staff) and is fully funded from these revenues. The Archives Division also assesses agencies for the storage and retrieval of inactive, non-permanent records maintained by the Division. These assessments are projected to total just under $3 million in 2011-13, but they do not fully support the

Archives Division. The 2011-13 budget also includes $3.5 million of General Fund and approximately $164,000 of federal grant funds for the Archives Division. This Division houses 22 full-time positions (approximately 11% of agency staff).

- ***Licenses and fees*** are collected from business filings, secured transactions, and notaries public to support the Corporation Division (these revenues are projected to total $18.4 million in the 2011-13 biennium); and municipal audits for the Audits Division. The Corporation Division revenues fully support the Division's operations. The Corporation Division houses 32 positions (approximately 16% of agency staff), and is fully funded by these Division licenses and fees. In addition, the Division's license and fee revenues support about 45% of the agency's central administrative costs. In 2009 the Legislature passed HB 3405, which was subsequently referred by petition to the voters and approved as Measure 67. That bill doubled the fee to obtain a notary public commission, and increased the UCC filing fee by 50%. The bill also increased business registry fees, but allocated the full amount of the increase to the General Fund. The agency continues to retain the revenue from the first $20 of each business registration fee. Significantly for the agency budget, however, was the provision in HB 3405 that allowed the agency to retain all of the fee revenues dedicated to it. Previously the agency had only been able to retain a cash balance equivalent to two months of operating expenditures for the Corporation Division, from notary public commissions, UCC filing fees, and the initial $20 of the business registry fee received. HB 3405 allowed the agency to retain all of these proceeds. The various HB 3405 provisions combined will increase the agency's Other Funds (and correspondingly reduce General Fund revenue) by a projected $1.6 million in the 2011-13 biennium.

- ***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*** of Other Funds revenues are made to the Executive Office, Business Services, Information Systems, and Human Resources Divisions by the Audits and Corporations Divisions for a proportionate share of administrative costs.

In past biennia, Federal Funds revenues were received primarily under the Help America Vote Act (HAVA). As was the case for the 2009-11 biennium, the HAVA program will spend Federal Funds revenues already received by the state, and almost all of the agency's Federal Funds expenditures will be for this program. The 2011-13 biennium began with approximately $9.3 million of HAVA funds remaining. These would be sufficient to finance the $7.7 million of program expenditures in the 2011-13 biennium budget; however, the $1.6 million that would remain at the end of the biennium would be insufficient to continue the program through 2013-15.

The agency is currently budgeted to receive Federal Funds revenues from three grants. The 2011-13 biennium budget includes $500,000 of Federal Funds in the Elections Division for a Federal Voting Assistance Program grant to create a link between military and overseas voters and the Oregon Centralized Voter Registration system, and $164,419 of Federal Funds in the Archives Division for two federal grants.

Budget Environment

The Secretary of State is a separately elected, constitutional office, and as such, has not been subject to the Governor's budget review. In 2005, the Legislature modified the statutes relating to the Governor's budget development and allotment system to include the Secretary of State and the State Treasurer in those processes. In 2007, however, the Legislature reversed this action and again excluded the two offices from the Governor's review process.

General Fund expenditures for the Secretary of State 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 reimburses 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 for the foreseeable future. HAVA was passed in October 2002 and contains minimum federal standards for various aspects of election administration, which include developing a centralized voter registration system, replacement of punch card machines, privacy and independence in the voting process, access for people with disabilities, and voter outreach. Although the agency still holds approximately $9.3 million of Federal Funds from previous appropriations of HAVA funds, no further support from the Federal government for HAVA activities is anticipated.

Legislatively Adopted Budget

General Fund in the 2011-13 legislatively adopted budget for the Secretary of State is a 10.1% reduction from the prior biennium level, and is 4.6% below the current service level. The prior biennium General Fund appropriation included $2 million of one-time funding for the special election that was held for referenda on two income tax measures approved in the 2009 session (Measures 66 and 67). The 2011-13 legislatively adopted budget does not include funding for special elections. Total expenditures in the 2011-13 budget are 5.4% higher than in the prior biennium, or 1.1% above the current service level.

The Legislature reduced General Fund by a net $3,569,694 from the amount the agency had initially requested. Additionally, expenditures of business registration fee revenues were reduced by $868,348, with the savings transferred to the General Fund. An additional $4,331,652 of business registration fee revenue was also approved for transfer to the General Fund, bringing the total additional transfer amount to $5.2 million. However, only $4.7 million of additional business registration fee revenue was transferred in the 2011 session. This reduced amount was approved to address cash flow needs. The remaining $500,000 is slated to be transferred to the General Fund in the 2012 session.

The agency budget includes standard adjustments that were approved in most agency budgets on an across-the-board basis. The reductions from current service level include a 5.5% reduction in personal services expenditures, the elimination of spending increases for inflation in services and supplies and capital outlay costs, an additional 6.5% reduction in General Fund appropriated for services and supplies, and a 3.5% hold back adjustment on General Fund for purposes of establishing a supplemental statewide ending balance.

SOS – Executive Office

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	289,484	316,459	284,103	260,955
Other Funds	1,259,965	1,206,386	1,570,367	1,333,116
Total Funds	**$1,549,449**	**$1,522,845**	**$1,854,470**	**$1,594,071**
Positions	6	6	7	6
FTE	6.00	6.00	7.00	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.

Legislatively Adopted Budget

Although the 2011-13 legislatively adopted budget for the Executive Office is a 4.7% increase over the prior biennium level, it is 4.1% below the current service level. General Fund is reduced by 17.5% from the prior biennium and is 8.1% below the current service level.

The budget includes standard adjustments that were approved in most agency budgets on an across-the-board basis. The reductions from current service level include a 5.5% reduction in personal services expenditures, the elimination of spending increases for inflation in services and supplies and capital outlay costs, an additional 6.5% reduction in General Fund appropriated for services and supplies, and a 3.5% hold back adjustment on General Fund for purposes of establishing a supplemental statewide ending balance.

SOS – Archives Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	3,561,393	3,500,670	3,703,882	3,510,362
Other Funds	1,863,264	2,416,599	4,224,774	2,972,265
Federal Funds	0	20,000	30,000	164,419
Total Funds	**$5,424,657**	**$5,937,269**	**$7,958,656**	**$6,647,046**
Positions	22	22	23	22
FTE	22.00	22.00	23.00	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.

Legislatively Adopted Budget

Although the 2011-13 legislatively adopted budget for the Archives Division is a 12% increase over the prior biennium level, it is 0.4% below the current service level. General Fund is increased by 0.3% over the prior biennium but is 13% below the current service level. The Division's budget transfers approximately $332,000 of expenditures from the General Fund to Other Funds fee revenues, following the adoption of higher Archives fees in the 2009-11 biennium. The budget also includes $164,419 of Federal Funds (an eight-fold increase over the prior biennium). These expenditures are financed by two federal grants, including: $30,000 from an ongoing State and National Archival Partnership grant awarded in the prior biennium; and $134,419 from a grant from the National Archives and Records Administration that will be used to integrate the records of the Office of the Governor into the Oregon Records Management Solution system. The latter grant had not been awarded at the time the budget was approved, and the expenditure authority associated with it will remain unscheduled pending the award of the grant.

The budget includes standard adjustments that were approved in most agency budgets on an across-the-board basis. The reductions from current service level include a 5.5% reduction in personal services expenditures, the elimination of spending increases for inflation in services and supplies and capital outlay costs, an additional 6.5% reduction in General Fund appropriated for services and supplies, and a 3.5% hold back adjustment on General Fund for purposes of establishing a supplemental statewide ending balance.

SOS – Audits Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	14,190,607	15,714,764	17,895,719	16,949,422
Total Funds	**$14,190,607**	**$15,714,764**	**$17,895,719**	**$16,949,422**
Positions	72	72	72	71
FTE	72.00	72.00	72.00	71.00

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.

Legislatively Adopted Budget

Although the 2011-13 legislatively adopted budget for the Audits Division is a 7.9% increase over the prior biennium level, it is 5.3% below the current service level.

The budget includes standard adjustments that were approved in most agency budgets on an across-the-board basis. The reductions from the current service level include a 5.5% reduction in personal services expenditures, and the elimination of spending increases for inflation in services and supplies and capital outlay costs. Funding for one vacant full-time position was also eliminated. As a result of these reductions and an effort to more accurately project the impact of vacancies on the Division's budget, the budget includes a $2.5 million (or 10.5%) reduction in Audits Division assessment charges to agencies, from the level included in the Governor's recommended budget.

SOS – Business Services Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	324,215	326,651	380,661	339,509
Other Funds	2,809,811	2,792,422	3,141,755	3,103,938
Total Funds	**$3,134,026**	**$3,119,073**	**$3,522,416**	**$3,443,447**
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.

Legislatively Adopted Budget

Although the 2011-13 legislatively adopted budget for the Business Services Division is a 10.4% increase over the prior biennium level, it is 2.2% below the current service level. General Fund is increased 3.9% over the prior biennium but is 10.8% below the current service level.

The budget includes standard adjustments that were approved in most agency budgets on an across-the-board basis. The reductions from current service level include a 5.5% reduction in personal services expenditures, the elimination of spending increases for inflation in services and supplies and capital outlay costs, an additional 6.5% reduction in General Fund appropriated for services and supplies, and a 3.5% hold back adjustment on General Fund for purposes of establishing a supplemental statewide ending balance.

SOS – Corporation Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	7,379,455	6,683,909	7,319,589	7,580,660
Total Funds	**$7,379,455**	**$6,683,909**	**$7,319,589**	**$7,580,660**
Positions	36	32	32	33
FTE	35.50	31.50	31.50	32.00

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.

Legislatively Adopted Budget

The Corporation Division receives no General Fund, and is entirely funded by fee revenues. The primary funding source is fees charged to register business entities in the state. The agency retains $20 of each business registration fee. The rest of the fee amount is transferred to the General Fund. Under current law, approximately 25% of total business registration fee revenues are currently retained by the agency and approximately 75% are transferred to the General Fund. The approved budget, however, includes a one-time additional transfer to the General Fund in the amount of $5.2 million for the 2011-13 biennium (which will bring the total transfer amount to $51.8 million). Only $4.7 million of additional business registration fee revenue was transferred in legislation approved in the 2011 session, however. This reduced amount was approved to address cash flow needs. The remaining $500,000 is slated to be transferred to the General Fund in the 2012 session.

The 2011-13 legislatively adopted budget for the Corporation Division is a 13.4% increase over the prior biennium level, which represents a 3.6% increase over the current service level. The budget includes standard adjustments that were approved in most agency budgets on an across-the-board basis. The reductions from current service level include a 5.5% reduction in personal services expenditures, and the elimination of spending increases for inflation in services and supplies and capital outlay costs.

The budget also includes $380,312 of Other Funds expenditures and one limited duration position (0.50 FTE) to establish the One Stop Shop for Oregon Business internet portal, as required under HB 3247. These expenditures are for start-up costs. All but $75,000 of the expenditures, an amount equal to the ongoing maintenance costs of the portal, will be phased out in the development of the agency's 2013-15 biennium budget.

SOS – Elections Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	8,526,826	7,986,401	6,472,240	5,809,398
Other Funds	59,239	126,914	129,960	124,960
Federal Funds	0	0	0	500,000
Total Funds	**$8,586,065**	**$8,113,315**	**$6,602,200**	**$6,434,358**
Positions	15	17	17	16
FTE	15.00	17.00	17.00	16.00

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for the Elections Division is a 20.7% decrease from the prior biennium level, and is 2.5% below the current service level. General Fund is reduced by 27.3% from the prior biennium and is 10.2% below the current service level. The Division budget includes $80,000 General Fund to support one-time costs of implementing the expanded electronic filing of statements required under HB 2257, and also includes $500,000 Federal Funds for a Federal Voting Assistance Program grant to create a link between military and overseas voters and the Oregon Centralized Voter Registration system. The primary reason for the large General Fund decrease is that the Division received $2 million for special election costs in the 2009-11 biennium, and the 2011-13 biennium budget does not include any funds for special elections. A special election will be conducted during the current biennium to fill a vacant seat in the First Congressional District, but this vacancy occurred after the Legislature had adjourned and funding for the election was not included in the budget.

