Analysis of the

2005-07

Legislatively Adopted Budget

Legislative
Fiscal
Office

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December 1, 2005

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

The following *Analysis of the 2005-07 Legislatively Adopted Budget* has been prepared by the Legislative Fiscal Office staff. It includes detailed program descriptions, analysis of revenue sources, discussion of budget environment, and budget decisions adopted by the Legislative Assembly for each state agency.

Please call the Legislative Fiscal Office if you have any questions. Documents published by LFO are available online at http://www.leg.state.or.us/comm/lfo/publications.htm

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PROGRAM AREAS

EDUCATION

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

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	382,129,816	416,431,168	393,642,264	433,067,380
Lottery Funds	0	49,000	0	0
Other Funds	13,908,964	13,564,684	13,557,139	90,488,832
Federal Funds	146,092,209	126,606,054	127,459,844	131,173,928
Federal Funds (NL)	0	2,339,105	12,000,000	12,000,000
Total Funds	**$542,130,989**	**$558,990,011**	**$546,659,247**	**$666,730,140**
Positions	48	48	50	50
FTE	47.07	45.70	48.74	49.70

Agency Overview

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

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

Revenue Sources and Relationships

The budget projects Federal Funds receipts of $139 million in the 2005-07 biennium. These include $127 million for WIA Title IB programs, and $12 million for Adult Education and Family Literacy (WIA Title II) programs. Federal Funds from these two programs are projected to increase approximately 11% from the prior biennium level, although projecting the level of these revenues is difficult. An estimated $12 million of the Title IB fund total is projected to be received in the form of National Emergency Grants. This program provides federal funds to retrain dislocated workers when large numbers of workers are laid off because of poor economic conditions. CCWD must apply to the federal government for any NEG funds, and expenditures of these funds are Nonlimited in the state budget.

The budget also projects $90.5 million of Other Funds revenue in the 2005-07 biennium. This includes $77 million of Article XI-G bond proceeds and community college matching funds for state-supported community college capital construction projects. Most of the remaining $13.5 million of Other Funds are Carl D. Perkins funds from the federal government, which are characterized as Other Funds because they are transferred to CCWD through the Department of Education. Carl D. Perkins revenues are projected at $9.6 million, and are used by the Department and community colleges to support development of Professional/ Technical programs. The remaining Other Funds include $2 million of Amusement Device Tax and other receipts of the Oregon Youth Conservation Corps, and $1.4 million from fees for services in the General Educational Development (GED) and Tracking Outcomes for Programs and Students (TOPS) System programs and other miscellaneous revenues. Timber Tax revenues that are distributed to community colleges are also included in the agency budget. The 2003 Legislature added Lottery Funds to support advanced technology education and training programs.

CCWD – Office Operations

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	2,188,247	2,022,209	2,969,234	2,034,350
Other Funds	1,599,814	1,801,181	2,041,827	1,976,965
Federal Funds	17,666,539	6,976,234	7,379,181	7,558,482
Total Funds	**$21,454,600**	**$10,799,624**	**$12,390,242**	**$11,569,797**
Positions	45	45	47	47
FTE	44.07	42.70	45.74	46.70

Program Description

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

Revenue Sources and Relationships

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

Legislatively Adopted Budget

The legislatively adopted budget increases General Fund support for Office Operations by 33% over the 2003-05 biennium level. All funds support is increased 13%. These percentage figures include a special purpose appropriation to the Emergency Board on behalf of the Department's budget, although that appropriation is not included in the table above. The budget also adds two new positions (2.00 FTE), and extends two limited-duration grant-funded positions approved by the Emergency Board during the past interim.

The only General Fund added above the level needed to fund continuing operations is $664,400 to develop an integrated K-16 student data system to facilitate data sharing among community colleges, K-12 schools, and Oregon University System (OUS) campuses. The budget includes similar funding enhancements in both the Department of Education and Department of Higher Education budgets. These funds were provided through a special purpose appropriation to the Emergency Board. The Governor's budget included $873,400 General Fund for this system, appropriated directly to the Department. The Legislature reduced the total appropriation by $209,000, removing funds for community colleges purchases of the system hardware and software that will reside at the colleges. The remaining funds were appropriated to the Emergency Board with the requirement that the Department report to the Joint Legislative Audit Committee on proposed performance measures for the integrated student data system prior to requesting an allocation of the appropriated funds. The Department, with the assistance of the Department of Education and the Department of Higher Education, will also report to the Emergency Board on the design, architecture, and total cost to complete the data system, and report on the timeline to completion and implementation, and the expected outcomes of system implementation.

This integrated student data system initiative was developed by the State Board of Higher Education, which worked with both OUS campuses and community colleges to identify means to increase the ability of students to complete degree programs more quickly. These efforts were typically described as "More, Better, Faster." The improved data system is to contribute to this effort by providing information to assist in the transfer of credits between the educational sectors, and to aid in academic advising, thereby allowing students to avoid unnecessary duplication in their coursework when they transfer from one institution to another.

This General Fund enhancement is offset by the partial shift of funding for one department position away from General Fund ($31,063 reduction), and by a $1,221 General Fund reduction from participation in the Smart Buy program. Other Funds increases include $1 for management costs relating to a new capital construction program for community colleges (see the Community College Capital Construction program description below for detail). The Governor's budget had proposed $100,000 Other Funds for this purpose, but the Legislature reduced the increase to $1 and directed the Department to seek an additional Other Funds expenditure limitation increase, if needed, once management costs are known. The source of Other Funds to pay management costs will be fees collected from community colleges with approved capital construction projects.

CCWD – State Support to Community Colleges

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	375,240,447	411,092,904	388,414,455	428,774,455
Lottery Funds	0	49,000	0	0
Other Funds	1,782,400	316,292	185,293	185,293
Total Funds	**$377,022,847**	**$411,458,196**	**$388,599,748**	**$428,959,748**

Program Description

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

Revenue Sources and Relationships

State support to community colleges is almost exclusively provided by the General Fund. In 1999, however, the Legislature changed the state's system of timber taxation. The new law eliminated the timber privilege tax distribution to community colleges and made this revenue a state resource. The law also required that the state distribute a portion of the funds to the CCSF. The revenues did not appear in the state budget when community colleges collected the tax, since community college districts are not state agencies, but after 1999, when the tax revenue became a state resource, they did. This revenue is distributed as Other Funds. All of the Other Funds in this program area are derived from this source. In the 2003 session, the Legislature added Lottery Funds to support advanced technology education and training programs at the colleges.

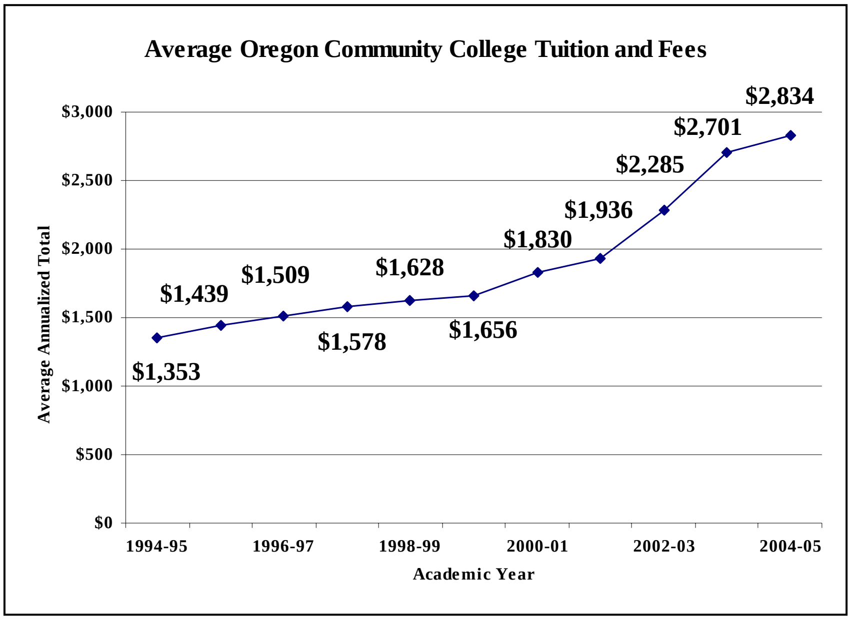
Community colleges also collect property taxes to fund their operations. These taxes do not flow through the agency budget, however, and are not included in any budget figures identified here. Approximately $221 million of property tax collections are projected for community colleges in the 2005-07 biennium, providing approximately 23% of college operating revenue. Tuition and fees, which are also not included in the state agency budget, are projected to provide $338 million (or 34%) of college operating revenues. The state General Fund supports the remaining 43% of college costs covered by these three principal fund sources.

Budget Environment

In the 2001 regular session, the Legislature increased General Fund support for community colleges by 9% over the prior biennium level. During the interim following that session, however, General Fund support was reduced to help address the state's General Fund revenue shortfall. The Legislature reduced support and "shifted" the final 2001-03 biennium CCSF distribution payment of $56 million to the 2003-05 biennium. At the same time, the Legislature enacted legislation to allow colleges to accrue the shifted payment to their 2002-03 fiscal year revenues. The impact of this authority was intended to eliminate the need for colleges to reduce 2002-

03 expenditures, but this action violated community college accounting rules, and many colleges chose not to accrue the delayed payment to their prior year budget. The combined effect of these special session reductions was to reduce 2001-03 biennium General Fund support by an effective 7.8% from the level originally approved in the 2001 regular session, and to leave funding levels back essentially at 1999-2001 biennium levels.

Funding was reduced further in the 2003-05 biennium. After adjusting for the one-time $56 million funding reduction for the payment shift, the 2003-05 legislatively adopted budget provided $14.8 million (or 3.4%) less than what the colleges effectively received for 2001-03 after all of the special session reductions. This reduction increased to $21.6 million (or 5%) when, in Measure 30, voters rejected temporary income tax increases that had be approved to balance the legislatively adopted budget. General Fund was reduced $6.8 million by the outcome of that vote. To help better manage the funding reduction, the legislatively adopted budget directed community colleges to freeze salary and benefits packages for the 2003-05 biennium. This paralleled a similar action regarding state employees. Community colleges retain their right to establish compensation packages under law, so the directive is not enforceable. The Legislature also directed that state dollars not be used to support self-improvement courses that are not health-, safety-, or workforce-related.

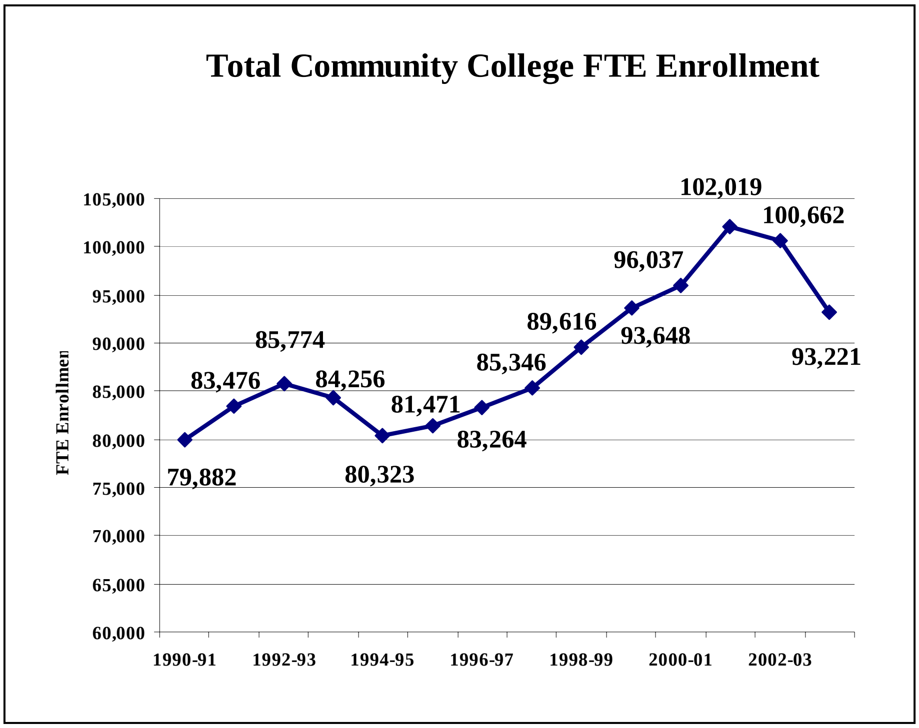


Community college services are affected by changes in the economy, in community college tuition costs, and in the funding of and accessibility to the Oregon University System. An estimated 29% of Oregon class of 2003 high school graduates went on to attend an Oregon community college in 2004. This was higher than the 24% who enrolled in the Oregon University System. Also, approximately 4,900 students transferred from community colleges to the Oregon University System in the 2003-04 academic year. The determinants of community college enrollment levels are more complex than for either K-12 enrollments or Oregon University System enrollments, however. Only 26% of community college students (on a headcount basis) are in the traditional college age category of 18 to 24. Over 28% are 45 or older. Changes in the size of the 18- to 25-year-old population, therefore, is a less important determinant of enrollment demand for community colleges than it is for other higher education institutions.