The budget includes standard adjustments that were approved in most agency budgets on an across-the-board basis. The reductions from current service level include a 5.5% reduction in personal services expenditures, the elimination of spending increases for inflation in services and supplies and capital outlay costs, an additional 6.5% reduction in General Fund appropriated for services and supplies, and a 3.5% hold back adjustment on General Fund for purposes of establishing a supplemental statewide ending balance. The budget also eliminated one full-time Investigator position that had been vacant.

SOS – Information Systems Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	1,204,821	1,190,040	1,377,095	1,252,637
Other Funds	8,369,576	8,132,369	9,937,175	9,399,528
Federal Funds	701,352	0	0	0
Total Funds	**$10,275,749**	**$9,322,409**	**$11,314,270**	**$10,652,165**
Positions	24	26	26	26
FTE	24.00	26.00	26.00	26.00

Program Description

The Information Systems Division provides centralized information technology services including database administration, Internet development, and application development and maintenance for the agency.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for the Information Services Division is a 14.3% increase over the prior biennium level, and is 20.7% above the current service level. General Fund is increased by 5.3% over the prior biennium but is 9% below the current service level.

The budget includes two one-time information technology projects: 1) expanding and improving the Central Business Registry by including city and county government business registrations, improving security, and establishing a pilot project for online licensing ($1,295,000); and 2) modernizing the agency's internal business applications and moving them to JAVA platforms ($720,000). Both projects are funded from business registration fee revenues (Other Funds). The Legislature reduced funding for these projects by a combined $475,000 from the amounts the agency had initially requested. Instead, the budget transfers this $475,000 to the General Fund for general government purposes.

The budget also includes standard adjustments that were approved in most agency budgets on an across-the-board basis. The reductions from current service level include a 5.5% reduction in personal services expenditures, the elimination of spending increases for inflation in services and supplies and capital outlay costs, an additional 6.5% reduction in General Fund appropriated for services and supplies, and a 3.5% hold back adjustment on General Fund for purposes of establishing a supplemental statewide ending balance.

SOS – Human Resources Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	57,482	66,661	76,144	70,941
Other Funds	593,696	567,689	652,541	635,137
Total Funds	**$651,178**	**$634,350**	**$728,685**	**$706,078**
Positions	3	3	3	3
FTE	3.00	2.80	2.80	2.60

Program Description

The Human Resources Division provides advice on human resources policies and procedures, maintains employee records, and provides recruitment and training services for the agency.

Legislatively Adopted Budget

Although the 2011-13 legislatively adopted budget for the Human Resources Division is an 11.3% increase over the prior biennium level, it is 3.1% below the current service level. General Fund is increased 6.4% over the prior biennium but is 6.8% below the current service level.

The budget includes standard adjustments that were approved in most agency budgets on an across-the-board basis. The reductions from current service level include a 5.5% reduction in personal services expenditures, the elimination of spending increases for inflation in services and supplies and capital outlay costs, an additional 6.5% reduction in General Fund appropriated for services and supplies, and a 3.5% hold back adjustment on General Fund for purposes of establishing a supplemental statewide ending balance.

SOS – Help America Vote Act (HAVA)

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	0	0	3,315,860	796,489
Federal Funds	5,720,535	7,485,935	4,782,513	6,894,983
Total Funds	**$5,720,535**	**$7,485,935**	**$8,098,373**	**$7,691,472**
Positions	5	4	4	4
FTE	5.00	4.00	4.00	4.00

Program Description

The federal Help America Vote Act (HAVA) requires states to implement a variety of election process reforms including replacement of punch card voting systems, purchasing voting equipment that is accessible to people with disabilities, and developing a centralized voter registration system.

Legislatively Adopted Budget

Implementation of HAVA requirements will continue to influence the Secretary of State's budget for 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. Although the agency still holds approximately $9.3 million of Federal Funds from prior-biennia appropriations of HAVA funds, no additional funding from the Federal government for HAVA activities is anticipated.

As was the case for the 2009-11 biennium, the HAVA program will spend Federal Funds revenues already received by the state, and almost all of the agency's Federal Funds expenditures will be for this program. The $9.3 million of remaining HAVA funds are sufficient to finance $7.7 million of program expenditures in the 2011-13 biennium budget; however, the $1.6 million that would remain at the end of the biennium would be insufficient to continue the program through 2013-15. The 2011-13 budget supports a partial shift of support for the Oregon Centralized Voter Registration System from HAVA Federal Funds to the General Fund. The agency had requested a $3.3 million fund shift. The Legislature approved a $1 million fund shift, which was subsequently reduced to approximately $0.8 million after the standard adjustments were applied on an across-the-board basis. This fund shift was approved to increase the amount of Federal Funds that will remain for the 2013-15 biennium budget.

Treasurer of State (Treasurer) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	28,820,083	32,541,377	36,636,840	34,998,684
Other Funds (NL)	2,844,712	3,750,000	3,500,000	3,500,000
Total Funds	**$31,664,795**	**$36,291,377**	**$40,136,840**	**$38,498,684**
Positions	83	84	85	85
FTE	80.73	83.10	83.48	83.48

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 State Treasury operates five 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 **Cash Management Program** processes monetary transactions for all state agencies and over 1,500 local government accounts, and operates the Oregon Short-Term Fund which 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 **Debt Management Program** coordinates and approves issuance of state agency and authority bonds; the **Public Funds Collateralization Program** assures that public funds held in financial institutions are properly collateralized, and acts as pool manager for Oregon banks and credit unions; and the **Oregon 529 College Savings Network** administers two tax-advantaged savings programs designed to encourage people to save money for future education costs.

Budget Environment

The Treasurer of State is a separately elected, constitutional office, and as such, has not been subject to the Governor's budget review. In 2005, the Legislature modified the statutes relating to the Governor's budget development and allotment system to include the Treasurer of State and the Secretary of State in those processes. In 2007, however, the Legislature reversed this action and again excluded the two offices from the Governor's review process.

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.

Treasurer – Treasury Services

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	25,980,551	29,140,426	33,002,227	31,479,854
Total Funds	**$25,980,551**	**$29,140,426**	**$33,002,227**	**$31,479,854**
Positions	81	82	83	83
FTE	78.73	81.10	81.48	81.48

Program Description

Treasury Services houses the operations of four Treasury programs: the **Investments Program**, the **Cash Management Program**, the **Debt Management Program**, and the **Public Funds Collateralization Program**.

Revenue Sources and Relationships

Agency expenditures are entirely financed with Other Funds, although portions of the banking charges to state agencies are financed by General Fund appropriations to those agencies. Each Treasury program is supported by its own charges. The agency's central administrative functions, in turn, are financed by a portion of each program's revenues that is internally assessed to support those functions.

Approximately 46% of Treasury limited Other Funds revenues consists of revenue from charges the Treasury levies for administering investments in the Investments Program. These charges are projected to raise $16.6 million during the 2011-13 biennium. The charges are levied as a percentage of the value of the administered funds.

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. Revenues from these charges vary directly with the values of the managed portfolios, and portfolio values have fluctuated greatly since the start of the financial crisis. For example, the value of the state's largest investment fund, the Oregon Public Employees Retirement Fund, declined by 38% from its November 2007 peak of $66.8 billion to March 2009, when the Fund's value totaled $41.5 million. Since then, the Fund's portfolio value has increased by 44%, to $59.6 billion, as of June 2011. Nonetheless, the Fund's June 2011 value remains 11% below the November 2007 peak level. With a fixed-rate charge, the agency's revenues from the charge would have varied by these same percentage amounts. The Treasury's actual administrative charges, however, have been less than these statutory maximums, and in practice the Treasurer sets the assessment charges at the levels needed to finance the agency's legislatively approved budget.

The next largest category of Other Funds revenues is the revenues that support the Cash Management Program. These are projected to total $10.6 million in 2011-13, approximately 29% of total limited revenues. This category includes charges for administering the Oregon Short-Term Fund (approximately 54% of the $10.6 million), and charges to state agencies and to local government accounts for banking services (the remaining 46%).

The next largest revenue source in the Treasury Services program area are the charges levied by the Debt Management Program, projected to total $3.8 million, or approximately 11% of total limited revenues. These revenues are generated from charges to state agencies for bond and coupon redemption on outstanding general obligation bonds, and to state agencies and municipalities for bond issuance costs. Finally, the smallest revenue category is the $764,000 (2% of total limited revenues) collected from banks and credit unions that participate in the Public Funds Collateralization Program. The combined sum of these Other Funds revenues is projected to total $33.8 million in the 2011-13 biennium, a 5.3% reduction from the prior biennium level.

Included in the above total are payments for cash management services, which are Nonlimited in the budget. These represent the fees the Treasury pays to financial institutions for direct banking services. 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 local government's actual banking transactions, and are forecast to total $3.5 million in 2011-13.

Budget Environment

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 (OPERF). Sharp declines in equity, bond, and real estate values reduced the balances of the Oregon Public Employees Retirement Fund and of other invested funds. The balance in the Oregon Public Employees Retirement Fund (including the portion of that fund in the Oregon Short-Term Fund), for example, peaked at $66.8 billion in November 2007. This fund's balance, however, declined by 38%, to only $41.5 billion, in March 2009. These declines reduced agency revenue, which are levied on the account balances, from both earlier levels and from previously-forecast levels. The Treasury responded to this situation by increasing the fees it charges to administer investment funds on February 1, 2009. Incremental fee rates were increased, and the fee rate levied on the bulk of the OPERF balance was increased from 0.007% to 0.0144%, a level that, while still only approximately half of the statutory limit, represented a 118% increase over the prior rate. This rate increase was designed to support the earlier revenue projections of a 39% increase over the earlier biennium.

Legislatively Adopted Budget

The legislatively adopted budget of $31.5 million Other Funds for Treasury Services is an 8% increase over the prior biennium level. This is 2.4% below the current service level; however, the current service level calculation is based on only a portion of the total compensation paid to Treasury employees in the prior biennium, which is an unusual situation that makes the current service level for this agency not comparable with other agency current service level calculations. The Treasury Services current service level calculation excluded the cost of second-year incentive compensation payments made to agency Investment Officers.

A component of compensation to Investment Officers is based on the performance of the investment portfolios that they manage. When portfolio performance exceeds the performance of most other states' comparable investment portfolios, Investment Officers can earn up to 30% more than what they earn when portfolio performance is below that of most other states. The Treasurer modified his compensation plan for Investment Officers during the 2011 session to define "Target Compensation" as the maximum amount Investment Officers would earn if they qualified for all potential performance-based compensation. The compensation plan then identifies the reductions to Target Compensation that occur when performance fails to meet target levels.

The Legislature included approximately $1.7 million Other Funds in the budget to reflect the full amount of performance-based compensation in the Target Compensation calculation, with the understanding that the Treasurer would request this limitation to be unscheduled, and would request this expenditure limitation to be rescheduled only to the extent necessary to pay performance-based compensation that had been deferred, under the Investment Officer compensation plan, until fund investment performance metrics were met. The Office of State Treasurer will report the amount of deferred compensation earned, to the Legislative Fiscal Office and to the Budget and Management Division, at the time it requests expenditure limitation to be rescheduled.

Three enhancements above the current service level are included in the agency budget:

- $166,200 Other Funds for costs associated with the hosting, licensing, and maintenance of the new debt tracking system that was approved in the 2009 session and brought online during the 2009-11 biennium. These costs were anticipated when the Legislature approved the new system in the 2009 session;
- $93,940 Other Funds and one position (0.38 FTE) to expand the Public Funds Collateralization Program to include credit unions that elect to hold public funds in excess of the amounts protected by federal insurance. In the 2010 special session, the Legislature expanded the collateralization program to include credit unions;
- $470,689 Other Funds for the Investment Division to support purchases of credit risk monitoring and security analysis research services, and to purchase credit-rating agency information. These expenditures also support additional Attorney General costs relating to public information inquiries, and additional rent for expanded space at the Tigard office.

The budget also includes standard adjustments that were approved in most agency budgets on an across-the-board basis. The reductions from current service level include a 5.5% reduction in personal services expenditures, and the elimination of spending increases for inflation in services and supplies and capital outlay costs.

Treasurer – Oregon 529 College Savings Network

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	2,839,532	3,400,951	3,634,613	3,518,830
Total Funds	**$2,839,532**	**$3,400,951**	**$3,634,613**	**$3,518,830**
Positions	2	2	2	2
FTE	2.00	2.00	2.00	2.00

Program Description

The Oregon 529 College Savings Network administers two savings programs designed to encourage people to save money for future education costs. The Oregon 529 College Savings Board, which is chaired by the State Treasurer, 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 Oregon 529 College Savings Network 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, its program revenues vary directly with the total balance in participants' accounts. The College Savings Network revenues are projected to total $4.2 million in the 2011-13 biennium, or approximately 12% of the agency's total limited revenues.

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. Subsequent stock and bond market declines reduced the value of participants' accounts, however. By 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. The Treasurer dismissed the former Oregon College Savings Plan administrator (OppenheimerFunds), and subsequent to the 2009 session, selected TIAA-CREF Tuition Financing Inc. as the new administrator for the Plan. The Network programs resumed growing as markets recovered. By the end of 2010, the Network held approximately 130,000 accounts with a total value of $1.28 billion.

Legislatively Adopted Budget

The legislatively adopted budget of $3.5 million Other Funds for the College Savings Network is a 3.5% increase over the prior biennium level, and is approximately 0.9% below the current service level. Total revenues are projected to exceed expenditures by approximately $700,000, increasing the Network program's projected fund balance to $3 million by the end of the 2011-13 biennium.

One enhancement above the current service level is included in the agency budget:

- $100,000 Other Funds for securities attorney services to interpret and give advice regarding the federal tax code in relation to 529 college savings plans, and to provide independent review of plan disclosure documents and plan participation materials.

The budget also includes standard adjustments that were approved in most agency budgets on an across-the-board basis. The reductions from current service level include a 5.5% reduction in personal services expenditures, and the elimination of spending increases for inflation in services and supplies and capital outlay costs.

Treasurer – Nonlimited

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds (NL)	2,844,712	3,750,000	3,500,000	3,500,000
Total Funds	**$2,844,712**	**$3,750,000**	**$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.

Legislatively Adopted Budget

The total amount of Nonlimited banking fees is equal to the level initially approved for the prior biennium.

Legislative Branch (LEG) – Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	77,919,436	72,876,894	75,178,600	80,212,781
Other Funds	37,088,427	8,467,769	4,026,576	5,695,511
Other Funds (NL)	1,469,780	1,835,019	1,470,003	1,470,003
Total Funds	**$116,477,643**	**$83,179,682**	**$80,675,179**	**$87,378,295**
Positions	696	675	675	652
FTE	403.27	381.37	381.15	426.96

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.

The 2011-13 adopted budget for the Legislative Branch is $7,335,887 General Fund (10.1%) more than the 2009-11 legislatively adopted budget. Total Other Funds are $3,137,274 (30.5%) less than the legislatively approved budget. The main reason for the Other Funds decrease is the elimination of one-time revenues that are no longer available and were used last biennium in lieu of expenditure reductions.

Branch-wide budget reductions include the continuation of a salary freeze that began in February 2009 and is expected to continue through the entire 2011-13 biennium. An additional $1.5 million of personal services savings is expected to be generated during the biennium, by actions that are at the discretion of legislative leadership. Reductions also include the elimination of all inflation on services and supplies, as well as an overall 6.5% reduction to all services and supplies, a reduction of flexible benefits for positions that are less than 12 months, and the elimination of rent charges for the offices within the Branch.

The General Fund budgets of all Legislative Branch agencies were reduced by 3.5% to create a statewide supplemental ending balance. Some or all of those reductions may be restored during the February 2012 legislative session.

LEG – Legislative Assembly

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	31,781,326	32,350,832	37,957,590	35,750,449
Other Funds	125,145	208,653	268,970	268,970
Other Funds (NL)	86,682	137,087	91,360	91,360
Total Funds	**$31,993,153**	**$32,696,572**	**$38,317,920**	**$36,110,779**
Positions	443	443	443	422
FTE	216.20	207.44	207.36	251.39

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 a longer session every other odd year and enacts a biennial budget. Voters approved a shorter annual session in November 2010, that will meet during even years. During the interim, interim committees examine specific topics or program areas and a Joint Committee, the Emergency Board, is appointed to meet periodically to address 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.

Legislatively Adopted Budget

The 2011-13 adopted budget for the Legislative Assembly is $3,399,617 General Fund (10.5%) more than the 2009-11 legislatively approved budget level. Other Funds are $14,590 (4.2%) more than the approved budget level.

The Assembly budget includes adjustments for the following:

- Established a New Member Transition Account that will provide funds for staff, basic supplies, and training for new members prior to the start of the odd-year session. The appropriation amount for each new member will be set jointly by Legislative Leadership after the election.
- Consolidated the budget for Attorney General charges with the new member account. The Attorney General budget will be expended at the discretion of the presiding officers.
- Provided funding for six sets of Legislative Days during the 2011-13 interim, with three days in each set.
- Funded member per-diem and mileage costs associated with the 2012 legislative session.
- Restored the member interim staff allowance to the 2009-11 rate of $3,454; the allowance had been reduced to $3,327.
- Funded the return to an 18 month interim. Interim length was increased to 19 months for the 2009-11 biennium when January 2009 was considered an interim month instead of a session month.
- Made a FTE adjustment for all members' interim staff to better reflect the number of months that are actually worked.
- Increased Legislative Assistant session salaries from $2,882 to $3,454, for consistency with the interim rate. All interim staff will continue to receive full flexible benefits through the session. Positions are transferred back to six month session positions.
- Reduced legislative session-only staff salaries from $2,516 to $2,200 and continued session-only health benefits. The positions were transferred back to six month session positions.
- Increased services and supplies budgets for members during the odd-year session from $15.50/day to $18.00/day to offset increased member costs for printers, paper, and other items associated with print-on-demand and paperless systems.
- Made adjustments to the Secretary of the Senate and Chief Clerk's offices to reflect annual session staffing needs and reduced their printing budgets to reflect increased paperless processes.

The General Fund budgets of all Legislative Branch agencies were reduced by 3.5% to create a statewide supplemental ending balance. Some or all of those reductions may be restored during the February 2012 legislative session.

LEG – Legislative Administration Committee

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	30,183,274	24,472,822	18,418,435	28,438,846
Other Funds	35,918,079	5,834,962	2,115,390	4,108,685
Other Funds (NL)	502,054	597,932	597,932	597,932
Total Funds	**$66,603,407**	**$30,905,716**	**$21,131,757**	**$33,145,463**
Positions	155	145	145	143
FTE	107.45	99.15	99.01	100.79

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 Non-Branch occupants of the Capitol as the rate imposed by the Department of Administrative Services for occupants of other state buildings. Parking fees and revenue from rentals, pay phones, and vending machines go into the State Capitol Operating Account which is used to partially cover expenses incurred in operating, maintaining, protecting, and insuring the Capitol. A Nonlimited Stores Revolving Account accommodates revenue from retail sales in the Capitol Gift Shop and a Nonlimited Property and Supply Stores Account accommodates revenue from the sale of supplies to legislative agencies.

Budget Environment

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.

Legislatively Adopted Budget

The 2011-13 adopted budget for the Legislative Administration Committee is $3,966,024 General Fund (16.2%) more than the 2009-11 legislatively approved budget. Other Funds are $1,726,277 (26.8%) less than the 2009-11 approved budget. Most of the reduction can be attributed to savings that are no longer available from the Wings Remodel project, which was approved last biennium as a one-time replacement for General Fund debt service.

The LAC budget includes adjustments for the following:

- Funding for the Electronic Bill Documentation System.
- Funds for the purchase of one laptop computer, one desk top computer, and one printer for all legislative members.
- The increase of three session Committee Administrator positions to 24 months to provide more consistent and professional staffing for committees and begin a transition to a permanent professional office of policy and research.
- The increase of four Committee Assistant positions by 1.5 months to accommodate the new even-year session.
- Restoration of all session committee staff to six months.
- Elimination of two long-term vacant positions and reduced funding for temporary appointments.
- Funding for mainframe support of the bill drafting system.

The General Fund budgets of all Legislative Branch agencies were reduced by 3.5% to create a statewide supplemental ending balance. Some or all of those reductions may be restored during the February 2012 legislative session.

LEG – Legislative Counsel

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	8,359,019	7,794,245	9,409,507	8,127,672
Other Funds	1,044,451	2,320,358	1,635,785	1,311,425
Other Funds (NL)	881,044	1,100,000	780,711	780,711
Total Funds	**$10,284,514**	**$11,214,603**	**$11,826,003**	**$10,219,808**
Positions	67	57	57	57
FTE	50.12	45.28	45.28	45.28

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 80% 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.

Legislatively Adopted Budget

The 2011-13 adopted budget for Legislative Counsel is $333,427 General Fund (4.3%) more than the 2009-11 legislatively approved budget. Other Funds are $1,328,222 (38.8%) less than the 2009-11 approved budget, reflecting the use of one-time revenues that were used in the previous biennium to offset General Fund reductions, but are no longer available.

The budget for Legislative Counsel includes all of the branch-wide adjustments that are mentioned in the Overview section.

The General Fund budgets of all Legislative Branch agencies were reduced by 3.5% to create a statewide supplemental ending balance. Some or all of those reductions may be restored during the February 2012 legislative session.

LEG – Legislative Fiscal Office

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	5,433,438	5,760,680	6,582,859	5,596,558
Other Funds	0	97,516	0	0
Total Funds	**$5,433,438**	**$5,858,196**	**$6,582,859**	**$5,596,558**
Positions	22	21	21	**21**
FTE	21.00	20.50	20.50	20.50

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; addresses specific budgetary topics; provides legislative members, agencies, and the public with detailed and summary information as each budget is presented and after it is adopted; and annually reports on the status of all liquidated and delinquent accounts, as well as agency efforts to collect on such accounts.

Revenue Sources and Relationships

The Legislative Fiscal Office is usually completely supported by General Fund. During the 2009-11 biennium the Legislature approved a one-time $100,000 Other Funds expenditure limitation for the purposes of paying for a contract with the National Center for State Courts to study and to identify the best practices around the nation for funding the Judicial Branch, including fee structures. The revenue to support this expenditure was included in HB 2287 (2009).

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.

Legislatively Adopted Budget

The 2011-13 adopted budget for the Legislative Fiscal Office is $164,122 General Fund (2.9%) less than the 2009-11 legislatively approved budget. The Other Funds that were included in the 2009-11 approved budget were one-time in nature and not carried into the current budget.

The budget for Legislative Fiscal Office includes all of the branch-wide adjustments that are mentioned in the Overview section.

The General Fund budgets of all Legislative Branch agencies were reduced by 3.5% to create a statewide supplemental ending balance. Some or all of those reductions may be restored during the February 2012 legislative session.

LEG – Legislative Revenue Office

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	1,783,399	2,084,888	2,354,579	1,903,986
Total Funds	**$1,783,399**	**$2,084,888**	**$2,354,579**	**$1,903,986**
Positions	7	7	7	7
FTE	6.50	7.00	7.00	7.00

Program Description

The Legislative Revenue Office provides staff assistance to the House and Senate Revenue Committees during legislative sessions and to interim revenue committees, task forces, and work groups between sessions. The Office was established in 1975 to provide non-partisan analysis of tax and school-finance issues. The Office prepares research reports and writes revenue impact statements on initiatives, proposed legislation affecting state or local public finance, personal and corporate income taxes, property taxes, consumption taxes, school finance, and distribution of the State School Fund.

Revenue Sources and Relationships

The Legislative Revenue Office is completely supported by General Fund.

Budget Environment

As with other committee staffs, the number of bill introductions and amendments create the workload for the agency during regular and special sessions. Increases in bills and amendments, along with tax-related voter initiatives and legislative referrals, require the staff to write more revenue impact statements. The number of revenue, school finance committee, task force, and workgroup meetings and related research and analysis projects determines the interim workload.

Legislatively Adopted Budget

The 2011-13 adopted budget for the Legislative Revenue Office is $180,902 General Fund (8.7%) less than the 2009-11 legislatively adopted budget.

The budget for Legislative Revenue Office includes all of the branch-wide adjustments that are mentioned in the Overview section.

The General Fund budgets of all Legislative Branch agencies were reduced by 3.5% to create a statewide supplemental ending balance. Some or all of those reductions may be restored during the February 2012 legislative session.