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

Recently, however, total enrollment grew strongly even as the economy did well during the later 1990's. On a full-time equivalent basis, enrollment eventually surpassed the previous peak attained in the 1992-93 academic year by almost 19%. Enrollments first declined as community colleges increased tuition rates after the passage of Measure 5. For three years, tuition rates increased at annual rates of 15% or higher. After that, however, tuition rate increases had moderated and had been below the rate of inflation.

This period of moderate rate increases ended when the cutback in state support started in the 2001-03 biennium. Colleges responded to state support reductions by increasing tuition rates and reducing course section offerings. The average cost of tuition and fees increased over 18% in both the 2002-03 and 2003-04 academic



years. Although the 2004-05 academic year increase is a more moderate 5%, the average cost of tuition and fees at community colleges has risen more than 71% in the last five years.

Enrollment growth at first accelerated in the late-1990's. Total enrollment on a full-time equivalent (FTE) basis increased 6.2% in 2001-02 to an all time high of 102,019 FTE. In the following two years, however, as tuition rates increased and course section offerings were reduced (over 4,000 net course sections were eliminated), enrollment declined to 93,221 FTE, an 8.6% decline from the peak. Enrollment is now below the level it was four years ago. Unduplicated headcounts have declined even more rapidly. The 2003-04 unduplicated headcount of 330,595 is an almost 19% drop from the peak level of two years earlier. Headcounts are falling more rapidly than FTE enrollment because, although the number of full-time students has remained relatively stable over the period, part-time enrollments have fallen by almost 22%.

A more useful measure of the funds available to community college programs would include both property tax collections and tuition and fee revenues, along with state General Fund support. Colleges essentially combine these three revenue sources to finance program delivery. Property taxes and community college tuition and fee revenue are not included in the state budget. Revenue from these combined sources increased at a healthy rate during the 1990's. Each biennium, revenues increased from a low of 7.6% (in 1993-95) to a high of 12.7% (in 1997-99) over the prior biennium level. Since then, the rate of increase has been falling each biennium. The relative shares of the three fund sources have shifted as well. Between the 1999-2001 and 2003-05 biennium, the share of tuition revenue of the total increased from 25% to 33%. The General Fund share fell from 54% to 45%, while the property tax share remained constant at 22%.

Legislatively Adopted Budget

The Governor's budget included $388.6 million of state support to community colleges. This represented a $22.9 million (or 5.6%) decline from the 2003-05 biennium level, and a $44.4 million (or 10.3%) reduction from the effective level of funding in the 2001-03 biennium after special session rebalances reduced that support. The budget also eliminated Lottery Funds distributed outside of the CCSF in support of advanced technology education and training programs.

The Governor's funding level was $18.9 million below the calculated essential budget level (or the budget necessary to continue services at the current level). Even the essential budget level, however, did not accommodate a number of cost increases that community colleges were known or projected to face. Unlike in other agency budgets that support state employees, the essential budget level does not finance the expected increase in PERS contribution costs for community college employees. Also, the calculation does not roll-up the increase in health insurance benefit costs incurred in the 2003-05 biennium.

The Legislature increased General Fund for the Community College Support Fund by $39.7 million (or 10.2%) over the level the Governor had proposed. The approved funding level included a decision to temporarily suspend, for the 2005-07 biennium only, the regular practice of reducing General Fund support to offset increases in property tax collection forecasts. As a result of this increase, which is calculated increase General Fund support for the CCSF at the projected rate of inflation, the CCSF General Fund appropriation of $428.1 million is $17 million (or 4.1%) above the 2003-05 biennium level, in contrast to the 5.6% funding reduction for the CCSF proposed in the Governor's recommended budget. The adopted budget also added $330,000 General Fund for the Portland Community College Skill Center, and $330,000 General Fund for the Sabin-Schellenberg Skills Center..

Community colleges combine their state support dollars with tuition and fee revenues, and property taxes, to finance their general education operating budgets. If projected property taxes and the colleges' projected revenue from tuition and fees are included, total 2005-07 biennium funding will be up by a projected 7.4% over the 2003-05 biennium level. This projection is subject to error. The budget noted, however, that with this increase, community colleges are expected to contain tuition rate increases as much as practicable in the 2005-07 biennium, and that the approved Community College Support Fund appropriation will minimize the need for colleges to increase tuition rates to maintain program offerings. (Tuition and fee rates are set independently by local community college district boards.)

CCWD – Federal/Other Support

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	8,661,473	9,085,542	9,303,595	9,303,595
Federal Funds	128,425,670	119,629,820	120,080,663	123,615,446
Federal Funds (NL)	0	2,339,105	12,000,000	12,000,000
Total Funds	**$137,087,143**	**$131,054,467**	**$141,384,258**	**$144,919,041**

Program Description

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

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

The Adult Education and Family Literacy (WIA Title II) funds are received from the U.S. Department of Education and distributed to community colleges to support programs in developmental education for adults. Approximately 26,000 students are served by these funds each year. The 2001-03 biennium figures also include expenditures under the federal Even Start Family Literacy program. This program was transferred to the state Department of Education when the 2001-03 biennium ended. Even Start Family Literacy finances family-centered literacy programs that target both children and their parents.

Budget Environment

Federal support for these programs is expected to grow in the 2005-07 biennium. The programs assist workers in upgrading their skills to meet the needs of a changing labor market, and support Adult Basic Education programs at community colleges. Changes in the economy increase the need for the services these programs provide, even if the economy as a whole is growing. Demand for program services has only increased further though as a result of the recent recession. The Department has successfully obtained additional funds through the National Emergency Grant (NEG) program, which addresses large layoffs. Beginning in the 2001-03 biennium, the Legislature permitted the Department to spend NEG program funds without limitation. This treatment reflects the emergency nature of these funds, which the Legislature did not wish to limit in that no state match is required to obtain the monies.

Legislatively Adopted Budget

The legislatively adopted budget supports these programs at the projected Federal Funds and Other Funds revenue levels, including 2005-07 biennium expenditures of grant funds received in 2003-05. The budget projects that funding will increase by approximately 11% over the 2003-05 biennium legislatively approved budget level. The Legislature increased the Federal Funds expenditure limitation in the Governor's budget by $2,375,236 to reflect the increase in projected federal revenues for CCWD programs, and by $1,085,021 Federal Funds to allow expenditures of federal grant funds, if awarded. Other changes made to the Governor's budget included the shift of $41,854 Federal Funds from this program area to Office Operations, to correctly account for a special payment to the Employment Department for the PRISM program, and the shifting of $86,692 Federal Funds to this program area from Office Operations, to allow this amount of Personal Services cost savings to be distributed to local service providers.

It is difficult to know now, however, what the eventual biennial funding for these programs will be. In recent biennia, the Emergency Board has increased the Federal Funds expenditure limitation substantially as federal program funding increases became known. In any event, if federal revenues fall short of projection, the Department will reduce transfers to service providers who will in turn reduce services. If federal revenue exceeds projection, the Department will request the Emergency Board to authorize the transfer of the additional funds.

CCWD – Debt Service

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	4,344,935	3,316,055	2,258,575	2,258,575
Total Funds	**$4,344,935**	**$3,316,055**	**$2,258,575**	**$2,258,575**

Program Description

This program pays the principal and interest on general obligation bonds issued under Article XI-G of the state Constitution for community college capital construction projects. The Legislature has not authorized new Article XI-G bonds for community colleges since the 1979 session. Debt service requirements are declining as the existing bonds are paid off. Costs in 2005-07 will be down 32% from the prior biennium level.

Legislatively Adopted Budget

The legislatively adopted budget fully funds 2005-07 biennium debt service costs. There are no funds included for debt service on Article XI-G bonds that the budget authorizes for new community college capital construction projects. This additional debt service is projected to total $5.5 million per biennium when phased in. Any 2005-07 biennium debt service costs on these new bonds will be financed from bond sale proceeds. General Fund would be first required to pay debt service on any new bonds beginning in the 2007-09 biennium.

CCWD – Community College Capital Construction

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	0	0	12	77,000,000
Total Funds	**$0**	**$0**	**$12**	**$77,000,000**

Program Description

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

Legislatively Adopted Budget

The Governor's budget included, for the first time since the 1979-81 biennium, state support for community college capital projects. The projects were to be financed by Article XI-G bonds matched by an equal contribution of local college dollars. Article XI-G bonds are a constitutionally-authorized general obligation debt of the state. The state is required to match the bonds with at least an equal amount of General Fund. In lieu of regular General Fund, the colleges would transfer the required matching funds to the state. These matching funds are designated as the General Fund match, and the matching funds are then returned to the colleges, with the Article XI-G bond proceeds, as Other Funds expenditures in the state budget.

The budget included $91.2 million of Article XI-G bond authority to finance $182.4 million of expenditures for six community college capital construction projects. Only $12 of Other Funds expenditure limitation was actually in the budget for the six projects, however. The Governor expected the Legislature to consider the appropriate financing for the projects. These projects included construction of new campuses to replace aging or leased facilities for three community colleges: Clatsop, Klamath, and Tillamook Bay; new facilities in three cities (essentially also the creation of a new campus) for a fourth: Oregon Coast; a new health sciences building and classrooms for Columbia Gorge; and a new Medford facility for Rogue, to be shared with Southern Oregon University (SOU). (The Governor financed the SOU portion of the facility in the Department of Higher Education's capital construction budget, which included $5.4 million of General Fund and an additional $5.9 million of Article XI-G bonds.)

The Governor's budget also included $100,000 Other Funds to pay for bond issuance and project administrative costs in the Office Operations program area of the budget. Debt service on the Article XI-G bonds is financed by General Fund. Any debt service costs incurred before the end of the biennium would be paid from the bond sale proceeds. Debt service costs will be paid by General Fund beginning in the 2007-09 biennium. The Legislative Fiscal Office estimated that General Fund debt service costs would equal approximately $12.9 million per biennium during the 30-year term of the bonds, if all of the bond authority included in the Governor's was utilized.