LEG – Commission on Indian Affairs

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	378,980	413,427	455,630	395,270
Other Funds	752	6,280	6,431	6,431
Total Funds	**$379,732**	**$419,707**	**$462,061**	**$401,701**
Positions	2	2	2	2
FTE	2.00	2.00	2.00	2.00

Program Description

The Commission on Indian Affairs 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.

Legislatively Adopted Budget

The 2011-13 adopted budget for the Commission on Indian Affairs is $18,157 General Fund (4.4%) less than the 2009-11 legislatively adopted budget. Other Funds are essentially unchanged.

The budget for Commission on Indian Affairs includes all of the branch-wide adjustments that are mentioned in the Overview section.

The General Fund budgets of all Legislative Branch agencies were reduced by 3.5% to create a statewide supplemental ending balance. Some or all of those reductions may be restored during the February 2012 legislative session.

Judicial Department (OJD) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	310,336,253	284,351,512	297,215,227	359,234,028
Other Funds	44,642,997	84,649,199	70,675,474	24,966,976
Federal Funds	829,955	1,119,163	884,626	850,613
Other Funds (NL)	9,721,566	0	0	0
Total Funds	**$365,530,771**	**$370,119,874**	**$368,775,327**	**$385,051,617**
Positions	2,077	1,891	1,870	1,878
FTE	1,928.35	1,833.14	1,840.78	1,739.20

Agency Overview

The Judicial Department (OJD) includes the judges and administrative staff to operate general-jurisdiction trial or circuit courts, a tax court, an intermediate court of appeals, and a supreme court. Oregon's 36 counties are consolidated into 27 judicial districts. Oregon's Justice, County, and Municipal courts fall outside the jurisdiction of the agency.

In 1983, Oregon's district courts, circuit courts, and appellate courts were unified into a statewide court system. In 1998, district courts were abolished and merge with circuit courts into single unified trial level courts. The Department's other responsibilities include the collection of court-ordered judgments, providing court interpreters, and state court security.

The chief justice appoints the chief judge of the Court of Appeals and the presiding judges of all state trial courts. The chief justice also appoints the state court administrator position, which was officially created in 1971.

The chief justice is the administrative head of the Department and has the authority to make rules and issue orders related to the administrative and procedural operations of state courts. The Judicial Conference, comprised of all elected judges, serves an advisory role. The Department's administrative proceedings are generally not open ot the public.

The Department is unique in many aspects. It has a decentralized structure of independently elected judges and non-unionized employees who are overseen by a single administrative head (i.e., the Chief Justice). Circuit court judges and staff work in county-owned and county-maintained buildings. Each presiding judge exercises a degree of autonomy in prioritizing the budget for local courts depending upon the needs of local jurisdictions.

The Department's 1,878 positions (1,739.20 FTE) are organized into the following program areas:

- ***Judge Compensation*** ($62.9 million, 191.00 FTE) is the personal service costs of the state's 191 statutory judgeships.
- ***Appellate Courts*** ($16.7 million, 84.08 FTE) are the Supreme Court, Court of Appeals, Tax Court (a circuit-level court), and legal support cost.
- ***Trial Courts*** ($183.1 million, 1,257.56 FTE) are the courts of general jurisdiction. A circuit court is located in each of Oregon's 36 counties. Circuit courts are organized administratively into judicial districts. Some of these, primarily rural, districts include more than one circuit court. However, most of the 27 judicial districts comprise a single circuit court.
- ***Administration and Central Support*** ($76.4 million, 147.25 FTE) includes the Office of the State Court Administrator, information systems management, fiscal and human resources management, and centralized state agency assessments.
- ***Revenue Management/Collections*** (not discretely budgeted) is the program for 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.
- ***Mandated Payments*** ($13.4 million, 23.00 FTE) 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.

- ***State Court Facilities Security Account*** ($3 million, 3.90 FTE) provides funding for security improvements, emergency preparedness, and business continuity for Oregon's circuit, appellate, justice, and municipal courts.
- ***Electronic Court*** ("eCourt")($12.5 million, 32.41 FTE) provides funding for a business process reengineering and information technology modernization program.
- ***Debt Service*** ($17 million) provides for debt service on certificate of participation financing used to finance Electronic Court.
- ***Capital Improvements:*** OJD occasionally budgets for Capital Improvements to the Supreme Court Building, the only court facility owed by the state.

Revenue Sources and Relationships

The Judicial Department is funded with 93.3% General Fund, 6.5% Other Funds, and 0.2% Federal Funds.

In the 2011-13 biennium, OJD will generate an estimated $329.8 million in revenue from fines, assessments, forfeitures, filing fees, and individuals' contributions toward their public defense. Compensatory fines and restitution, which are expected to total $25.7 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.

The majority of court-generated revenues are distributed to the Criminal Fines Account, the General Fund, cities, counties, and the Oregon State Bar Association (for Legal Aid Services).

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; and various grants from other state, local, and federal agencies.

The program also received approximately $3.6 million Other Funds in the 2011-13 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).

OJD also has a state agency assessment based on the number of state agency full-time equivalents. This assessment is used to partially fund the State Law Library with the remaining funds being provided by the General Fund. The projected state agency assessment revenue for 2011-13 is $2.3 million. State agency assessment revenue has a General Fund component since some agencies use General Fund to pay their assessment.

The Department is also responsible for 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. After accounting for an administrative fee, 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.

According to the most recent Report on Liquidated and Delinquent Accounts Receivable dated June 2010, the Judicial Department reported that $949.3 million is owed the state. Since 2001, the amount of debt has increased $638.6 million, or 206%. OJD defines its liquidated and delinquent accounts as "…those cases on which no payment has been received within 30 days of the agreed upon payment date." OJD's definition therefore includes deferred payment plan accounts. Approximately 52% of the debt is related to felony convictions, 26% for violations, 19% misdemeanors; and 2% juvenile, and 1% civil. An estimated 33% of the outstanding debt is for restitution and compensation of victims and is included in the Felony and Misdemeanor categories.

Direct Federal Funds come from a grant for a Juvenile Court Improvement Project. The grant has a 25% matching funds requirement. The Department also received grants from the Department of Human Services for the Citizen Review Board, but this federal grant is received and expended as Other Funds.

Budget Environment

The Department has no control over the number of case filings it receives, and has legal restrictions on its ability to manage its caseload. For example, there are clear statutory requirements for speedy trials in criminal matters. If a case is not processed within allowable timeframes, it could be dismissed or could be subject to other prescribed statutory sanctions or relief. 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.

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; crime rates; and the effect of new laws and regulations. Case-types vary in their impact on judicial resources and staff. Criminal felony, misdemeanor, juvenile, and complex civil case types have the greatest workload impact on the judicial and staff resources. Violations and Small Claims cases have a lower impact on resources.

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 successful implementation of the Oregon eCourt Program is viewed as critical to bring the Department forward into the 21st century.

The 2011 Legislature approved significant changes to the state's civil and criminal fee, fines, and assessments (see HB 2710 and HB 2712), which reduce the complexity and cost of revenue tracking and distribution.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $385.1 million is $16.3 million, or 4.4%, more than the Governor's recommended budget and is $14.9 million, or 4%, more than the 2009-11 legislatively approved budget and includes 1,878 positions (1,739.20 FTE). The General Fund portion of the budget totals $359.2 million and is $62 million, or 20.9%, more than the Governor's recommended budget and is $74.9 million, or 26.3%, more than the 2009-11 legislatively approved budget. Other Funds total $25 million and is $45.7 million, or 64.7%, less than the Governor's recommended budget and is $59.7 million, or 70.5%, less than the 2009-11 legislatively approved budget. Federal Funds total $850,613 and is $34,013, or 3.8%, less than the Governor's recommended budget and $268,550, or 24%, less the prior biennium's approved budget. The elimination of the one-time use of temporary court fees and surcharge revenue during the 2009-11 biennium (HB 2287) and the movement of the Revenue Management and Collections program from General to Other Funds explains the Other Funds difference.

OJD's budget is comprised of $292.7 million, or 76%, personal services, $60.3 million, or 15.7%, services and supplies/capital outlay, $15.1 million, or 3.9%, special payments, and $17 million, or 4.4%, debt service.

The budget reflects a reduction of $17.7 million General Fund, $2.2 million Other Funds, and $15,556 Federal Funds for standard reductions that include: a 5.5% reduction to personal service; a 6.5% reduction to services and supplies; the elimination of the standard inflation increase; and an adjustment to state government service charges and assessments charged to most agencies.

The budget was reduced by $9.6 million General Fund and $1.9 million Other Funds and 89 positions (88.14 FTE) to eliminate long-term vacancies that were determined to not be critical for supporting the Department's core program.

The budget also includes a supplemental statewide ending balance holdback adjustment of $11.5 million General Fund. This reduction may be restored later in the biennium depending on statewide economic conditions.

After the close of session, the Legislative Fiscal Office was informed that the Criminal Justice Commission has available approximately $3 million in Federal Funds to backfill General Fund reductions in drug courts. The extent to which General Fund reductions occurred in drug courts is unknown as the Department has yet to submit a detailed reduction plan to the Legislature.

The following analysis of the Judicial Department's budget is done with the understanding that the Legislature has granted the Department a broader autonomy to execute its budget than is normally provided other state agencies in the Judicial Branch or the Executive Branch. This autonomy means that the Department's primary budget bill does not constrain the legal ability of the Department to prioritize the resources provided by the Legislature in a manner that may differ from the understanding of the Legislature when the body approved the Department's budget bill(s).

OJD – Judge Compensation

	2007-09 Actual*	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	0	59,276,169	60,665,120	62,872,712
Total Funds	**$0**	**$59,276,169**	**$60,665,120**	**$62,872,712**
Positions	0	191	191	191
FTE	0.00	191.00	191.00	191.00

** Prior to the 2009-11 biennium, Judicial Compensation was budgeted under the Trial Courts and the Appellate/Tax Courts programs.*

Program Description

The Judge Compensation Program contains the personal service costs (salary and wages plus other payroll expenses) of the 191 statutory judgeships in Oregon. These include 173 circuit court judges, one tax court judge and three magistrates, ten Court of Appeals justices, and seven Supreme Court justices. The judges of the Supreme Court, Court of Appeals, and Tax Court are elected by voters in nonpartisan statewide elections for six-year terms. The judges of the circuit court are elected by voters in nonpartisan judicial district elections for six-year terms. The Chief Justice, selected by members of the Supreme Court, serves as the administrative head of the Judicial Department.

Judicial salaries, as with most other elected official's salaries, are set in statute and therefore any change, including a cost-of-living-allowance, requires legislative action. The last time such salaries were increased was during the 2007 biennium when judicial compensation was increased by approximately $8.5 million, or 19.5%. During the 2009 biennium the Public Officials Compensation Commission's recommendation to increase judicial compensation by an additional $8.3 million, or 15%, above the current statutory amount, was not approved by the Legislature. The 2011 Legislature also made no change to elected official salaries.

The annual salaries of Oregon's state judges, which totals $44.7 million, is detailed in the below table.

Statutory Judgeship	Annual salary* ORS 292.405-425
Chief Justice	$128,556
Supreme Court Justice	$125,688
Appellate Court Chief Judge	$125,688
Appellate Court Justice	$122,820
Tax Court judge	$118,164
Circuit court judge	$114,468

(*excludes other payroll expenses discussed below)

In addition to their annual salaries, judicial compensation also includes "other payroll expenses (OPE)," which totals $20.3 million, or 31.2% of total compensation, and is calculated based on a judge's annual salary. OPE is primarily comprised of a retirement benefit, a health benefit, and a social security contribution. A judge's retirement benefit is defined by statute (ORS 238).

The segregation of the compensation of judges from the Department's operating budget is important because Article VII, Section 1, of the Oregon Constitution prohibits any reduction in the compensation of judges during the term for which they are elected. Compensation in this context includes the OPE expense of a judge. This prohibition means that any General Fund reduction for the Department falls disproportionately on administrative and support staff.

A 2008-09 Joint Committee on Oregon Trial Court Judicial Resources provided the most recent review of the need for new judgeships.

Budgetarily, the Department includes the costs for non-statutorily established judgeships, such as temporary or pro-tem judges, and 50 senior or "Plan B" semi-retired judges, and judicial referees, within the budgets for the Appellate Courts, Trial Court, and the Administration and Central Support Programs rather than under this program area. The services and supplies supporting each statutory judgeship also reside within these programs.

Revenue Sources and Relationships

Statutory judgeships are funded with General Fund.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $62.9 million is $2.2 million, or 3.6%, more than the Governor's recommended budget and is $3.6 million, or 6%, more than the 2009-11 legislatively approved budget and includes 191 positions (191.00 FTE). The budgetary increase in the Judicial Compensation relates to an increase in Other Payroll Costs as the statutorily established salaries were unchanged.

Due to Article VII, Section 1, of the Oregon Constitution, statutory judgeships are not subject to mandatory furlough days taken by the Department's administrative staff.

The budget includes a supplemental statewide ending balance holdback adjustment of $2.1 million General Fund. This reduction may be restored later in the biennium depending on statewide economic conditions. While as noted the Oregon Constitution prohibits any reduction in the compensation of judges during the term for which they are elected, the Judicial Compensation program can accrue budget savings from vacant judicial positions that can be disappropriated by the Legislature without impacting judge compensation or service levels.

OJD – Appellate and Tax Courts

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	23,150,636	14,274,249	14,274,249	15,702,968
Other Funds	2,971,710	1,327,095	1,051,256	963,619
Total Funds	**$26,122,346**	**$15,601,344**	**$15,325,505**	**$16,666,587**
Positions	124	86	86	88
FTE	119.61	79.85	79.85	84.08

Program Description

The Appellate and Tax Courts program includes the Oregon Supreme Court and the Court of Appeals. The Supreme Court consists of seven justices elected to serve 6-year terms. The Court of Appeals, which was statutorily created in 1969, consists of ten judges who hear appeals from trial courts, agencies, and boards. The administrative head of the Court of Appeals is the Chief Judge, who is appointed by the Chief Justice.

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 Judge.

The Court of Appeals has an Appellate Settlement Conference Program that mediates some civil, domestic relations, and workers' compensation cases.

The Appellate and Tax Court Program, also includes the Tax Court, which is a circuit court level court that is located in Salem. Currently, there is one Tax Court judge who hears matters arising from Oregon tax law and appeals from the Tax Magistrate Division. A Tax Magistrate Division was created in 1997 to replace the informal administrative tax appeals process conducted by the Department of Revenue. The Tax Magistrate Division has four magistrates. The Tax Court has exclusive, statewide jurisdiction for all matters related to state tax laws, including income taxes, corporate excise taxes, property taxes, timber taxes, cigarette taxes, local budget law, and property tax limitations.

Revenue Sources and Relationship

The Appellate and Tax Court program is predominately funded with General Fund, but includes some Other Funds revenue.

Budget Environment

The following table contains historic case filing data for the Appellate and Tax courts. Case filings in 2010 for the Supreme Court and the Court of Appeals have fallen from the prior year and either are or are approaching their nine-year lows; 2010 Tax Court – Magistrate Division caseloads have also fallen from the prior year. Only 2010 Tax Court – Regular Division caseload have experienced a nominal increase in case filings.

Appellate and Tax Court Historic Case Filings by Calendar Year

Court-Type	2002	2003	2004	2005	2006	2007	2008	2009	2010
Supreme Court	939	1,028	999	1,062	1,347	1,274	1,321	1,368	1,001
Court of Appeals	3,277	3,314	3,677	3,801	3,517	3,312	3,220	3,385	3,089
Tax Court Regular Division	47	55	39	43	27	26	73	50	53
Tax Court Magistrate Division	1,245	1,047	1,184	1,021	827	915	1,237	1,641	1,370

The Appellate Settlement Conference Program mediated approximately 144 cases, with a settlement of approximately 105 cases (73%). The program's caseload is down from the 150 filings it received the prior year, which has a 70% settlement rate.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $16.7 million is $1.3 million, or 8.8%, more than the Governor's recommended budget and is $1.1 million, or 6.8%, more than the 2009-11 legislatively approved budget and includes 88 positions (84.08 FTE). The General Fund portion of the budget totals $15.7 million and is $1.4 million, or 10%, more that than the Governor's recommended budget and the 2009-11 legislatively approved budget. Other Funds total $963,619 and is $87,637, or 8.3%, less that than the Governor's recommended budget and is $364,476, or 27.4%, less than the 2009-11 legislatively approved budget.

The program's budget is comprised of $16.2 million (97.4%) personal services and $438,553 (2.6%) services and supplies/capital outlay.

The budget was reduced by $1.5 million General Fund and $27,928 Other Funds and 10 positions (9.37 FTE) to eliminate long-term vacancies that were determined to not be critical for supporting the Department's core program.

In order to simplify the budget structure, the program's revenue management/collections activities were transferred back to the General Fund from Other Funds. This resulted in a $1,890 increase in General Fund with a corresponding reduction in Other Funds. This action had no effect on positions or FTE within the program. The program's Appellate Mediation was also shifted from Other Funds to General Fund. This resulted in a $140,000 increase in General Fund.

The budget reflects a reduction of $1 million General Fund and $57,819 Other Funds for standard reductions that include: a 5.5% reduction to personal service; a 6.5% reduction to services and supplies; and the elimination of the standard inflation increase.

The budget includes a supplemental statewide ending balance holdback adjustment of $587,425 General Fund. This reduction may be restored later in the biennium depending on statewide economic conditions.

OJD – Trial Court Operations

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	225,091,697	148,596,297	156,431,635	178,470,588
Other Funds	18,193,497	41,680,710	22,578,856	4,639,224
Federal Funds	5,514	0	0	0
Other Funds (NL)	223,439	0	0	0
Total Funds	**$243,514,147**	**190,277,007**	**$179,010,491**	**$183,109,812**
Positions	1,730	1,432	1,432	1,385
FTE	1,594.39	1,406.83	1,406.83	1,257.56

Program Description

Trial Court Operations includes the funding and operations of all state trial courts (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. One circuit court, Multnomah, also operates as the municipal court for City of Multnomah parking violations.

Revenue Sources and Relationships

The circuit courts are primarily funded with General Fund. Other Funds revenue includes transfers from the Public Defense Services Commission for a portion of the Application Contribution Program, which is used for verification of eligibility for public defense representation in Trial Courts.

Budget Environment

In calendar year 2010, caseloads totaled 565,397 cases across nine major case-categories.[i] This is close to the 20 year low of 555,141 cases in 1994 and significantly below the high of 655,574 cases in 2003. The types of cases filed in circuit courts has changed over the last 20 years as fewer violations and criminal cases are being filed while the number of Civil and Small Claims cases are increasing.

Case-Type by Calendar Year	1990 to 2010 Average	2000 to 2010 Average	2005 to 2010 Average	2010 Caseload
Civil	76,060	84,686	93,874	99,000
Small Claims	64,683	71,232	76,118	74,573
Domestic Relations	51,501	47,699	46,088	46,425
Felony	33,481	35,304	32,364	29,444
Misdemeanor	65,254	64,156	62,960	60,294
Violations	285,795	276,816	249,869	221,974
Juvenile	18,971	17,853	16,845	15,229
Civil Commitments	6,974	8,236	8,674	8,529
Probate	10,136	10,029	10,006	9,929
Total	612,809	615,982	596,797	565,397

[i] These figures do not include parking violation cases in Multnomah Circuit Court.

Oregon has been operating specialty courts for over two decades. Such courts have become a significant component of the Department's service delivery model and as such have a significant budgetary impact. Specialty courts perform a unique function that is separate and distinct from the adjudicatory functions of the courts. Nationally, specialty courts have experienced almost exponential rates of growth since the mid-1990s. There are eight types of specialty courts that have been established: drug; driving under the influence; family; community; domestic violence; mental health; clean slate; and early resolution. There are 53 individual specialty courts operating in all but two of the state's 27 judicial districts (exceptions: Lake and Tillamook Counties). The budget for these courts totals approximately $4.4 million (57 positions/30.84 FTE) and is funded with General Fund (85%), Criminal Justice Commission grants from the federal government (12%), and county government (3%).

As noted, after the close of session, the Legislative Fiscal Office was informed that the Criminal Justice Commission has available approximately $3 million in Federal Funds to backfill General Fund reductions in drug courts. The extent to which General Fund reductions occurred in drug courts is unknown as the Department has yet to submit a detailed reduction plan to the Legislature.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $183.1 million is $4.1 million, or 2.3%, more than the Governor's recommended budget and is $7.2 million, or 3.8%, less than the 2009-11 legislatively approved budget and includes 1,385 positions (1,257.56 FTE). The General Fund portion of the budget totals $178.5 million and is $22 million, or 14.1%, more that than the Governor's recommended budget and is $29.9 million, or 20.1%, more than the 2009-11 legislatively approved budget. Other Funds total $4.6 million and is $17.9 million, or 79.5%, less that than the Governor's recommended budget and is $37 million, or 88.9%, less than the 2009-11 legislatively approved budget. The elimination of the one-time use of temporary court fees and surcharge revenue during the 2009-11 biennium (HB 2287) and the movement of the Revenue Management and Collections program from General to Other Funds explains the Other Funds difference.

The program's budget is comprised of $171.5 million (93.7%) personal services and $11.6 million (6.3%) services and supplies/capital outlay.

The budget was reduced by $7.8 million General Fund and $1.9 million Other Funds and 77 positions (76.77 FTE) to eliminate long-term vacant positions that were determined to not be critical for supporting the Department's core program.

In order to simplify the budget structure, the program's revenue management/collections activities were from transferred back to the General Fund from Other Funds. This resulted in a $14.9 million increase in General Fund with a corresponding reduction in Other Funds. This action had no effect on positions or FTE within the program.

The budget reflects a reduction of $10.9 million General Fund and $1.2 Other Funds for standard reductions that include: a 5.5% reduction to personal service; a 6.5% reduction to services and supplies; and the elimination of the standard inflation increase.

The budget includes a supplemental statewide ending balance holdback adjustment of $6.2 million General Fund. This reduction may be restored later in the biennium depending on statewide economic conditions.

OJD – Administration and Central Support

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	45,101,538	38,190,543	40,893,252	70,326,703
Other Funds	12,891,290	26,753,773	19,337,604	5,195,049
Federal Funds	824,441	1,119,163	884,626	850,613
Other Funds (NL)	9,498,127	0	0	0
Total Funds	**$68,315,396**	**$66,063,479**	**$61,115,482**	**$76,372,365**
Positions	203	100	100	152
FTE	194.20	105.54	105.54	147.25

Program Description

The State Court Administrator serves under the direction of the Chief Justice of the Supreme Court. The State Court Administrator is responsible for the centralized functions of the Oregon courts system. The Office of the State Court Administrator is divided into the following eight divisions:

- 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 Citizens Review Board; the Interpreter Certification program; revenue management; the Supreme Court building; internal auditing; the administration of the Appellate Court Records Office; and the Supreme Court library. Centralized assessments and costs to state agencies are also managed and paid by this office.

Revenue Sources and Relationship

The program is predominately funded with General Fund, but includes the following Other and Federal Fund revenue sources:

- Department of Human Services for the Citizen Review Board (est. $1.2 million)
- Revenue from the sale and distribution of court publications (est. $1 million)
- Fees charged for public access to the Oregon Judicial Information Network (est. $3.2 million)
- Law Library Assessments ($1.7 million)
- Transfers from the Public Defense Services Commission to pay for the Application Contribution Program ($3.6 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 ($850,613)

Budget Environment

The State Court Administrator and staff provide centralized legal, analytical, business, and administrative support for the Department, which is challenging given the decentralized structure of the Department and the aging information technology infrastructure on which decision-making must rely.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $76.4 million is $15.3 million, or 25%, more than the Governor's recommended budget and is $10.3 million, or 15.6%, more than the 2009-11 legislatively approved budget and includes 152 positions (147.25 FTE). The General Fund portion of the budget totals $70.3 million and is $29.4 million, or 72%, more that than the Governor's recommended budget and is $32.1 million, or 84.1%, more than the 2009-11 legislatively approved budget. Other Funds total $5.2 million and is $14.1, or 73.1%, less that than the Governor's recommended budget and is $21.6 million, or 80.6%, less than the 2009-11 legislatively approved budget. Federal Funds total $850,613 and is $34,013, or 3.8%, less than the Governor's recommended budget and $268,550, or 24%, less the prior biennium's approved budget. The elimination of the one-time use of temporary court fees and surcharge revenue during the 2009-11 biennium (HB 2287) and the movement of the Revenue Management and Collections program from General to Other Funds explains the Other Funds difference.