The Legislature approved all six projects proposed in the Governor's budget, but reduced Article XI-G bond support for all of them, except for the project at Tillamook Bay Community College, which was fully funded at the proposed level. The budget adopts a policy that total debt service costs for outstanding Article XI-G bonds, issued during or after 2005 for community college capital construction projects, not exceed $6.5 million per biennium. The Legislative Fiscal Office estimates that General Fund debt service costs will equal approximately $5.5 million per biennium during the 30-year term of the bonds if all of the bond authority included in the legislatively adopted budget is utilized, leaving limited capacity for additional project approval under this policy. A list of the funded projects is included below:

Department of Community Colleges and Workforce Development
2005-07 Capital Construction Budget

Project List	Governor's Project Request	Article XI-G Bonds	Community College Match	Approved Total
(1) Clatsop Community College				
Land acquisition or facilities	$50,000,000	$7,500,000	$7,500,000	$15,000,000
(2) Columbia Gorge Community College				
New facilities and renovations of existing facilities	21,600,000	7,500,000	7,500,000	15,000,000
(3) Klamath Community College				
New facilities	50,000,000	7,700,000	7,700,000	15,400,000
(4) Oregon Coast Community College				
New facilities	34,000,000	4,500,000	4,500,000	9,000,000
(5) Rogue Community College				
Medford facility for joint use with SOU	17,000,000	4,100,000	4,100,000	8,200,000
(5) Southwestern Oregon Community College				
New Curry County facilities	Not included	2,300,000	2,300,000	4,600,000
(7) Tillamook Bay Community College				
New campus and facilities	9,800,000	4,900,000	4,900,000	9,800,000
Grand Total	**$182,400,000**	**$38,500,000**	**$38,500,000**	**$77,000,000**

CCWD – Oregon Youth Conservation Corps

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	356,187	0	0	0
Other Funds	1,865,277	2,361,669	2,026,412	2,022,979
Total Funds	**$2,221,464**	**$2,361,669**	**$2,026,412**	**$2,022,979**
Positions	3	3	3	3
FTE	3.00	3.00	3.00	3.00

Program Description

The Oregon Youth Conservation Corps (OYCC) was established in 1987. OYCC provides education, training, and employment opportunities based on conservation efforts to disadvantaged and at-risk youth ages 14 to 25. The OYCC has created a private nonprofit foundation, which allows private fundraising in support of its activities.

OYCC operates two programs. The first – the Conservation Corps – operates during the summer and supports at least one youth crew in every county who work on natural resource and conservation projects. The second program – the Community Stewardship Corps – offers alternative education programs during the school year for at-risk youth through hands-on environmental projects. Approximately 1,800 youth were involved in both programs during the 2003-05 biennium.

Revenue Sources and Relationships

Other Funds are primarily from the Amusement Device Tax. The Amusement Device Tax is levied on the state's video lottery terminals. OYCC also receives transfers from the other state agencies (Marine Board and the Parks and Recreation Department) as Other Funds for contract work.

Legislatively Approved Budget

The Legislature eliminated General Fund support for the OYCC in the 2003-05 biennium, to help address the state's General Fund shortfall. The legislatively adopted budget continues to operate the OYCC without General Fund support in 2005-07. The OYCC will continue to function during the biennium, although there will be a reduction in the number of youth who can be served in the two programs the OYCC operates. Funds from the Amusement Device Tax, and transfers from other state agencies (fees for services), were not reduced.

The elimination of General Fund in the 2003 session required the OYCC to reduce its program expenditures and the number of youth it could serve. The Emergency Board, however, allowed OYCC to spend additional one-time resources of approximately $300,000, and unanticipated ongoing grants of approximately $100,000, in the 2003-05 biennium. These expenditures allowed the OYCC to avoid the program reductions that were expected in the 2003-05 biennium. With the one-time resources no longer available, OYCC will need to finally implement the program reductions during the 2005-07 biennium. Funds for the direct support of the OYCC's two programs are reduced 18.5% from the level available in 2003-05 biennium after the Emergency Board actions.

Department of Education (ODE) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	4,043,880,643	4,703,298,799	4,941,233,788	5,075,292,291
Lottery Funds	670,555,680	507,799,698	352,661,954	461,524,403
Other Funds	324,756,410	66,912,964	52,045,043	55,116,367
Federal Funds	694,639,174	698,979,045	800,899,023	733,271,172
Other Funds (NL)	6,010,883	5,522,234	4,856,586	94,756,586
Federal Funds (NL)	0	235,042,702	243,186,904	227,855,675
Total Funds	**$5,739,842,790**	**$6,217,555,442**	**$6,394,883,298**	**$6,647,816,494**
Positions	572	486	478	480
FTE	457.14	447.32	440.00	441.05

Agency Overview

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

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

Overall, the 2005-07 legislatively adopted budget of $6.65 billion Total Funds is a $430.3 million, or 6.9%, increase over the 2003-05 legislatively approved budget. Over $300 million of this increase is due to an increase in State School Fund distributions to school districts and education service districts (ESDs). The balance is due primarily to the inclusion of $89.9 million in Common School Fund distributions in ODE's budget as a result of HB 3183 (2005) as well as an increase of $24.9 million in federal funds available for grants to local programs.

- The budget provides $5.24 billion in state support for K-12 school funding. This is an increase of $323 million, or 6.6%, over the 2003-05 legislatively approved budget of $4.917 billion. Local formula revenues, mainly from property taxes, are estimated to be $247 million higher in 2005-07. Together, state and local support increase by 7.8% from 2003-05 to 2005-07.
- The budget for Department Operations increases from $85.2 million Total Funds in 2003-05 to $88.1 million Total Funds in 2005-07 due to growth in federal funding (direct and indirect). Direct federal funding increases by $3.1 million, or 8%. General Fund support is $31.8 million, a decrease of 7.1% from the 2003-05 budget of $34.2 million and a 25.5% decrease from 1999-2001 expenditures of $42.7 million. The 2005 Legislature did appropriate an additional $1.8 million to the Emergency Fund for ODE's participation in the development of a statewide student data system.
- The budget includes $192.1 million General Fund for Grant-in-Aid programs that provide support to school districts and other local programs. This amount is 1.1% more than the 2003-05 General Fund budget of $190.1 million. The 2005 Legislature restored $11.5 million to the Oregon Prekindergarten program, which serves low-income 3- and 4-year-olds, so that the percentage of eligible children served in 2005-07 will remain at roughly the same percentage served in 2003-05, or 60%. A special purpose appropriation of $4.9 million was established in the Emergency Fund for another early childhood program, the Early Intervention/Early Childhood Education (EI/ECSE) Program, for caseload growth.
- State support for two Grant-in-Aid programs – the Frontier Learning Network and Student Leadership Centers – was restored in whole or in part ($0.5 million and $0.7 million, respectively).

The Department's budget consists of the following programs: Operations, Special Schools, Youth Corrections Educational Program, Grant-in-Aid, School Funding, Debt Service, and Common School Fund Distributions.

ODE – Operations

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	34,814,836	34,219,320	36,060,740	31,798,657
Other Funds	8,264,969	6,611,324	6,912,794	9,409,227
Federal Funds	27,690,596	38,869,643	42,443,548	41,992,817
Other Funds (NL)	6,010,883	5,522,234	4,856,586	4,856,586
Total Funds	**$76,781,284**	**$85,222,521**	**$90,273,668**	**$88,057,287**
Positions	275	263	258	260
FTE	269.06	258.26	254.20	255.25

Program Description

Department Operations includes the overall leadership 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.

State leadership is provided by the ***State Board of Education*** and the ***Office of the State Superintendent***. The Board adopts standards for public schools and is the policy-making body. The Office of the State Superintendent exercises a general superintendency of school officers and public schools. This office also includes the agency's internal audit function, communications, and federal liaison functions.

Last biennium, the Department reorganized in response to budget reductions and to focus the agency on the Superintendent's priorities, which include leadership, school improvement, and accountability. To achieve results in these areas, the agency streamlined its office and management structures and moved toward more cross-agency collaboration. Also, the Department established the ***Office of Systems Accountability and Policy Development***, which is responsible for, among other things, coordinating the development of education policy at the state, local, and federal levels; coordinating agency operations with those policies; revising the agency's strategic plan; managing the development of appropriate and useful performance measures; and creating and implementing a comprehensive statewide accountability system for K-12 education.

Other offices within the Department now 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, 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 the state's bus drivers, and the federally supported school- and community-based nutrition programs.

Revenue Sources and Relationships

Other Funds revenues include indirect cost recovery from federal programs (38%); fees for fingerprinting and background checks (14%); funds from the Department of Human Services for health-related and other programs (9%); funds from the Department of Community Colleges and Workforce Development (DCCWD) for professional/technical education services and administration (7%); fees for licensing private vocational schools (6%); tuition protection fees from private vocational schools to reimburse students in case of closure of these schools (5%); textbook review fees (4%); and miscellaneous fees, contracts, and grants (17%).

Nonlimited Other Funds are from registration fees that pay for related workshop and conference costs and a School Lunch Revolving Fund for brokering surplus food for schools.

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

Budget Environment

A major focus of the Department over the last decade has been the implementation of the Oregon Educational Act for the 21st Century, Oregon's school reform legislation. A primary emphasis of the Department's reform effort is to help students master subject matter, demonstrate knowledge, and apply learning to new situations. To these ends, the State Board adopted statewide Certificate of Initial Mastery (CIM) standards. In 1999, the first Certificates of Initial Mastery were awarded to tenth graders successfully passing tests taken in Spring 1999 in English and mathematics. Science was later added and the Department developed an implementation timeline for other CIM subject areas such as the arts, second languages, and social sciences.

HB 2744 (2003) reduced the mandated CIM subject areas to mathematics, science, and English, eliminating the mandate for the arts, physical education, history, geography, economics, civics, and second languages**.** This essentially reduced the academic areas in which students must demonstrate proficiency to those same subjects required by the federal No Child Left Behind Act of 2001. The Department still must have state academic content standards for the optional subject areas and develop assessments for history, geography, economics, and civics (commonly known as "social sciences") for school districts that choose to award the CIM in the optional subject areas.

The 2003 Legislature expressed interest in finding ways to reduce the cost of the student assessment system, which is a key component of the standards-based reform effort. The Legislature reduced the Department's assessment budget by $1 million and directed the agency to develop a plan that implements the most cost-effective assessment program for the testing requirements under NCLB. (NCLB requires annual testing in grades three through eight and once in high school, beginning with the 2005-06 school year. At the time the federal act was signed into law, ODE already had developed math, reading, and science content standards and an assessment system aligned to those standards for certain grade levels – 3rd, 5th, 8th, and 10th.) A $1 million special purpose appropriation was established in the Emergency Fund should the agency not find savings. The agency did not request this amount; its goal was to manage without these funds.

The Department has been moving away from the traditional paper and pencil system as a way to streamline the assessment system. The traditional system creates additional demands on school staff, diverts time away from instruction, and produces test results that are not always available on a timely basis to provide maximum benefit to the student. During the 1999-2001 biennium, the Department received funding to begin phasing in a project called the Technology-Enhanced Student Assessment (TESA) system. This Internet-based system will eventually replace the paper and pencil process, thereby reducing the turnaround time for test results as well as the workload associated with the current system. TESA also complements the goal of electronic record-keeping of test results. Approximately one-half of the schools used TESA in 2003-04. In spite of budget reductions in 2001-03 and 2003-05, the Department kept TESA a priority.

The Operations program's General Fund was reduced by over 20% during 2001-03 because of the statewide General Fund shortfall. To manage to the cuts, the agency suspended student assessment tests for certain grades in the 2002-03 school year. The U.S. Department of Education expressed concern over these suspensions and ODE subsequently restored the tests. ODE has used some federal revenues for Operations to mitigate the effect of General Fund reductions, but typically additional federal requirements accompany these resources.

Legislatively Adopted Budget

The legislatively adopted budget is a 3.3% increase over the 2003-05 legislatively approved budget and a 2.5% decrease from the Governor's recommended budget. Within the overall increase above the 2003-05 legislatively approved budget, General Fund is decreased by 7.1%, Other Funds expenditure limitation is increased by 42.3%, the Nonlimited Other Funds amount is decreased by 12.1%, and Federal Funds expenditure limitation is increased by 8%. Within the overall decrease from the Governor's recommended budget, General Fund is decreased by 11.8%, Other Funds expenditure limitation is increased by 36.1%, the Nonlimited Other Funds amount remains the same, and Federal Funds expenditure limitation is decreased by 1.1%.

Several factors contribute to the decrease from the General Fund amount recommended in the Governor's budget:

- The Legislature removed a $1.8 million policy package for an integrated student data system and established a like amount as a special purpose appropriation in the Emergency Fund. This funding is for support of a part-time position (0.50 FTE) and special payments for the project, which includes the integration of school district and education service district student data systems. The project also includes the integration of student data among the Department of Education, the Department of Community Colleges and Workforce Development, and the Oregon University System (OUS). The work during 2005-07 will focus on policies and processes needed to create the foundation for sound technical infrastructure. Areas to be addressed include privacy, confidentiality, standards definitions, roles and responsibilities of districts and ODE, and necessary statutory changes. Activities will also include developing and/or analyzing pilot or existing projects to assist in the development of the system.

  ODE is expected to report to the Emergency Board with a detailed budget and an update of the proposed project. It is expected that ODE will report jointly with OUS and DCCWD. The Governor's recommended budget for these latter two agencies included $2.2 million General Fund and $0.9 million General Fund, respectively, for the project. The 2005 Legislature removed these amounts from the two agencies' budgets, established special purpose appropriations in the Emergency Fund, and adopted budget notes directing OUS and DCCWD to report to the Joint Legislative Audit Committee as well as the Emergency Board.

- The Legislature made an unspecified reduction of $2.3 million in General Fund support. The agency may be able to offset part or all of this reduction with indirect federal revenues. In recognition of the increased availability of this funding source, the Legislature increased the Other Funds expenditure limitation for Operations by $2.6 million.

- The agency's budget was reduced by $0.25 million General Fund for the decreases in the PERS employer contribution rate, the Attorney General hourly rate, and statewide assessments used in developing the Governor's recommended budget.

The Legislature approved a policy package in the Governor's budget that reduced General Fund support by $2.7 million to meet budget targets. The agency's plan to manage to this overall reduction includes: suspension of the math problem-solving assessment ($0.7 million); elimination of 6 positions ($0.7 million); elimination of paper student reports ($0.4 million); elimination of a database project for the Oregon Prekindergarten program ($0.3 million); shift in support of 2 positions from General Fund to Federal Funds ($0.3 million); and a delay in the English proficiency test ($0.2 million).

The Legislature also approved a policy package to shift $1 General Fund between budget categories to create a placeholder for budgetary impacts from the consolidation of the state's computer infrastructure. The state in is the process of consolidating the data centers of twelve state agencies and the Department of Education is one of the participating agencies. As noted in the budget report for HB 5166, ODE will need to internally shift a total of $329,785 from Personal Services, Services and Supplies, and Capital Outlay budget categories to State Government Service Charges to reflect its payments in support of the State Data Center. In addition, ODE will phase out 0.50 FTE.

A policy package that completes the agency's recent reorganization and realigns indirect federal revenue to pay for staff was also approved. The package is essentially cost-neutral, with minimal adjustments in General Fund ($61) as well as Other Funds (-$88) and Federal Funds ($27) expenditure limitations.

Finally, the Other Funds and Federal Funds expenditure limitations were adjusted to reflect the decreases in the PERS employer contribution rate, the Attorney General hourly rate, and various statewide assessments. The Legislature also reduced the Federal Funds expenditure limitation to align it with estimated federal revenues in 2005-07.

ODE – Special Schools

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	15,977,168	16,595,302	17,086,756	16,988,568
Other Funds	3,486,620	3,111,039	3,326,083	3,310,184
Federal Funds	987,695	923,366	721,450	368,197
Total Funds	**$20,451,483**	**$20,629,707**	**$21,134,289**	**$20,666,949**
Positions	265	192	191	191
FTE	156.08	158.06	156.80	156.80

Program Description

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

The School for the Deaf (OSD) is a residential/day program that annually serves about 130 students who are hearing-impaired and cannot be served in the community. OSD provides academic and career education, living skills development, athletics, and leadership training. Enrollment has declined from 206 students in 1982-83 because students whose deafness was caused by rubella have now completed their education. OSD has 19 structures on a 52-acre campus.

Revenue Sources and Relationships

Most of the funding for operating costs comes from the General Fund. Parents pay no tuition or room and board because of the federal requirement for a free and appropriate public education for every child.

Other Funds revenues are from County School Fund receipts for special education billings (52%); donations (10%); Medicaid reimbursements (5%); transfers from the Commission for the Blind (8%); fees from local school districts for services provided to their students (6%); nutrition reimbursements (2%); and other miscellaneous sources (17%). Federal Funds are from the Individuals with Disabilities Education Act.

Budget Environment

Enrollment at OSB has been at about the same level since 1986. Over the past five years, annual enrollment has ranged from 41 to 48 students. Over the same period, annual enrollment at OSD has ranged from 121 to 129 students. This is a slight increase from 115 students in 1995-97.

During 2001-03, the Special Schools' General Fund budget was reduced by $1.7 million due to the statewide revenue shortfall. The program was able to manage some of these cuts through fund shifts to Other and Federal Funds, but reductions in capital outlay, services and supplies, and staffing also were necessary. To achieve the estimated General Fund savings in 2003-05 from the roll-up of permanent reductions, similar reductions were planned.

Equipment purchases and other capital outlay have been deferred over several biennia due to funding levels. Kitchen equipment, washers and dryers, dining room equipment, beds, dressers, and upgrades in technology have been identified as some of the purchases needed to ensure the health and safety of students and provide effective programs.

Legislatively Adopted Budget

The legislatively adopted budget is a 0.2% increase over the 2003-05 legislatively approved level and essentially continues existing operations. The Legislature adjusted the Governor's recommended budget for reductions in the PERS employer contribution rate, the Attorney General hourly rate, and various statewide assessments. It also reduced Federal Funds expenditure limitation due to revisions in estimated federal revenues available for the program in 2005-07.

ODE – Youth Corrections Educational Program

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	25,554,206	21,758,832	24,380,130	24,358,569
Federal Funds	2,726,280	2,794,352	2,863,181	2,462,874
Total Funds	**$28,280,486**	**$24,553,184**	**$27,243,311**	**$26,821,443**
Positions	32	31	29	29
FTE	32.00	31.00	29.00	29.00

Program Description

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

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

Revenue Sources and Relationships

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

Federal funding is from the Title 1 Neglected and Delinquent Program, the Individuals with Disabilities Education Act, and a youth offender workplace training grant.

Budget Environment

Youths in juvenile corrections facilities include those prosecuted under Measure 11, which took effect in April 1995. For any of 21 violent crimes, Measure 11 allows youths aged 15 to 17 to be tried as adults and mandates minimum sentences. Oregon law also allows juvenile offenders charged with other serious crimes to be remanded or "waived" to the adult system. Approximately 27% of this population is made up of Measure 11 and waived inmates.

The October 2005 close custody population forecast projects a 3.1% increase from July 2005 to July 2006 – from 1,085 to 1,119. The population is projected to reach 1,128 by July 2007 – or a total of 4% growth for the biennium. State budget reductions have affected the number of beds available, however. The 2005-07 legislatively adopted budget for the Oregon Youth Authority (OYA) funds 850 beds.

Historically, about 80% of the youths in juvenile facilities have been considered eligible for special education services, which results in a double-weighting in the distribution formula. More recently, ODE projected 64% were eligible for these services. The educational needs of the youths must be met for the most part in intensive, individualized services in small group settings. Students in county detention centers are assigned a weight of 1.5.

Legislatively Adopted Budget

The legislatively adopted budget is a 9.2% increase over the 2003-05 legislatively approved budget. Federal Funds expenditure limitation was reduced due to revisions in estimated federal revenues available for the program in 2005-07. Other Funds expenditure limitation for the program was adjusted for a lower PERS employer contribution rate and reduced statewide assessments, but otherwise it is based on the Governor's $5.0 billion budget for the State School Fund and the 850 beds funded in the Governor's budget for OYA. Funding for educational services to youths in county detention centers is based on 333 and 350 students in 2005-06 and 2006-07, respectively.

The agency may need to request additional expenditure limitation from the Emergency Board since the 2005 Legislature provided a higher level of funding for the State School Fund than that recommended in the Governor's budget.

ODE – Grant-in-Aid

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	190,978,925	190,115,696	184,269,151	192,112,725
Other Funds	16,269,073	14,386,845	14,744,661	14,894,661
Federal Funds	663,234,603	656,391,684	754,870,844	688,447,284
Federal Funds (NL)	0	235,042,702	243,186,904	227,855,675
Total Funds	**$870,482,601**	**$1,095,936,927**	**$1,197,071,560**	**$1,123,310,345**

Program Description

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

Revenue Sources and Relationships

The Department receives substantial federal funding for this program unit, mainly from the U.S. Departments of Education and Agriculture. Most of the funding is passed through to local school districts or contractors. The major federal sources for Grant-in-Aid programs are from the U.S. Department of Agriculture for nutrition programs and from the U.S. Department of Education for compensatory programs under the NCLB Act, special education, and teacher quality programs.

Other Funds revenues represent County School Fund receipts for special education billings (83%), state tobacco tax funds from the Oregon Health Division for tobacco education programs (13%), federal funds from the Oregon Employment Department for the Teen Parent program (2%), and miscellaneous grants (2%).

Budget Environment

In 1992, Oregon began implementing a state-operated program for children with disabilities from birth up to kindergarten age, known as Early Intervention/Early Childhood Special Education (EI/ECSE). At that time, the state came into compliance with federal PL 99-457 by providing mandated early childhood special education services to eligible children from ages three to kindergarten and following all federal special education regulations. Oregon also provides optional early intervention services to children with disabilities from birth to age three. The program had been experiencing increases since its inception, both in the number of eligible children entering the program and in the increasingly high cost to serve a small portion (about 4%) of those children. This program receives the largest portion – about 45% – of the General Fund budget for Grant-in-Aid programs.

Historically, annual growth had been about 5 to 6%, slowing to 2% in 2002-03. Because of the uncertainty surrounding caseload growth for 2003-05, the 2003 Legislature established a $6.5 million special purpose appropriation in the Emergency Fund and directed the Department to report to the Emergency Board on the status of the EI/ECSE program, including caseload growth and any additional federal revenues available to support the program. Due to lower caseload growth and an increase in federal support for the program, the Department did not request allocation of the funds. Caseload actually declined in 2003-04 by 0.3% and, while preliminary data for 2004-05 indicated recurring growth, additional federal revenues were deemed to be more than adequate to cover this growth.

For 2005-07, both the Governor's budget and the legislatively adopted budget assumed growth of 2% per year. However, current data indicate growth is at least double that originally anticipated for the 2005-07 biennium. It appears increased efforts to identify eligible children is causing this unexpected growth.

The Oregon Prekindergarten 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. State statute mandates that Oregon serve 50% of all eligible children by 1999 and 100% by June 2004. The Department achieved a 50% service level in June 2001. Currently, approximately 60% of eligible children are served.

The Grant-in-Aid budget also includes funding for regional programs. Regional programs, in collaboration with other entities, provide specialized educational support for children with hearing impairments, vision impairments, autism spectrum disorders, severe orthopedic impairments, and deaf-blindness. These are known as low-incidence disabilities, occurring in the general population at a low rate. There are eight regional contractors (generally an ESD) and each program hires trained, certified staff to provide the needed specialized services. The regional service delivery model provides equal access to services regardless of where the children live in the state. ODE estimates about 7,300 children are served currently.

The Department also is responsible for ensuring the delivery of education services to children in day and residential mental health programs as well as hospital programs, 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. The Department contracts with local school districts or ESDs to provide the required services.

Actions taken during 2001-03 to balance the state's General Fund budget resulted in a $19 million reduction in Grant-in-Aid programs. Approximately $3.5 million in federal funding was expected to offset some of these reductions, specifically in the EI/ECSE program. To achieve General Fund savings in 2003-05 from the roll-up of permanent reductions, some services provided through Department programs were expected to become the responsibility of local school districts.