The program's budget is comprised of $31.2 million (40%) personal services, $27.3 million (35.8%) services and supplies, $2.7 million (3.6%) capital outlay, and $15.1 million (19.7%) special payments.

The budget was reduced by $139,885 General Fund and 1 position (1.00 FTE) to eliminate a long-term vacant position that was determined to not be critical for supporting the Department's core program.

In order to simplify the budget structure, the program's revenue management/collections activities were from transferred back to the General Fund from Other Funds. This resulted in a $4 million increase in General Fund for personal services and $9.3 million for third-party collection costs with a corresponding reduction in Other Funds. This action had no effect on position or FTE within the program.

The administrative portion of the Court Interpreter Services program was transferred from the Administration and Central Support Program to the Mandated Payment program ($637,614, four positions/3.50 FTE).

The budget reflects a reduction of $4.1million General Fund, $806,778 Other Funds, and $18,464 Federal Funds for standard reductions that include: a 5.5% reduction to personal service; a 6.5% reduction to services and supplies; the elimination of the standard inflation increase; 2009-11 reduction roll-ups; and reductions to state government service charges and assessments.

The budget includes $15.1 million in special payments for County Law Libraries ($7.4 million), county Conciliation and Mediation Services ($7.4 million), Oregon Law Commission ($223,000), and the Council on Court Procedures ($52,000).

The budget includes a supplemental statewide ending balance holdback adjustment of $1.6 million General Fund. This reduction may be restored later in the biennium depending on statewide economic conditions.

OJD – Mandated Payments

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	14,645,050	13,351,930	13,851,930	12,889,400
Other Funds	0	475,000	550,247	535,335
Total Funds	**$14,645,050**	**$13,826,930**	**$14,402,177**	**$13,424,735**
Positions	20	20	20	23
FTE	20.15	19.65	19.65	23.00

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 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.

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $13.4 million is $977,442, or 6.8%, less than the Governor's recommended budget and is $402,195, or 2.9%, less than the 2009-11 legislatively approved budget and includes 23 positions (23.00 FTE). The General Fund portion of the budget totals $12.9 million and is $962,530, or 6.9%, less that than the Governor's recommended budget and is $462,530, or 3.5%, less than the 2009-11 legislatively approved budget. Other Funds total $535,335 and is $14,912, or 2.7%, less that than the Governor's recommended budget and is $60,335, or 12.7%, more than the 2009-11 legislatively approved budget.

The program's budget is comprised of $3.6 million (26.5%) personal services and $9.9 million (73.5%) services and supplies.

The budget was reduced by $150,900 General Fund and 1 position (1.00 FTE) to eliminate a long-term vacant position that was determined to not be critical for supporting the Department's core program.

The administrative portion of the Court Interpreter Services program was transferred from the Administration and Central Support Program to the Mandated Payment program ($637,614, four positions/3.50 FTE).

The budget reflects a reduction of $1.2 million General Fund and $14,912 Other Funds for standard reductions that include: a 5.5% reduction to personal service; a 6.5% reduction to services and supplies; the elimination of the standard inflation increase; and reductions to state government service charges and assessments.

The budget includes a supplemental statewide ending balance holdback adjustment of $472,992 General Fund. This reduction may be restored later in the biennium depending on statewide economic conditions.

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.

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 also works with DOR to intercept state tax refunds, including intercepting "kicker" checks.

In the closing days of the 71st legislative session (2001), the Legislature transferred the collections program from the General Fund to Other Funds revenue from OJD collections. The 2011 Legislature moved the program back to the General Fund (see HB 2710), in order to simplify the budget process in the trial courts.

Revenue Sources and Relationships

In the 2011-13 biennium, OJD will generate an estimated $329.8 million in revenue from fines, assessments, forfeitures, filing fees, and an individual's contribution toward their public defense.

The majority of the revenue collected will either be transferred directly to the General Fund or the Criminal Fines Account, with the exception of $11.9 million which will be transferred in quarterly increments into a Legal

Aid Services account. Entities who have historically received court revenue transfers now received their funding through the budget process with General Fund appropriations (see HB 5056).

Legislatively Adopted Budget

The actual budget and full-time equivalent authority for this program resides under the Trial Court, Administration and Central Support, and Appellate/Tax Courts budget structures. The 2011-13 legislatively adopted budget for the collections component of these budgets totals $28.2 million General Fund (0 positions/135.02 FTE). The budget is comprised of $18.8 million personal services, $158,985 services and supplies, and $9.3 million in third party collections, which is also budgeted as services and supplies.

OJD – State Court Facilities Security Account

	2007-09 Actual*	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
Other Funds	0	3,217,440	3,147,511	3,033,749
Total Funds	**$0**	**$3,217,440**	**$3,147,511**	**$3,033,749**
Positions	0	6	6	4
FTE	0	5.50	5.50	3.90

** The programs activities for the 2007-09 biennium were budgeted and expended under the Administration and Central Support Program.*

Program Description

The 2005 Legislature established a State Court Facilities Security Account (SCFSA) within the Oregon Judicial Department (OJD). Revenue for the account is derived from an increase in circuit, municipal, and justice court (non-unitary) assessments. By statute, account proceeds may be used to provide security in buildings that contain or are utilized by the Supreme Court, Court of Appeals, Oregon Tax Court, or the Office of the State Court Administrator (SCA). Additionally, expenditures may be made for developing and implementing a plan for state court security improvement, emergency preparedness, business continuity, and statewide training on state court security. Any funds in the SCFSA that are not needed for the above purposes may be used to fund plans for circuit courts, justice courts, and municipal courts.

The Judicial Department 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 outlines a five year action plan for staffing and capital expenditures. The 2007-09 interim Committee on Court Facilities also examined and reported on the issue of circuit courthouse security.

The 2011 Legislature expanded the use of the account to include court facilities (see HB 2712).

Revenue Sources and Relationships

Beginning with the 2011-13 biennium, the account received an initial allocation of funding from the Criminal Fines Account of $10.8 million. This includes an allocation of $2.9 million for state court security, $4.7 million for local court security (formerly part of the county assessment and deposited directly into local court security accounts), and $2.3 million for court facilities.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $3 million is $113,762, or 3.6%, less than the Governor's recommended budget and is $183,691, or 5.7%, less than the 2009-11 legislatively approved budget and includes 4 positions (3.90 FTE). This does not include expenditure limitation for the $2.3 million in court facilities revenue that will be raised during the 2011-13 biennium. Legislative approval of any additional expenditure limitation is dependent upon the submission of a court facilities recommendation by a legislative advisory committee (See HB 2712 budget note).

The program's budget is comprised of $727,035 (24%) personal services, $2.4 million (76%) services and supplies/capital outlay.

The budget reflects a reduction of $113,762 Other Funds for standard reductions that include: a 5.5% reduction to personal service; a 6.5% reduction to services and supplies; and the elimination of the standard inflation increase.

OJD – Electronic Court (eCourt)				
	2007-09 Actual	**2009-11 Legislatively Approved**	**2011-13 Governor's Recommended**	**2011-13 Legislatively Adopted**
General Fund	2,347,332	0	0	2,000,000
Other Funds	10,171,500	10,850,181	23,504,184	10,500,000
Total Funds	**$12,518,832**	**$10,850,181**	**$23,504,184**	**$12,500,000**
Positions	0	27	35	35
FTE	0.00	7.60	32.41	32.41

Program Description

The Oregon eCourt Program is the estimated seven year project 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.

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, as well as the Oregon Supreme Court, Court of Appeals, and the Tax Court. The complexity of revising (and gaining acceptance) of business practices equals, if not exceeds, its high technical complexity.

The eCourt Program is estimated to take a total of seven years and be completed by end of the 2013-15 biennium at an estimated development cost of $90 million, according to the Judicial Department.

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 (e.g., State Court Facilities Security Assessment).

The program carries forward over $12 million of cash from the 2009-11 biennium.

OJD has indicated that it may impose some type of fees to pay for maintenance, upgrades, development, and system replacement. However, a legal question exists as to whether the Chief Justice has the statutory authority to impose charges for eCourt and how those "charges" might differ from "fees." The Legislature may need to address the issue of the establishment of system fees, in addition to standard filing fees, once the eCourt Program is operational.

Budget Environment

The Oregon eCourt Program has a troubled history of program deficiencies since its official launch in July of 2007 when the Legislature first approved funding for the program. The Emergency Board, the Legislature, and the Department's own independent Quality Assurance (QA) firm have found numerous deficiencies in the planning and execution of the Oregon eCourt program.

The Legislature has directed the Department to remedy the long standing deficiencies of the program and reduce unnecessary program risks. The 2009 Legislature provided approximately $1.1 million in new funding for remediation. This was in addition to the over $1.6 million in initial planning funds. This costly remediation effort proved unsuccessful and ultimately led to a series of implementation strategy changes by the Department. To-date, OJD has had six different Oregon eCourt implementation strategies over the course of the last four years.

To date, two key components of the Oregon eCourt Program that were implemented in five pilot courts at significant expense to the state, Electronic or Enterprise Content Management and eFiling, failed and must be replaced. Until replaced, these two applications require the Department to pay vendors maintenance costs.

In December 2010, OJD presented the Emergency Board with the current Oregon eCourt "Single Source Provider" (SSP) strategy. After the vendor was selected, the SSP strategy was modified from the plan presented to the Emergency Board. The revised strategy reduced the number of pilot courts from two to one and added a statewide e-payment component. The vendor will provide the e-payment technology, will negotiate with OJD to establish the fees, and will retain any profits that accrue from these on-line payments. The Chief Justice and Co-Chairs of the Joint Committee on Ways and Means entered into an agreement that limits the e-payment project to a budget of no more than $200,000.

A March 2011 quarterly QA report (almost four years after the official eCourt launch) contained another highly critical assessment of the status of OJD's eCourt Program planning and performance. The QA identified problems and risks associated with eCourt strategies, readiness, ability, performance, risk management, governance, and financial stewardship, which OJD has not yet addressed. The QA's findings were confirmed with an independent program review conducted by the Legislative Fiscal Office in conjunction with the Department.

Overall, deficiencies of the magnitude detailed in the QA report(s) and the Legislative Fiscal Office analysis would ordinarily result in the discontinuance of the program by the Legislature. The Legislature, however, recognized that the critical need for the program and that it should proceed, albeit with greater involvement by the Legislature. This same concern was shared by the Chief Justice, which ultimately lead to an agreement between legislative leadership and the Chief Justice on a detailed remediation plan as part of the ongoing funding evaluation of the program (See HB 5516 budget report).

The remediation plan is meant to address long-standing deficiencies of the program as identified by the QA, including the development of a budget and schedule, and provide updated planning documentation that is standard for any major information technology project. The remediation plan is be substantially completed by February 2012, at which time the 2012 Legislature will evaluate any request for additional funding.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $12.5 million is $11 million, or 46.8%, less than the Governor's recommended budget and is $1.7 million, or 15.2%, more than the 2009-11 legislatively approved budget and includes 35 positions (32.41 FTE). The General Fund portion of the budget totals $2 million and is a 100% increase over the Governor's recommended budget and the 2009-11 legislatively approved budget (General Fund is also being expended under various Operating Programs). Other Funds total $10.5 million and is $13 million, or 55.3%, less that than the Governor's recommended budget and is $350,181, or 3.2%, less than the 2009-11 legislatively approved budget.

A budget note states that Legislature does not authorize the Department to expend $3 million of Other Funds expenditure limitation related to a bond sale in the fall of 2011 until the Chief Justice and Co-Chairs' agreement on a remediation plan has been completed and submitted to the Legislature in February 2012. Another budget note directs the Department to submit a report on all General Fund expenditures related to the program, including the $2 million approved in the 2011-13 legislatively adopted budget.

The program's budget is comprised of $6.6 million (52%) personal services, $2.9 million (24%) services and supplies, and $3 million capital outlay (24%).

OJD – Debt Service

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	0	10,662,324	11,009,041	16,971,657
Other Funds	0	345,000	505,816	100,000
Total Funds	**$0**	**$11,007,324**	**$11,604,857**	**$17,071,657**

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. The Department's debt service is related exclusively to the Oregon eCourt Program.