Service reductions may put the Department at risk of lawsuits, especially in the area of special education where eligible students are entitled to a free and appropriate education by federal law. In spite of these reductions, the Department has been successful in meeting federal maintenance of effort (MOE) requirements. In general, these requirements mean a state education agency shall expend at least the same amount of state funding for special education and related services in a current year as was done in the preceding year. Otherwise, federal funding received under the Individuals with Disabilities Education Act must be repaid to the U.S. Department of Education.

Legislatively Adopted Budget

The legislatively adopted budget is a 2.5% increase over the 2003-05 legislatively approved budget. Within this overall increase, General Fund support is increased by 1.1%, Other Funds expenditure limitation increases by 3.5%, and federal resources grow by 2.8%. The legislatively adopted budget is a 6.2% decrease from the Governor's recommended budget. The primary reason for the decrease is an 8.2%, or $81.8 million, reduction in the agency's Federal Funds expenditure limitation to align it with expected federal revenues. The 2005 Legislature increased the General Fund support by 4.3% and Other Funds expenditure limitation by 1% over the Governor's budget.

The adopted budget includes the following:

- an $11.5 million General Fund restoration to the Oregon Prekindergarten program to maintain the percentage of eligible children served at about 60%, the same percentage served in 2003-05;
- restoration of General Fund support ($0.7 million) for Student Leadership Centers; and
- partial restoration of state support (or an add-back of $0.5 million out of a $0.7 million reduction in the Governor's budget) for the Frontier Learning Network, a mobile classroom and Internet-based program designed to serve students in rural and remote parts of North Central Oregon.

As recommended in the Governor's budget, the Legislature approved a $0.1 million General Fund appropriation for the SMART (Start Making A Reader Today) reading program, which is designed to increase the literacy of young children; a reduction of $0.2 million General Fund (or 25%) for the Oregon Public Education Network, a statewide technology project that helps K-12 schools participate in a coordinated information network and distance learning; and a combined $0.7 million General Fund reduction in hospital, regional, and long-term care and treatment programs. Reductions in these programs that affect the Department's MOE compliance were held to a level that should allow the agency to meet the federal requirements.

Due to fluctuations in caseload growth in the Early Intervention/Early Childhood Special Education program over the past several years, the 2005 Legislative Assembly removed funding for caseload growth from the agency's budget and established a $4.9 million special purpose appropriation in the Emergency Fund pending updated data from the agency. As noted earlier, it appears the rate of growth in the program is at least double that expected earlier. As a result, in October 2005, the agency appeared before the Emergency Board to request allocation of the special purpose appropriation. The Emergency Board approved the request and the agency indicated that, when it returns to the Emergency Board with updated data at a later date, it may need to request additional funding for the program.

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

2005-07 Legislatively Adopted Budget – Grant-in-Aid Programs *($ in millions)*

Program Name	General Fund	Other Funds	Federal Funds	Total Funds
Early Intervention/Early Childhood Special Ed	84.7	0.0	29.8	114.5
Oregon Prekindergarten	55.4	0.0	0.0	55.4
Regional Programs	30.8	0.0	24.1	54.9
Long-Term Treatment & Hospital Programs	19.2	11.5	2.2	32.9
Title 1 Low-Income & Migrant Education	0.0	0.0	272.7	272.7
Nutrition Programs	0.0	0.0	227.9	227.9
Local & Other Special Education Programs	0.0	0.0	192.1	192.1
Title II Teacher Quality	0.0	0.0	55.6	55.6
Vocational Education	0.0	0.0	15.7	15.7
Other Programs (primarily under the NCLB Act)	2.0	3.4	96.2	101.6
TOTAL EXPENDITURES	**192.1**	**14.9**	**916.3**	**1,123.3**

ODE – School Funding

	2001-03 Actual	2003-05 Legislatively Approved *	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	3,802,109,714	4,462,368,481	4,703,817,141	4,834,392,341
Lottery Funds	614,555,682	452,100,536	295,732,859	405,057,659
Other Funds	267,626,128	17,191,710	950,000	950,000
Total Funds	**$4,684,291,524**	**$4,931,660,727**	**$5,000,500,000**	**$5,240,400,000**

** The 2003-05 Legislatively Approved Budget includes $14.3 million Other Funds expenditure limitation for the Department of Education to distribute additional property tax revenues to schools. These revenues were part of the tax package defeated by voters in February 2004 (Measure 30). The defeat of the measure did not automatically reduce the Other Funds limitation. The actual 2003-05 state funding level is $4.917 billion rather than $4.93 billion.*

Program Description

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

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

Each regular legislative session, the Legislature typically approves modifications to the distribution formula. Changes made by the 2005 Legislature can be found in HB 2450. These changes include the extension of a high-cost disability grant as part of the school equalization formula and continuation of a small school district supplement fund.

Revenue Sources and Relationships

General Fund represents the primary source of support for the State School Fund.

Lottery Funds in 2001-03 included $262 million in transfers from the Education Stability Fund (ESF) and $353 million of net unobligated lottery resources. The 2003-05 legislatively approved budget includes a $122 million transfer from the Education Stability Fund in May 2005 (HB 3642) as well as net unobligated lottery resources of $330 million. The Governor's 2005-07 budget included net unobligated lottery resources of $295.7 million, including $4.4 million to be generated from the addition of line games to the selections currently offered to players of video lottery games.

For 2001-03, the majority of Other Funds were from Medicaid Upper Payment Limit resources ($242 million). The balance of $26 million was primarily from state timber taxes. In 2003-05, state timber tax revenues are estimated to be $2.9 million. Of the total $17.2 million Other Funds expenditure limitation for 2003-05 shown in the table above, $14.3 million was for distribution of additional property taxes to schools. These revenues were to have come from a reduction in the discount for early payment of property taxes, but they were part of the tax package defeated by voters in February 2004. In the Governor's budget, Other Funds revenues are from state timber taxes.

Budget Environment

Currently, there are 199 elementary and secondary school districts and 20 education service districts, serving about 550,000 students in grades K-12. Over the ten-year period from 1992-93 to 2002-03, enrollment increased by 8.6%. In 2003-04, enrollment dropped by 0.5%, reportedly the first decrease since 1984-85. Enrollment is expected to increase slightly in 2005-07.

There has been a significant change in student demographics over the last decade. In its *2003-04 Statewide Report Card*, ODE illustrates this change.

- The proportion of minority enrollment to total enrollment has increased from 12.5 % in 1992-93 to 25% in 2003-04.
- The number of students for whom English is not the primary language has increased substantially, from 2.4% of all students in 1992-93 to 11% in 2003-04. These students speak at least one of about 138 different languages other than English. The most common second language is Spanish, with about 44,000 students speaking it.
- The low-income population in public schools (as indicated by the number of free and reduced-price lunches) was about 41% of all students in 2003-04, up from 31% in 1995-96.
- Students needing special education services made up about 13% of the total of all students in 2003-04, up from 10.8% in 1992-93.

These changes have implications in how education is provided locally, ranging from the need for English as a Second Language services to culturally-sensitive programs needed to reduce the higher drop-out rate among minority students.

Voter approval of Measure 5 in 1990 and Measure 50 in 1997, both of which limited local property tax revenues, caused a significant shift in funding sources for K-12 education. The proportion of state support for K-12 education has increased from about 28% in 1990-91 to about 66% in 2004-05. As this shift in funding has occurred, there has been more focus on how to balance local control of expenditures with accountability to the Legislature, the taxpaying public, and others. High academic standards, student assessments, school and district report cards, public access to schools' financial information through a database maintained by ODE, and other efforts are steps towards accountability.

The federal No Child Left Behind Act reinforces and adds to accountability requirements for the school districts and individual schools. Annual student assessments aligned with state standards are the primary measure of accountability. Schools are responsible for ensuring students make adequate yearly progress (AYP), as defined by the state. There are consequences for failure to make progress, such as allowing students to transfer to another school. For the 2004-05 school year, about 32.4% of schools in Oregon failed to meet AYP. Title 1 schools [about one-quarter of the AYP-deficient schools] are eligible for federal school improvement funds. Although the U.S. Congress appropriated additional federal funding to implement NCLB requirements, states have expressed serious concerns that the funding may be inadequate to carry out the federal mandates.

In recent years, state funding for Oregon schools has experienced a great degree of instability. The 2001-03 legislatively adopted budget for the State School Fund was $5.2 billion, but legislative actions taken in 2002 to rebalance the statewide General Fund budget resulted in reductions of about $500 million from the adopted budget. The Legislature attempted to mitigate $211 million of these reductions by passing legislation enabling school districts to implement an accounting practice (the "accrual provision") that effectively uses part of a given year's state funding to pay expenditures of the previous year. Anecdotal reports indicated that about one-half of districts used this provision. Had all districts used it, total state support would have been at approximately $4.9 billion, about $100 million over the 1999-2001 level.

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

In 2003, the Legislature adopted a State School Fund budget of $5.2 billion, essentially the same as that approved by the 2001 Legislature prior to special session reductions. To potentially reach a K-12 funding level of $5.3 billion, the 2003 Legislature provided that the State School Fund could receive additional funding if economic recovery occurred in 2003-05. As long as the state's 2003-05 General Fund ending balance was at least $100 million as of the June 2004 revenue forecast, the State School Fund was eligible to receive 50% of any excess over the $100 million ending balance, until state support of the State School Fund reached a total of $5.3 billion.

While schools did receive $8.3 million under these provisions, the State School Fund was reduced by $298.9 million due to the defeat of Measure 30 by voters in February 2004. Thus, the 2003-05 state support dropped to $4.92 billion. Offsetting the state reductions to a slight degree were increased Common School Fund distributions of $26 million and a $50 million increase in other local revenues.

The effects of last biennium's reductions depended upon an individual school district's circumstances. Districts had more time to plan for reduced state support in 2003-05, unlike 2001-03, and many reported implementing the reductions over two years to avoid drastic program cuts in 2004-05. However, for a variety of reasons, many districts had difficulty in maintaining program levels. Budget reductions have come on top of declining enrollment, depleted financial reserves, and/or higher program costs. Districts reported staff layoffs, reductions in course offerings, and increased class sizes resulting from last biennium's state budget reductions. Certain districts have been able to pass local revenue measures to help mitigate some of the effects of these reductions.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget provides $5.24 billion in state support for K-12 school funding. This is an increase of about $323 million, or 6.6%, above the 2003-05 legislatively approved budget of $4.92 billion. General Fund is increased by $372 million, but about $50 million of this increase is due to a shift from Lottery and Other Funds to General Fund support in 2005-07. The legislatively adopted budget does not rely on one-time funding sources.

Of the total $5.24 billion budget, $4.834 billion is from General Fund support, $405.1 million is from lottery support, and $950,000 from state timber taxes (expended as Other Funds). The budget provides $2.567 billion for schools and education service districts in 2005-06 and $2.673 billion in 2006-07.

To potentially reach a K-12 funding level of $5.263 billion, the Legislature provided that the State School Fund would receive additional funding if General Fund revenues increase over the close-of-session economic and revenue forecast for 2005-07. If General Fund growth occurs as of the June 2006 forecast for 2005-07, then the State School Fund is eligible to receive an additional amount of up to $23 million for the 2006-07 school year.

The budget includes $400,000 General Fund for local option matching grants to eligible districts that have passed local option levies. An additional $800,000 is appropriated to the Emergency Board for these grants. The Legislature directed the Department of Education to report with updated data on eligible districts when requesting allocation of the special purpose appropriation.

The essential budget level for the State School Fund is determined each interim by the School Revenue Forecast Committee, which was established by executive order in 1999. Assumptions made by the Committee for the 2005-07 essential budget level include, among other factors, a 15.09% PERS rate; increases of 12% annually in health benefits costs; about a 2% annual increase in teacher salaries; and growth in student counts of 0.31% for 2005-06 and 0.48% for 2006-07. Going into the 2005 session, the essential budget level was calculated at $5.318 billion.