Revenue Sources and Relationships

The Department's debt service is currently funded with General Fund. In the future there exists the opportunity to fund part of eCourt debt service with Other Funds revenue generated from eCourt transaction charges and Revenue Management funds.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget of $17.1 million is $5.5 million, or 47.1%, more than the Governor's recommended budget and is $6.1 million, or 55.1%, more than the 2009-11 legislatively approved budget.

The budget includes a supplemental statewide ending balance holdback adjustment of $529,273 General Fund. This reduction may be restored later in the biennium depending on statewide economic conditions.

OJD – Capital Improvement/Capital Construction

Program Description

This program provides for capital improvements and construction to existing facilities. Capital Improvement projects are those with a total cost of less than $1 million.

The agency owns a single building which 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 the private firm that was undertaking the State Court Facilities Assessment of 48 county-owned circuit court buildings to perform a similar assessment of the Supreme Court Building. This assessment reported an estimated total cost of $19.2 million (excluding some additional items that the Department would likely add), for renovation of the Supreme Court Building. 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.

Revenue Sources and Relationships

The Department's Capital Improvement, or deferred maintenance, budget is typically funded with General Fund. During the 2007-09 biennium, however, the Legislature provided the Department with $415,000 Other Funds financed with certificates of participation and General Fund debt service (under the Department of Administrative Services) to replace the roof on the Supreme Court Building.

The Appellate Court Services Division, under the Administration and Central Support Program Areas, is responsible for the Supreme Court Building Service Section.

Legislatively Adopted Budget

The Department's legislatively adopted budget did not include any Capital Improvement or Capital Construction projects for the Supreme Court Building as the Department did not submit a request for funding.

The Legislature directed by budget note that a State Court Facilities Advisory Committee be established to prioritize the courthouse facility improvements across the state and then provide a recommendation to the Legislature in 2012 regarding which projects should be funded (HB 2712). This Committee will rely upon the most recent courthouse facilities assessment (completed in 2008) and look at any changes since that assessment was produced. For example, the 2009 Legislature authorized the issuance of $12 million in lottery bonds for court facility improvements (see SB 5536 and HB 5054). In future biennia, the Chief Justice will be responsible for submitting a list of recommended projects as part of the Judicial Department's regular budget process.

The amount of facility funds available has been estimated at $3.2 million ($3 that was added to each civil fee and criminal fine). The Judicial Department will need Other Funds expenditure limitation for its State Court Facilities Security Account in order to spend the funds.

Commission on Judicial Fitness and Disability – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	160,475	157,988	178,929	183,353
Total Funds	**$160,475**	**$157,988**	**$178,929**	**$183,353**
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. This code was last amended in July of 2011 by Chief Justice Order. The Commission does not have formally approved administrative rules, but has rules of procedure.

Major updates to the Code of Judicial Conduct are reviewed by the Judicial Conference, which is comprised of all state court judges, and then approved by the Oregon Supreme Court. The Code of Judicial Conduct can also be updated by Chief Justice Order, as noted above. Thus, the Supreme Court is charged not only with promulgating the Code, but also with the review and approval of Commission recommendations.

The Commission has jurisdiction over the following categories of judges: justices of the peace (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 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. Also, the Commission considers all its proceedings, including those pertaining to administrative matters, non-public.

The Commission receives approximately 250 written complaints each biennium. A significant number of the complaints involve the legal determination of a judge, and after initial review by the Commission, are dismissed because they fall outside the Commission's statutory authority to investigate judicial misconduct. Those complaints that are within its statutory authority are initially investigated. If there is sufficient evidence in support of a complaint, a formal investigation is conducted by outside counsel hired by the Commission. The outcome of the investigation could lead to the dismissal of a complaint, an informal disposition by the Commission, or a formal charge leading to prosecution. For a formal charge, a public hearing is held, the outcome of which is either the judge's exoneration or a recommendation by the Commission to the state's Supreme Court to censure, suspend, or remove the subject judge. The Supreme Court's determination on the Commission's recommendation is a final decision, but may be appealed to the U.S. Supreme Court. At any point in the process, a judge may resign, retire, or enter into a stipulated agreement with the Commission by agreeing to the recommended sanction. All stipulated agreements must be approved by the Supreme Court. 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 generally 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.

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 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 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 particular note is that during the 2007-09 and the 2009-11 biennia, the Commission did not expend any of its regularly budgeted extraordinary expenditures.

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 would be to have the Commission acquire services from the Department of Administrative Services, Shared Client Services.

The Commission, as an independent agency within 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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget (LAB) of $183,353 is $4,424, or 2.5%, more than the Governor's recommended budget and is $25,365, or 16.1%, more than the 2009-11 legislatively approved budget and includes one position (0.50 FTE).

The budget has standard reductions of $11,695 General Fund including: a 5.5% reduction to personal services; a 6.5% reduction to services and supplies; the elimination of the standard inflation increase; the prior biennium allotment reduction roll-up; and an adjustment to state government service charges and assessments charged to most agencies. The budget also includes a supplemental statewide ending balance holdback adjustment of $6,263. This reduction may be restored later in the biennium depending on statewide economic conditions.

The budget is comprised of $121,572 for personal services (66.3%) and $61,781 for services and supplies (33.7%). Of these amounts, $164,551 is for normal or day-to-day operations and $18,847 is budgeted for extraordinary expenses, if needed.

Public Defense Services Commission (PDSC) – Agency Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	211,417,131	211,391,731	209,764,161	222,524,924
Other Funds	1,054,057	12,861,974	468,312	1,192,555
Total Funds	**$212,471,188**	**$224,253,705**	**$210,262,473**	**$223,717,479**
Positions	72	69	83	76
FTE	70.15	69.00	81.84	75.40

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 within 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 across the state approximately once 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."

The Commission is organized into three divisions:

- ***Appellate Division*** ($12.2 million, 59.44 FTE) consists of public defense attorneys who represent eligible persons at the appellate court level. The Appellate Division is responsible for providing appellate representation on criminal matters, juvenile dependency and termination of parental rights cases, and parole cases. This is accomplished primarily through the use of staff attorneys. The division is the counterpart to Oregon's Attorney General's appellate division.
- ***Public Defense Services Account*** ($208.3 million, 0.00 FTE) consists of the funding, primarily at the trial court level, for contract defense services, including attorneys, investigators, and expert witnesses.
- ***Contract and Business Services Division*** ($3.3 million, 15.96 FTE) 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.

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.

Oregon statute broadly defines who is financially eligible for public defense. Each applicant for state-paid representation is required to provide a verified financial statement detailing income, assets, debts, and dependents. This process is administered by Verification Specialists employed by the Oregon Judicial Department. Verification Specialists assist judges in their decision whether to appoint state-paid counsel. A person is presumed eligible for services if the applicant's income is less than or equal to the eligibility level for the federal food stamp program unless the applicant has liquid assets that could be used to hire an attorney. If an applicant 's income exceeds food stamp standards, the applicant is eligible for state-paid counsel only if the applicant's income and liquid assets are determined to be insufficient to hire an attorney suitable for the type of case pending against the applicant.

Public defense at the trial court level is accomplished primarily through a state-funded and state-administered competitive contracting system that is on a two-year cycle (January to December). The Commission contracts with over 100 nonprofit public defend offices, private law firms, consortia of attorneys or law firms, or individual attorneys. Legal representation on criminal matters for eligible persons at the appellate court level is primarily handled by attorneys who are employees of the Commission.

The costs of "non-routine" expenses for primarily investigators, but also forensic and medical services or experts, is typically paid directly by the Commission after a court-appointed attorney receives pre-approval. The Commission has approximately ten contracts with non-attorney providers including one with a private forensics laboratory. Some public defender contracts, however, do include a provision for investigators.

Budget Environment

The Commission has no legal authority to control the number of public defense cases it receives nor does it have the authority to prioritize case-types.

The quality of legal representation for eligible persons is dependent 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.

PDSC undertakes extensive public defense delivery system reviews and investigations in cooperation with local public defense contractors, Circuit Court Judges, District Attorneys, and other local justice system representatives. PDSC prepares service delivery plans for each judicial district or county. The plans help to establish a cost-effective delivery system unique to each locale, but which includes the best practices from around the state. PDSC also routinely performs quality assurance assessments of providers in each judicial district.

Contract and Hourly Rates

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.[ii] 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, private law firms, neighboring states, and the federal government's public defense system. 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%)

The table on the following page shows an estimate of the increase that would be required to achieve ultimate parity with other public and private attorneys. For attorneys, parity would mean an increase of over 50% in current guideline rates. Investigators would require a 15% to 25% rate increase for parity.

[ii] The Commission only increases hourly rates administratively after the Legislature has approved a policy package that provides additional funding for the Commission. In the last 16 years (1991 to 2007), there has only been one administrative change and funding enhancement.

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, staff in public defense organizations are paid approximately 21% 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, who are represented by a union. The recruitment and retention of qualified attorneys is made more difficult with per-attorney caseloads 30% above national caseload standards and those of comparable agencies. Compensation parity remains an issue and continues to impact the quality of representation as more experienced defenders are able to move to higher paying jobs within the legal community.

The economic downturn as it affects the legal community may increase the competition for public defense service contracts as individuals and law firms that previously have not provide such defense services seek a new revenue source. While competition may drive down contractual costs and per-case costs, its impact on the quality of representation remains a question. Public defender organizations may experience less difficulty attracting new attorneys and retaining experienced attorneys in the current economy even though their payment rates are low and caseloads are high.

A consequence of the economic downturn is its potential adverse impact on the public safety system as declining resources impact local law enforcement, prosecutions, public defense, the courts, and corrections. As a result, there could be three types of reductions to the Public Defense Services Account:

1) ***Enforcement/Prosecution/Court Effects***: There could 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 becomes financially eligible for services.
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.

Over the course of the last two biennia, the Legislature has disappropriated General Fund savings that were the result of reduced demand for services. Uncertainty, however, exists around future demand for services.

The demand for public defense services also includes demographic factors, such as population growth and crime rates.

The state has a constitutional obligation to provide counsel for eligible persons, and to provide for timely adjudication. If insufficient funding or court closures result in violation of these constitutional provisions, the court must dismiss the case and release the person. In the absence of any prioritization and adequate public defense funding, the courts would need to dismiss cases. This would mean reduced 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 deferrals of public defense cases.

Revenue Sources and Relationships

PDSC is funded with 99% General Fund and 1% Other Funds. Since 2001-03, PDSC has historically received 1.6% of the statewide General Fund resources.

The General Fund has historically supported the Commission with a relatively nominal amount of Other Funds revenue from the Application Contribution Program (ACP). ACP revenue, received from the Judicial Department, is used to partially support the Contract and Business Services Division. ACP cash balances above reserve requirements have also been used to augment Public Defense Services Account expenditures. During the 2011-13 biennium, $750,000 of ACP funds are used to support the public defense expenditures.

The temporary court fees and surcharge revenue used to support Public Defense Services Account expenditures during the 2009-11 biennium (HB 2287) have been replaced with General Fund.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget (LAB) of $223.7 million is $13.5, or 6.4%, more than the Governor's recommended budget and is $536,226, or 0.2%, less than the 2009-11 legislatively approved budget and includes 76 positions (75.40 FTE). The General Fund portion of the budget totals $222.5 million and is $12.7 million, or 6.1%, more that than the Governor's recommended budget and is $11.1 million, or 5.3%, more than the 2009-11 legislatively approved budget. The Other Fund portion of the budget totals $1.2 million and is $724,243, or 154.6%, more that than the Governor's recommended budget and is $11.7 million, or 90.7%, less than the 2009-11 legislatively approved budget. The elimination of the one-time use of temporary court fees and surcharge revenue during the 2009-11 biennium (HB 2287) explains the Other Funds difference between the biennia.

The Commission's budget is comprised of $13.8 million personal services (6%) and $209.9 million services and supplies (94%).

The budget reflects a reduction of $22.9 million General Fund and $25,757 Other Funds for standard reductions for both PDSC staff and its contractors that include: a 5.5% reduction to personal service; a 6.5% reduction to services and supplies; the elimination of the standard inflation increase; and an adjustment to state government service charges and assessments charged to most agencies.

The adjustment for Appellate Division's caseload growth was reduced by $1.3 million General Fund (7 positions/6.44 FTE).

The budget includes a supplemental statewide ending balance holdback adjustment of $8.1 million General Fund. This reduction may be restored during the 2012 legislative session for the second year of the biennium depending on statewide economic conditions.

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.[iii] 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 to the Legislature and is similar to all other Judicial Branch agencies.

PDSC – Appellate Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	9,448,656	10,620,764	10,620,764	12,162,503
Total Funds	**$9,448,656**	**10,620,764**	**$10,620,764**	**$12,162,503**
Positions	53	53	53	60
FTE	51.60	53.00	53.00	59.44

[iii] By statute, the Chief Justice, along with the Chairperson of the Commission, presents the Commission's budget to the Legislature.

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.

The Juvenile Appellate Section in the Appellate Division handles dependency and termination of parental rights cases appealed to the Oregon Court of Appeals. The section also services as a statewide resource for trial-level counsel.

Revenue Sources and Relationships

The General Fund supports the program.

Budget Environment

The Appellate Division's workload is driven by the number of criminal and parole appeals, and the legal complexity of the appealed cases. Statutory changes, ballot initiatives, and United States and Oregon appellate court decisions also affect the number of appeals that are filed.

The standard for filing of an opening Appellate Court brief, which is set administratively by the Court of Appeals, was to move from 250 days to a maximum of 180 days during the 2009-11 biennium. The Court of Appeals has since decided to retain the 250 day standard.

The Appellate Division estimates it will assign 4,028 cases to its attorneys this biennium. The current caseload level for the Commission's appellate attorneys is 53 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 Appellate Division's backlog of cases is defined as cases pending more than 210 days. The current backlog as of July 2010 is 93 cases, which is higher than the eight year low of 49 cases that occurred in 2008. Prior to the Legislature adding eight new attorneys during the 2007-09 biennium, and improved case management practices, the backlog of cases had been as high as 228 cases in 2005. The current backlog of appellate cases and the average length of time to appeal will need to be monitored, but should be reduced as six new attorney positions were added.

Federal courts require that states provide adequate and timely representation on appeal. Oregon'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, where it currently remains. Oregon's Court of Appeals could potentially order the dismissal of any pending case that exceeds its 250 day standard from the date the record settles to the filing of the opening brief.

Appellate attorneys are paid 10% to 22% less than their Department of Justice counterparts. This disparity affects attorney recruitment and retention and can affect timeliness and effectiveness of services.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget (LAB) of $12.1 million is $1.5 million, or 14.5%, more than the Governor's recommended budget and is $1.7 million, or 15.7%, more than the 2009-11 legislatively approved budget and includes 60 positions (59.44 FTE).

The budget reflects a reduction of $893,433 General Fund for standard reductions that include: a 5.5% reduction to personal service; a 6.5% reduction to services and supplies; the elimination of the standard inflation increase; and an adjustment to state government service charges and assessments charged to most agencies.

The adjustment for the Appellate Division's caseload growth was reduced by $1.3 million General Fund (7 positions/6.44 FTE). The net result is a $1.3 million General Fund increase (7 positions/6.44 FTE).

The budget includes a supplemental statewide ending balance holdback adjustment of $494,354 General Fund. This reduction may be restored during the 2012 legislative session for the second year of the biennium depending on statewide economic conditions.

PDSC – Public Defense Services Account

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	$198,918,106	$198,145,412	196,437,842	207,542,730
Other Funds	0	12,380,573	0	750,000
Total Funds	**$198,918,106**	**$210,525,985**	**$196,437,842**	**$208,292,730**

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 four categories (juvenile dependency, misdemeanors/extradition/other, Non-Ballot Measure 11 Felonies, and Probation Violations) comprise 89% of the public defense cases.

#	Public Defense Services Account – Case Types – Trial Level	2010 Cases	%
1	Juvenile Dependency	57,964	33.6
2	Misdemeanors/Extradition/Other	44,341	25.7
3	Non-Ballot Measure 11 Felonies	30,102	17.4
4	Probation Violations	21,649	12.5
5	Juvenile Delinquency	8,677	5.0
6	Contempt of Court	3,451	2.0
7	Ballot Measure 11	3,427	2.0
8	Civil Commitments	1,684	1.0
9	Habeas Corpus/Post-Conviction Relief	604	0.4
10	Psychiatric Security Review Board	526	0.3
11	Murder/Jessica's Law	125	0.1
	Total	172,550	100%

Historically, trial-level caseloads peaked in fiscal year 2006 at 179,058 cases, but since 2008, caseloads have been below that figure and have been between 169,795 to 172,550 cases per fiscal year. The average cost per public defense trial level non-death penalty case was $523 for fiscal year 2010.

Caseload numbers do not correlate directly to costs. There are "cheap" cases and "expensive" cases. For example, initial dependency filings cost more than most felonies and termination of parental rights cases cost more than Ballot Measure 11 felony cases.

For the 2009-11 biennium, PDSC had 85 pending death penalty cases, of which 42 were new cases. During the 2007-09 biennium, there were 83 pending cases, of which 48 were new cases. The total cost of public defense trial level death penalty representation was $24.8 million for the 2009-11 biennium.

Revenue Sources and Relationships

The General Fund has historically supported the program. During the 2011-13 biennium, $750,000 of Application Contribution Program revenue is used on a one-time basis to support the public defense expenditures.

The temporary court fees and surcharge revenue used to support Public Defense Services Account expenditures during the 2009-11 biennium (HB 2287) have been replaced with $12.3 million General Fund.

Budget Environment

The public defense cost increases are primarily due to caseload increases and ongoing death penalty expenditures from cases filed in prior biennia. 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.

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 reduced funding for trial court level representation and contract payments to nonprofit public defenders, law firms, consortia, and individual attorneys. Case backlogs will increase and the court’s ability to process its docket of cases would decrease.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget (LAB) of $208.3 million is $11.9 million, or 6%, more than the Governor’s recommended budget and is $2.2 million, or 1.1%, less than the 2009-11 legislatively approved budget. There are no position budgeted as the funds are used to pay for contract services. The General Fund portion of the budget totals $207.5 million and is $11.1 million, or 5.7%, more than the Governor’s recommended budget and is $9.4 million, or 4.7%, more than the 2009-11 legislatively approved budget. The Other Fund portion of the budget totals $750,000 and is a 100% increase over the Governor’s recommended budget and is $11.6 million, or 93.9%, less than the 2009-11 legislatively approved budget. The elimination of the one-time use of temporary court fees and surcharge revenue during the 2009-11 biennium (HB 2287) explains the Other Funds difference between the biennia.

The budget reflects a reduction of $21.8 million General Fund for standard reductions that include a 5.5% reduction to personal service, a 6.5% reduction to services and supplies, and the elimination of the standard inflation increase. These are reduction to contractor payments.

The budget includes a supplemental statewide ending balance holdback adjustment of $7.5 million General Fund. This reduction may be restored during the 2012 legislative session for the second year of the biennium depending on statewide economic conditions.

PDSC – Contract and Business Services Division

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor’s Recommended	2011-13 Legislatively Adopted
General Fund	3,050,369	2,735,555	2,735,555	2,819,691
Other Funds	1,054,057	481,401	$468,312	442,555
Total Funds	**$4,104,426**	**3,216,956**	**$3,203,867**	**$3,262,246**
Positions	19	16	16	16
FTE	18.55	16.00	16.00	15.96

Program Description

The Contract and Business Services Division (CBS) is responsible for administering the public defense contracts that provide legal representation for financially eligible persons, and for processing requests and payments for non-contract fees and expenses.

Revenue Sources and Relationships

The General Fund and Other Funds support the majority of the program. The program received approximately $3.6 million Other Funds in the 2009-11 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.

The estimated ending balance in the Application Contribution Program Account for the 2011-13 biennium is $704,552, which is 1.6 months of reserve.

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 administrative expense of the Commission, as represented by this CBS Division, is 1.6% of the agency's budget.

The program works with public defense contractors on the development and use of best management and business practices and also receives and investigates complaints regarding concerns over the quality of legal representation and the appropriate expenditure of public defense funds.

The program has internally created and financed an innovative paperless office system that encompasses all its business and legal functions, including case management and contract billing.

Issues and Options

The fiscal administration and oversight of the $208.3 million Public Defense Services Account and the other expenditure of the Commission are essential functions of this program as is the role of the program to minimize administrative costs of public defender organizations through review of management and operational processes and procedures. Less fiduciary oversight of the Account by the Program could translate into added and inappropriate expenses charged to the Account.

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.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget (LAB) of $3.3 million is $58,379, or 1.8%, more than the Governor's recommended budget and is $45,290, or 1.4%, more than the 2009-11 legislatively approved budget and includes 16 positions (15.96 FTE). The General Fund portion of the budget totals $2.8 million and is $84,136, or 3.1%, more that than the Governor's recommended budget and the 2009-11 legislatively approved budget. The Other Fund portion of the budget totals $442,555 and is $25,757, or 5.5%, less that than the Governor's recommended budget and $38,846, or 8.1%, less than the 2009-11 legislatively approved budget.

The budget reflects a reduction of $190,374 General Fund and $25,757 Other Funds for standard reductions that include: a 5.5% reduction to personal service; a 6.5% reduction to services and supplies; the elimination of the standard inflation increase; and an adjustment to state government service charges and assessments charged to most agencies.

The budget includes a supplemental statewide ending balance holdback adjustment of $119,797 General Fund. This reduction may be restored during the 2012 legislative session for the second year of the biennium depending on statewide economic conditions.

Emergency Board – Totals

	2007-09 Actual	2009-11 Legislatively Approved	2011-13 Governor's Recommended	2011-13 Legislatively Adopted
General Fund	0	0	$20,000,000	$72,743,750
Total Funds	**$0**	**$0**	**$20,000,000**	**$72,743,750**

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:

	2005-07 Approved	2007-09 Adopted	2009-11 Adopted	2011-13 Adopted
General Purpose Emergency Fund	30,000,000	30,000,000	30,000,000	25,000,000
Salary & Benefit Adjustment*	131,000,000	125,000,000	32,000,000	0
Special Purpose Appropriations	107,100,764	45,514,219	14,147,321	47,743,750
Total	$268,100,764	$200,514,219	$76,147,321	$72,743,750

** For the 2009-11 legislatively adopted budget, no allocation was made to the Emergency Board specifically for salary and benefit adjustments; the special purpose appropriation was included for supplemental state agency costs, which could include increased costs for state employee health benefits for the 2010 and 2011 benefit years.*

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 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 was disappropriated during the 2009 legislative session as used as part of the initial rebalance plan for the 2007-09 biennium when revenue forecasts indicated that the state budget was $851 million out of balance in March 2009.

The 2009 Legislature approved a $30 million General Purpose appropriation, plus special purpose appropriations totaling $46.1 million. Included in the special purpose appropriations was $32 million for state agency supplemental costs including health benefit increases in the 2010 and 2011 benefit years. The entire $32 million along with $10 million from the General Purpose Emergency Fund and the $2.3 million carryover from the Legislative Assembly's 2007-09 biennium unused appropriation were disappropriated during the February 2010 special session for use towards rebalancing the state's overall 2009-11 budget. Additional special purpose appropriations were established during the February 2010 session totaling $41.5 million, primarily for caseload and cost per case increases in the Department of Human Services.

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. Due to the state's economic situation, no special purpose appropriation was provided in either the 2009-11 or the 2011-13 legislatively adopted budgets specifically for state employee negotiated salary increases or cost-of-living adjustments; $32 million was allocated to potentially be used for increases in the costs of health benefits for state employees for the 2010 and 2011 benefit years, but no such provision was included in the 2011-13 budget.

Legislatively Adopted Budget

The 2011-13 legislatively adopted budget for the Emergency Board includes a $25 million General Purpose appropriation, plus special purpose appropriations totaling $47.7 million as follows:

- $17.6 million for various state agencies for early learning programs and services;
- $8 million for the Department of Human Services and the Oregon Health Authority for caseload and costs for programs and services;
- $5.7 million for various state agencies for employment related day care or other services for children and families;
- $5 million for the Department of Human Services for child welfare differential response services;
- $4.8 million for the Department of Forestry for forest fire protection expenses;
- $2.9 million for the Department of Revenue for making payments authorized for the elderly rental assistance program;
- $2 million for the Department of Justice for Tobacco Master Settlement Agreement litigation and Defense of Criminal Convictions program costs; and
- $1.7 million for the Oregon Youth Authority for education related expenses.

If the amounts in these special purpose appropriations are not allocated by the Emergency Board by December 1, 2012, the remaining amounts become available to the Board for any use.