During the 2005 legislative session, the budget committees discussed an anticipated increase in the estimated PERS employer contribution rate for schools in 2005-07 – from 15.09% to 15.72%; a possible decrease in the rate of growth in health benefits costs for the first year – from 12% to 8%; and a $50 million increase over previous estimates for local revenues in 2005-07, primarily due to growth in estimated Common School Fund distributions for K-12 schools. Had these assumptions been used by the School Revenue Forecast Committee, the essential budget level would be closer to $5.258 billion. However, the Committee does not typically meet during legislative sessions to update or refine its calculation. And, regardless of the assumptions used, decisions involving collective bargaining agreements and school budgets are made at the local level and likely will differ (up or down) from some of these statewide assumptions.

During 2005-07, districts will receive an estimated $247 million increase in local revenues, which are primarily property taxes. Thus, combined state and local support increases by 7.8% from 2003-05 to 2005-07 (from $7.261 billion to $7.83 billion). The statewide average for per-student (weighted) spending in 2005-06 is estimated to be approximately $5,472.

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

($ in millions)

Fiscal Year	State funding (a)	Local funding	Total	Percent change	State share	Fiscal Year	State funding (a)	Local funding	Total	Percent change	State share
1990-91	626	1598	2224	-	28%	1999-2000	2326 (d)	967	3293	4.9%	71%
1991-92	818	1561	2379	7.0%	34%	2000-01	2437 (d)	995	3432	4.2%	71%
1992-93	1100	1490	2590	8.9%	42%	2001-02	2537 (e)	1040	3577	4.2%	71%
1993-94	1132	1343	2475	-4.4%	46%	2002-03	2358 (f)	1112	3470	-3.0%	68%
1994-95	1427	1178	2605	5.3%	55%	2003-04 Est	2591	1134	3725	7.3%	70%
1995-96	1750	902	2652	1.8%	66%	2004-05 Est	2326 (g)	1210	3536	-5.1%	66%
1996-97	1760	956	2716	2.4%	65%	2005-06 LAB	2566	1273	3839	8.6%	67%
1997-98	2078 (b)	896	2974	9.5%	70%	2006-07 LAB	2673	1318	3991	4.0%	67%
1998-99	2250 (c)	889	3139	5.5%	72%						

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

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

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

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

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

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

g Includes $8.3 million generated under legislatively adopted trigger language; reflects failure of Measure 30 in 2004-05 per HB 5077; both 2003-04 and 2004-05 include state funding for local option matching grants (biennial total of $400,000)

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

ODE – Debt Service

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Lottery Funds	55,999,998	55,699,162	56,929,095	56,466,744
Other Funds	3,555,414	3,853,214	1,731,375	2,193,726
Total Funds	**$59,555,412**	**$59,552,376**	**$58,660,470**	**$58,660,470**

The ORBITS report includes $94.1 million in Nonlimited Other Funds that reflects the re-funding of lottery-backed bonds. This was done to reduce debt service on these bonds. The above table does not reflect this re-funding, since the agency did not receive additional proceeds.

Program Description

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

- $150 million of bonds approved by voters in November 1997 and issued in Spring 1999; and
- $127 million of bonds approved by the 1999 Legislative Assembly and issued in 1999-2001 for state education projects as defined in HB 2567 (1999).

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

Revenue Sources and Relationships

HB 3411 (1997) established the Education Lottery Bond Fund to repay the debt from net unobligated lottery proceeds, legislative appropriations, and interest earnings of the fund. The law also states the legislative intent to pay debt service after 1997-99 from 75% of the interest earnings on the Education Endowment Fund (now the Education Stability Fund).

Additionally, the 1997 Legislature specified that if distributions from the State School Fund and local revenues exceeded specified ceiling amounts for 1997-98 and 1998-99, any excess was to be transferred to the Education Lottery Bond Fund for the purposes of paying the principal, interest and premium, if any, on the lottery bonds. The 1999 Legislature also provided that any excess from 1999-00 and 2000-01 be used for debt service. During the 1999-2001 biennium, approximately $27 million in excess of the legislative caps set for 1997-99 State School Fund distributions were transferred to the Education Lottery Bond Fund for debt service.

Currently, lottery revenues are the primary source of funds for debt service on these bonds.

Budget Environment

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

Legislatively Adopted Budget

The budget provides $55.5 million Lottery Funds, $1 million in Education Stability Fund interest earnings (these are reflected as Lottery Funds), and $2.2 million in other interest income from debt service-related accounts.

ODE – Common School Fund Distributions

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds (NL)	0	0	0	89,900,000
Total Funds	**$0**	**$0**	**$0**	**$89,900,000**

Program Description

This program reflects the transfers of Common School Fund distributions from the Department of State Lands to the Department of Education. Beginning in 2005-06, ODE will distribute these monies 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. HB 3183 (2005) made the Superintendent of Public Instruction responsible for making these distributions to the districts.

Budget Environment

The distribution policy adopted by the State Land Board is based on a sliding scale for annual distributions between 2% and 5% of the Common School Fund market value as of December 31st of each year. The percentage of distribution is based on the annual growth rate in the Common School Fund's market value. The policy took effect with the 1999-2000 school year.

Distributions have fluctuated over the past several biennia. The total distribution of $48 million for 2001-03 was far below the 1999-2001 distribution of $76 million, due to declines in the stock market as well as lower earnings. On the other hand, distributions in 2003-05 were $53.5 million, a $26.4 million increase over the amount originally anticipated by the 2003 Legislature. This large increase was due to a rebound of the market.

Common School Fund distributions by the Department of State Lands are anticipated to be $89.9 million in 2005-07, an increase for K-12 schools of about $36 million over the 2003-05 amount of $54 million. The wide disparities among recent distributions are illustrative of the effect of market conditions on distributions from the Fund. To prevent such large variations in distributions in the future, the State Land Board voted to switch to a three-year rolling average for calculating the Fund's value after January 1, 2006.

Legislatively Adopted Budget

The legislatively adopted budget includes $89.9 million in nonlimited Other Funds for distributions to K-12 schools in 2005-07.

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

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	3,058,672	84,379,467	52,986,575	73,337,168
Other Funds	191,658,978	128,391,300	31,975,150	31,975,150
Total Funds	**$194,717,650**	**$212,770,767**	**$84,961,725**	**$105,312,318**

The tables for OHSU only show expenditures of state funds in the OHSU budget. Total OHSU expenditures for operations in the 2005-07 biennium are projected to exceed $2.3 billion.

Agency Overview

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

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

The university is governed by a Board of Directors that is appointed by the Governor and confirmed by the Senate. The public policy of the university is delineated in statute. Nonetheless, under its public corporation status, OHSU operates with considerable autonomy. The Legislature no longer approves the university budget (or limits its expenditures from tuition and other sources), though the state continues to support OHSU through grants for its educational and clinical activities. These grants totaled $85.8 million in the 2003-05 biennium. The state also provided an additional $106.3 million in the 2003-05 biennium, as the second part of a two-biennium fund transfer, to support the Oregon Opportunity Program – OHSU's expansion of its research programs in genetics and biotechnology, and $20.7 million for debt service on bonds the state issued to finance the Oregon Opportunity Program fund transfer.

Budget Environment

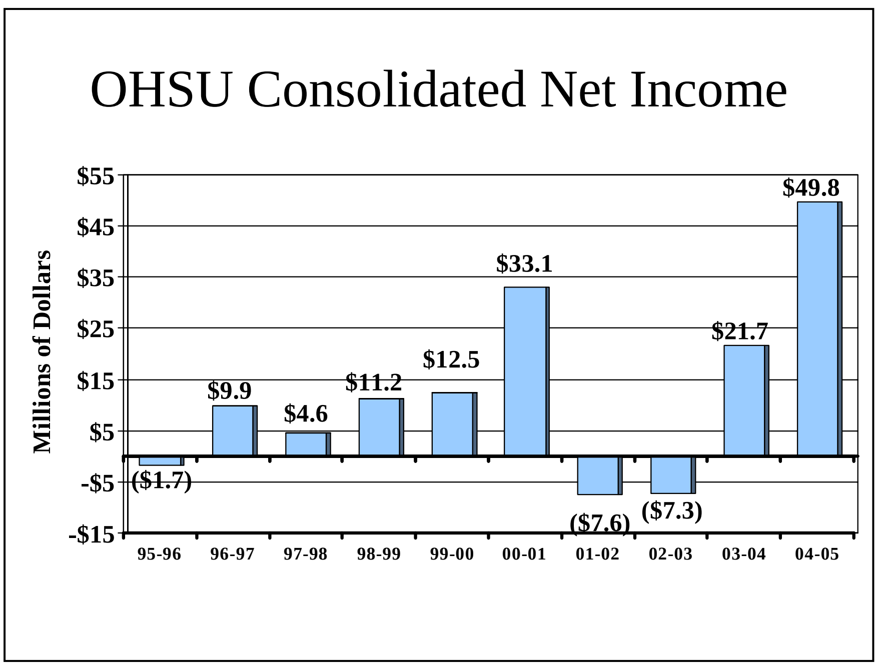
State support for OHSU's education and clinical programs has declined since the institution was reorganized as a public corporation. OHSU received $125.1 million from the state in 1993-95, the last biennium that it was a part of the Department of Higher Education. This level declined 15% when OHSU was turned into a public corporation in the 1995-97 biennium, and has declined a further 19% since then (this excludes Oregon Opportunity Program funds). General Fund was the source of state support until the 2001-03 biennium. During the 2001 session, the Legislature approved most state support in the form of funds from the Medicaid Upper Payment Limit (MUPL) Account. The MUPL account held payments from health districts, under the Proportionate Share Incentive Adjustment State Plan Amendment to the State Medicaid Plan and under intergovernmental agreements with the health districts, that were attributable to the federal funds portion of the total payment made to the health districts. The Legislature dedicated the MUPL account funds to health-related programs, and used these funds for almost all the state support it provided OHSU. Only $3.3 million in General Fund was provided for the Child Development and Rehabilitation Center and the Area Health Education Centers, to meet federal fund match requirements.

For the 2003-05 biennium, the largest source of revenue in the OHSU operating budget is the net patient service fee revenue generated by the hospitals and clinics, projected to total almost $1.2 billion per biennium and to contribute 51% of total operating revenue. Another 36% of operating revenue comes from gifts, grants, and contracts. State support is projected to fall to only 3.6% of total operating revenue, student tuition and fees will contribute 3%, and the sales and services of education departments will contribute another 2%. The remainder is divided among various miscellaneous revenue sources.

OHSU has significantly expanded its operations in the first seven years since it organized as a public corporation. Although student enrollment in health programs has increased 15%, other measures have shown even greater expansion. The institution's operating budget has grown 113%, its total employment count has increased 76%, and annual grant awards totals have risen 204%. Similarly, the university's clinical services show a large increase. The number of hospital discharges (excluding newborns) is up 47% since 1995, the number of clinic outpatient visits is up 70%, and the number of beds in the hospital is up 16%.

The university is also significantly expanding and upgrading its capital plant. In addition to its $2.3 billion of biennial operating expenditures, OHSU is also spending about $440 million this biennium on capital projects. The institution finances approximately $106 million of capital expenditures per biennium out of its operating cash. The remainder is being financed from a combination of state Article XI-L bonds issued for the Oregon Opportunity program, OHSU-issued revenue bonds, and gifts and grants. The major capital projects currently under construction include: a new $144 million, 270,000 sq. ft. Biomedical Research Building, being built on the main campus and scheduled for completion in Fall 2005, being primarily financed by Article XI-L bonds; a new $213 million, 330,000 sq. ft. Patient Care Facility on the main campus that will include 146 beds and scheduled for completion in Spring 2006; and a new $44 million, 400,000 sq. ft. building with associated infrastructure in the North Macadam Urban Renewal Area, as the first phase in the development of a new "River Campus" for the university.

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



OHSU 's net income, after depreciation expense, has fluctuated considerably over the years. The chart on the left shows OHSU consolidated net income in millions of dollars. This figure represents the amount earned by OHSU from both operating and non-operating sources after expenses, including depreciation, are subtracted. In addition to income generated from clinical and education services, the figures in the chart include investment income and the change in value of investments, and the earnings of the OHSU Foundation. State support dollars are also included in the figure, with the effect that if state support for the 2003-04 fiscal year were reduced by $21.7 million, and the university did not change its expenditures, it would show a 2003-04 fiscal year net income of zero. (In reality, the institution would reduce some expenditures if state support were lowered, so that the impact on net income would not be as great.)

The consolidated figures shown in the chart do not disaggregate between OHSU's educational and clinical programs. Such a disaggregating shows that the educational programs do not generate sufficient revenue to cover their operating costs, with the net operating loss currently running at about $40 million per biennium. In the 2003-05 biennium, the university covered almost all of this loss with investment income and Foundation funds. Including these non-operating incomes, the educational operations posted a net loss of only $3.3 million in the 2003-05 biennium. Indeed, in the second year of the biennium, the educational programs actually generated a positive net income (of $8.8 million) for the first time since the 1999-00 fiscal year. OHSU, by generating net income from its hospital and clinical operations of almost $75 million, was able to finance the educational costs, and still realize a $71 million consolidated net income during the biennium.

As part of its $250 million bond sale, OHSU has committed to a five-year financial plan which includes expectations of financial performance to assure bondholders that the university will have sufficient income to repay the bonds. The Board of Directors adopted a financial plan to eliminate any net loss in educational operations by the 2004-05 fiscal year, but this target has been delayed. This will, at current levels of state support, require additional expenditure cuts in the education program. The corporation's financial plan also calls for an increase in the total margin (rate of net income based on operating and investment incomes) in clinical services to 6%.

The university worked with the Joint Legislative Audit Committee prior to the 2001 session to develop a number of performance measures relating to its education, patient care, research, and public service missions. The university also tracks measures reflecting its economic impact. The institution does not report targets for these performance measures, but it does report on changes to them. The 2005 Legislative Assembly formally approved a set of performance measures and directed the university to establish targets for them.

The university's research performance measures track total dollar awards and national rankings. Total research awards reached $260.3 million in the 2003-04 fiscal year, an increase of 18% over the fiscal year two years earlier, and more than triple the 1995 level when OHSU assumed its public corporation status. In 2003, the university ranked 31st in terms of National Institutes of Health support to institutions of higher education, a drop from 28th rank the year earlier, but still up from when the institution first became a public corporation. The university's performance measures for its public service mission track various activities, including: participation in the Area Health Education Centers (AHEC) program, which brings educational training to centers throughout the state; services provided by the Office of Rural Health; calls handled by the Oregon Poison Center; contacts made by the Center for Research on Occupational and Environmental Toxicology (CROET); and the patient service activities of the Child Development and Rehabilitation Center (CDRC).

Legislatively Adopted Budget

The total state support in the legislatively adopted budget of $105.3 million represents a $107.5 million (or 50.5%) decline from the 2003-05 biennium level. Most of this decline is due to the phase-out of Oregon Opportunity program funding. The state provided OHSU with $200 million of bond proceeds to support the Oregon Opportunity program, divided between the 2001-03 and 2003-05 biennia. Funding for this program is now complete, and the lack of funds in 2005-07 represents a $106.3 million decline from the 2003-05 level of funding.

The Legislature added $20.4 million General Fund to the amount in the Governor's recommended budget for the university's education and clinical programs. Even after this increase, however, funding for the operations of the university's education and clinical programs is reduced from the prior biennium level. State support funds are reduced $12.4 million (or 14.5%) below the 2003-05 level. These two reductions are partially offset by an increase in funding to pay debt service on the state bonds issued to support the Oregon Opportunity program. Debt service costs on these bonds is fully phased-in during the 2005-07 biennium. Expenditures are increased $11.3 million (or 55%) above the prior biennium level.

OHSU – Education and General/Hospitals and Clinics/CDRC

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	3,058,672	84,379,467	52,986,575	73,337,168
Other Funds	92,919,599	1,400,000	0	0
Total Funds	**$95,978,271**	**$85,779,467**	**$52,986,575**	**$73,337,168**

Program Description

The instructional activities of the University are organized into four schools – the Schools of Medicine, Dentistry, Nursing, and the OGI School of Science and Engineering. The University offers professional degrees in medicine, dentistry, and pharmacy; baccalaureate degrees in nursing, medical technology, radiation therapy, and physician assistant studies; graduate degrees in biomedical science specialties, public health, and nursing; and certificate programs in nursing, paramedic training, and dietetics. The University had an enrollment in Fall 2003 of 2,539 students, and grants over 700 degrees and certificates each year. Most academic programs are offered on the main and west campuses, but degree programs are also offered in Nursing on the campuses of Eastern Oregon University, Southern Oregon University, the Oregon Institute of Technology, and the Oregon State University Cascades Campus. The university does not use any state support dollars for the OGI School of Engineering and Science.

The University Hospitals and Clinics are the clinical teaching facilities of the university. The facilities include the OHSU Hospital, the Doernbecher Hospital for Children (part of the OHSU Hospital complex), and approximately 85 sub-specialty and primary care clinics. The hospital has 411 staffed inpatient beds. Clinic facilities are primarily located on the campus, though OHSU has established a network of primary care clinics throughout the Portland metropolitan area. The hospitals handle over 23,000 patient discharges, about 44,000 emergency room visits, and about 2,800 births each year. The clinics handle close to 550,000 outpatient visits per year. The hospitals and clinics handle about twice the statewide average of indigent care cases. In the 1999 session, the Legislature identified supporting access to medical care by under-served populations and non-sponsored patients as one of the purposes of state funding, and directed OHSU to utilize its state funds to best achieve this and other purposes.

The Child Development and Rehabilitation Center (CDRC) identifies persons under age 21 in Oregon with disabilities, coordinates clinical services for these individuals, and collaborates with sister agencies in case management. CDRC also provides education to health professions working with the disabled, and funds research on the health of the disabled. CDRC will diagnose and treat any person under 21 who has or is suspected of having a handicapping condition. The initial evaluation is provided at no out-of-pocket cost. The Center operates clinics in 18 Oregon communities, and serves approximately 7,000 children each year.

Revenue Sources and Relationships

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

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

CDRC receives fees for services (including payments from the Office of Medical Assistance Programs), and federal funds from the Maternal and Child Health Block Grant. State funds cover approximately 14% of the CDRC budget.

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

Budget Environment

The Education and General Program (referred to internally at OHSU as the "University" budget) does not generate net revenue to the institution. This is standard for educational enterprises of this type throughout the country, which all rely on clinical care revenues, public support, or private endowments to operate. OHSU maintains its educational programs with the assistance of General Fund support and the net revenues generated by its hospitals and clinics. The three schools vary in the degree to which state funds support their budgets. For the 2003-05 biennium, state funds covered only 5% of the School of Medicine's budget, but covered 29% of the School of Nursing's budget. The figure for the School of Dentistry was 24%. The Oregon Graduate Institute of Science and Technology (OGI) receives some state support from the Oregon Engineering Education Investment Fund, which is supported in the Department of Higher Education budget, but no state support from the funds appropriated directly for OHSU.

Legislatively Adopted Budget

The Governor's budget reduced direct state support for OHSU's education and clinical programs (including CDRC) by $32.8 million (or 38.2%) from the prior biennium level. The funding level also represented a 50% cut from the amount OHSU received from the state when it was first reorganized as a public corporation in the 1995-97 biennium. The OHSU Board of Directors was free to determine how this funding reduction was to be distributed among its various programs, subject to a restriction that no less than $2,741,720 of the $53 million total had to be used to finance the Oregon Poison Center. The support in the Governor's budget for the Oregon Poison Center fully funded the Center's budget and eliminated the need for a subsidy from the rest of the Hospital and Clinics budget.

The OSHU Board of Directors [Board] proposed the following program changes in response to the reduction in state support proposed in the Governor's budget. All reduction amounts and percentages are relative to 2003-05 biennium funding levels:

- ***Hospitals and Clinics (including the Oregon Poison Center)*** – Reduced state support by $12.4 million (or 82%) to $2.7 million. The Board chose to eliminate all direct state support for the Hospital and Clinics budgets outside of the Oregon Poison Center program. The remaining funds would fully support the Oregon Poison Center budget without the need to use other hospital revenues. The impact of this reduction would be to reduce hospital earnings, which the university would offset though cost containments, and initiatives to increase the proportion of its patient population able to pay full medical compensation costs. The impact of these initiatives would reduce the number of Medicaid and non-sponsored patients served.
- ***School of Medicine*** – Reduced state support by $5.6 million (or 19%) to $23.3 million. Initially, the Board indicated that it planned to eliminate the tuition differential for Oregon resident students and raise tuition to the nonresident rate. Later, the tuition proposal was modified to raise resident tuition rates for incoming medical students to approximately 90% of the out-of-state rate, up from the existing ratio of 67%. This tuition rate increases would offset all but an estimated $2.6 million of the funding reduction, thereby requiring various program cuts in the School budget.
- ***School of Nursing*** – Reduced state support by $3.8 million (or 25%) to $11.5 million. The Board proposed increasing tuition for Oregon resident students by approximately 63% in one year to help offset most of the funding reduction. This increase was projected to reduce access to lower-income students and reduce overall enrollment in Nursing programs.
- ***School of Dentistry*** – Reduced state support by $4.7 million (or 38%) to $7.8 million. As with the School of Medicine, the Board initially indicated that it planned to eliminate the tuition differential for Oregon resident students and raise tuition to the nonresident rate. Later, the tuition proposal was modified to raise resident tuition rates for incoming medical students to approximately 90% of the out-of-state rate, up from the existing ratio of 55%. To further help offset the funding reduction, the School planned to increase patient fees at its dental clinic by 5-7% over the rates previously assumed, reducing affordability for the clinic's primarily low-income clientele.
- ***Child Development and Rehabilitation Center*** – Reduced state support by $4.5 million (or 46%) to $5.2 million. The Board proposed eliminating a number of CDRC programs, including: Spina Bifida, Genetics, Feeding Disorders, Cranio-Facial Disorders, Developmental Follow-up of High Risk Infants, Special Education, and Social Work.
- ***Area Health Education Centers/Office of Rural Health*** – Reduced state support by $1.8 million (or 43%) to $2.4 million. These reduction would eliminate state funds for all four regional AHEC centers, and reduce Office of Rural Health staff supplying technical support to rural communities and hospital.

The Legislature added $20.4 million General Fund (representing a 38% increase over the level in the Governor's budget) to restore all of the proposed funding reductions listed above, with the exception of the first bullet item. Funding for the Schools of Medicine, Nursing and Dentistry, for the Child Development and Rehabilitation Center, and for Area Health Education Centers and the Office of Rural Health, are funded at 2003–05 biennium levels. As of result of these restorations, 1) the School of Nursing will retain full enrollment in Portland and at satellite programs, and continue to build partnerships with community colleges to increase statewide enrollment capacity in Nursing programs; 2) the program offerings funded with the support of General Fund and medical and dental student enrollments in the Schools of Medicine and Dentistry will not be reduced; and 3) tuition rate differentials based on Oregon residency will be retained in the Schools of Nursing, Medicine and Dentistry for programs that currently have a differential. Additionally, the university will maintain the existing programs of the Child Development and Rehabilitation Center, the Office of Rural Health, and the Area Health Education Centers that are funded with the support of the General Fund.

Funding for Hospitals and Clinics is reduced to $2.7 million, enough to fully fund the Oregon Poison Center, but eliminating any additional support beyond this. The university will use the General Fund allocated for the Hospitals and Clinics budget to retain the existing level of services of the Oregon Poison Center, with the expectation that the university hospitals and clinics will continue to serve Medicaid and uninsured low-income patients as part of their public mission.

OHSU – Oregon Opportunity Program

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	0	0	0	0
Other Funds	93,651,594	106,298,400	0	0
Total Funds	**$93,651,594**	**$106,298,400**	**$0**	**$0**

Program Description

In 2001, the Legislature approved state funds in support of the Oregon Opportunity program. The Oregon Opportunity program is the name OHSU has given to a group of investments, totaling $500 million, to expand the university's programs in genetic and biomedical research and its rural health programs. The 2001 Legislature approved $200 million in bond proceeds in support of this effort, contingent on subsequent voter approval of a ballot measure to authorize general obligation bonds for this purpose. Voters approved that authorization in May 2002. These bond proceeds were to be matched with $300 million in donations. All but $20 million of these donations have been raised.

The combined state and private funds support the construction of a 270,000 square-foot biomedical research facility on the main campus, and the recruitment of an additional 71 scientists as principal investigators of sponsored research projects, along with research support and support staff for the added scientists. The funds also support the purchase of a research facility on the west campus, and facilities and technology infrastructure for rural health initiatives.

With this investment added to its existing resources, OHSU plans to increase the level of its sponsored research awards by 47% (to $325 million annually) by fiscal year 2006-07. Other goals over this same period are to increase annual technology transfer licensing and royalty revenue by 188% (to $3.34 million), and to increase the number of Oregon companies in which OHSU holds equity from the current 3 to 27. As of the 2002-03 fiscal year, the university had hired 70 of the 71 planned additional scientists. As of 2003-04, OHSU had increased its sponsored research award level to $260.3 million, its licensing and royalty revenue totaled $1.25 million, and the number of Oregon companies in which OHSU holds equity had increased to 7.

Revenue Sources and Relationships

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

Budget Environment

The state issued two series of Article XI-L bonds, in 2002 and in 2003. The bonds have a 20-year term. The first series generated $93.7 million of net proceeds that were transferred to OHSU in the 2001-03 biennium. The second bond series generated $106.3 million of net proceeds that were transferred in the 2003-05 biennium. This exhausted the $200 million of bond authority authorized by Article XI-L. The state cannot issue additional Article XI-L bonds unless voters approve an increase in the constitutional limitation.

Each bond series was structured so that issuance costs, underwriters discount, and debt service costs, through the biennium of its issuance, were financed from the bond proceeds. Beginning in the 2005-07 biennium, all debt service costs for both bond series will be paid from TMSA funds. In the 2005-05 biennium, these payments will total approximately $32 million.

Legislatively Adopted Budget

The state cannot issue additional Article XI-L bonds. The legislatively adopted budget does not transfer bond proceeds or any other funds to OHSU for the Oregon Opportunity program in the 2005-07 biennium.

OHSU – Bond-related Costs

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	0	0	0	0
Other Funds	5,087,785	20,692,900	31,975,150	31,975,150
Total Funds	**$5,087,785**	**$20,692,900**	**$31,975,150**	**$31,975,150**

Program Description

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

Revenue Sources and Relationships

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

Budget Environment

The state issued general obligation bonds for the Oregon Opportunity program under Article XI-L of the state constitution, which voters approved at a May 2002 election. Debt service on the bonds is the responsibility of the state, and will be paid for the 20-year term of the bonds. The state has exhausted all capitalized interest (bond proceeds) available to pay debt service. The state plans to pay all debt service costs with TMSA revenues for the remainder of the bond term. Bond-related costs for the Article XI-L bonds are fully phased-in, beginning with the 2005-07 biennium. These payments are projected at a steady $32 million per biennium through the 2021-23 biennium. A final $8.4 million payment is projected for 2023-25.

Legislatively Adopted Budget

The legislatively adopted budget fully funds 2005-07 biennium debt service costs with $31.9 million of TMSA moneys. This represents a 55% increase in debt service costs over the prior biennium level. During the 2003-05 biennium, only $9.6 million of the $20.7 million in debt service costs was paid with TMSA moneys. The remainder was paid from bond sale proceeds. The increase in TMSA funds from the prior biennium is therefore $22.3 million, or 230%. Future biennium debt services costs will not increase further. There is no unused capacity under Article XI-L to issue additional debt.

Department of Higher Education (DHED) – Agency Totals

	2001-2003 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	746,014,010	671,431,645	685,450,858	704,436,524
Lottery Funds	4,869,745	8,123,462	11,998,734	11,417,524
Other Funds	1,203,343,594	1,480,271,558	1,408,386,847	1,476,109,901
Other Funds (NL)	1,730,045,995	2,087,285,908	2,425,619,327	2,416,936,637
Total Funds	**$3,684,273,344**	**$4,247,112,573**	**$4,531,455,766**	**$4,608,900,586**
Positions	13,730	14,781	13,882	14,457
FTE	11,155.90	12,061.26	11,301.52	11,876.52

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

Agency Overview

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

Legislatively Adopted Budget

The legislatively adopted budget provides a 5.3% increase in state support (General Fund plus Lottery Funds) over the 2003-05 biennium level. This represents an $18.4 million (or 2.6%) increase over the level in the Governor's recommended budget. Additionally, the legislatively adopted budget includes special purpose appropriations to the Emergency Board, on behalf of the Department, for 2005-07 state employee compensation changes and for an integrated K-16 student data system. If these appropriations are allocated as anticipated, total state support for the Department will be 9.9% above the prior biennium level. The impacts of the budget on the Department's program areas that receive General Fund are summarized below:

- ***Education and General Services Program –*** General Fund support of $565.1 million is an increase of $21.8 million (or 4%) over the 2003-05 biennium level. If the special purpose appropriations to the Emergency Board are allocated to the Education and General Services program as anticipated, General Fund will total $591.4 million, which is $48.2 million (or 8.9%) above the prior biennium level.

  In the Education and General Services program, the universities and centralized operations combine General Fund with their limited Other Funds to finance program costs. This combination of limited expenditures from both the General Fund and limited Other Funds sources is the best measure of the resources that the Department has in this budget to maintain its education and general programs. Tuition and resource fee revenues are the primary sources of the limited Other Funds. The budget accommodates tuition and resource fee rate increases averaging 3.5% in the first year, and 3.2% in the second year, of the biennium. Within these overall increases, the budget limits average tuition and resource fee rate increases for resident undergraduate students to no more than a 3% increase each year. Combined limited funds support for the Education and General Services program is increased $62.7 million (or 4.1%) over the amount in the 2003-05 biennium budget. The increase, however, in **actual** expenditures is more than this, because actual 2003-05 biennium Other Funds expenditures were less than were budgeted. Projected 2003-05 biennium expenditures of Other Funds are $49.6 million below what was budgeted. The limited Other Funds increase in the Governor's budget for the 2005-07 biennium is therefore closer to $112.3 million (or 7.6%) over actual 2003-05 biennium expenditures. When anticipated funding from the Emergency Board for state employee compensation changes and the K-16 student data system is added, the Education and General Services program increase over actual 2003-05 expenditures is 11.4%.

- ***Agricultural Experiment Station –*** General Fund support of $51.9 million is a $1.6 million (or 3.2%) increase over the 2003-05 biennium level. This represents a $2.5 million (or 5.1%) increase over the amount in the Governor's recommended budget. When anticipated funding from the Emergency Board for state employee compensation changes is added, General Fund support totals $54.5 million, and the increase over 2003-05 expenditures is $4.2 million (or 8.4%). Combined limited funds support is 1.7% below the essential budget level.

- ***Extension Service* –** General Fund support of $37.2 million is a $2.1 million (or 5.9%) increase over the 2003-05 biennium level. This represents a $2.3 million (or 6.6%) increase over the amount in the Governor's recommended budget. When anticipated funding from the Emergency Board for state employee compensation changes is added, General Fund support totals $39.1 million and the increase over 2003-05 expenditures is $4 million (or 11.3%). Combined limited funds support is 3.4% below the essential budget level.

- ***Forest Research Laboratory* –** General Fund support of $5.3 million is a $320,000 (or 6.5%) increase over the 2003-05 biennium level. This represents a $430,000 (or 8.9%) increase over the amount in the Governor's recommended budget. When anticipated funding from the Emergency Board for state employee compensation changes is added, General Fund support totals $5.6 million, and the increase over 2003-05 expenditures is $620,000 (or 12.5%). Combined limited funds support is 3.1% below the essential budget level.

- ***Debt Service* –** State-paid debt service payments have increased by $8 million (or 27%) over the 2003-05 biennium level. The Governor's budget covers $1.7 million of this increase with bond proceed interest earnings. General Fund and Lottery Funds payments are therefore up $6.3 million (or 21%) from the prior biennium level, to a total $35.9 million.

- ***Capital Construction* –** The capital budget totals $410.3 million, although this figure is lower than is eventually anticipated after Emergency Board actions, because a number of projects are included with limited expenditure limitations pending further Emergency Board review. The total is down from the $446.1 million in the 2003-05 biennium. General Fund for capital construction, however, is increased by 28% to $14.8 million. The budget also supports $112.2 million of state-paid bonds for the projects. This is up more than three-fold from $32.5 million in 2003-05. The total includes $32.7 million of State Energy Loan Program (SELP) bonds. Campuses will pay approximately 40% of the debt service costs on the SELP bonds from energy savings – the remaining debt service will be paid by the General Fund. Most of the state-paid bonds are issued to address deferred maintenance and seismic issues. Debt service on these bonds that will be paid by the state will total an estimated $15.7 million General/Lottery Funds per biennium when fully phased-in.

DHED – Education and General Services

	2001-2003 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	617,384,612	543,205,078	548,907,205	565,051,859
Other Funds	706,688,179	990,707,996	1,021,127,987	1,031,588,659
Other Funds (NL)	919,862,621	1,100,746,105	1,282,909,697	1,275,061,427
Total Funds	**$2,243,935,412**	**$2,634,659,179**	**$2,852,944,889**	**$2,871,701,945**
Positions	10,265	11,299	10,609	11,141
FTE	8,356.50	9,259.80	8,612.29	9,144.29

Program Description

The Education and General Services program includes the instruction, research, public service, and operating costs of the seven institutions that make up OUS, plus the Oregon Center for Advanced Technology Education, and the centralized administration and support services of the system. (The operations of self-supported campus auxiliaries such as housing and health services, however, are shown in the Other Services (Nonlimited) program.) The Education and General Services Program accounts for 80% of the Department's state-supported (General Fund plus Lottery Funds) expenditures. The Legislature appropriates funds and provides expenditure limitations for the Department as a whole rather than to the individual institutions. The State Board of Higher Education then allocates these funds to the various institutions and programs in annual budgets through the Resource Allocation Model (RAM). The RAM allocates state support dollars primarily on an enrollment basis, and ends the prior practice of pooling tuition revenue among institutions. Institutions combine their tuition revenue with the allocation of General Fund that they receive through the RAM distribution to support their education and general services operating costs.

Revenue Sources and Relationships

The primary source of Other Funds for the Education and General Services Program is tuition. Other sources include other student fees such as Resource Fees and Energy Surcharge fees, sales and charges for services, indirect cost recovery on grants, and other miscellaneous revenue. Other Funds subject to expenditure limitation are retained by the campuses generating those revenues, with the exception of a small portion of indirect cost recovery monies that are transferred to the Chancellor's Office. The 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 approximately 76% 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 remaining 24% 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. There are 20 targeted programs that receive funding in the 2003-05 biennium. The largest are the funding for smaller campuses that is additional to the amount they receive for their enrollments (4.5% of total General Fund); Engineering program enhanced funding for projects identified by the Engineering Technology Industry Council (3.8%); and the Chancellor's Office (3.8%). General Fund for the Chancellor's Office and the centrally-administered Oregon Center for Advanced Technology Education (OCATE) had been originally approved at $26.4 million for the 2003-05 biennium. After the 2003 session, however, the State Board of Higher Education substantially reduced the size and operational costs of the Chancellor's Office and Oregon Center for Advanced Technology Education. The Chancellor's Office budget was reduced by approximately $6 million per biennium on an ongoing basis – a 23% reduction.

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

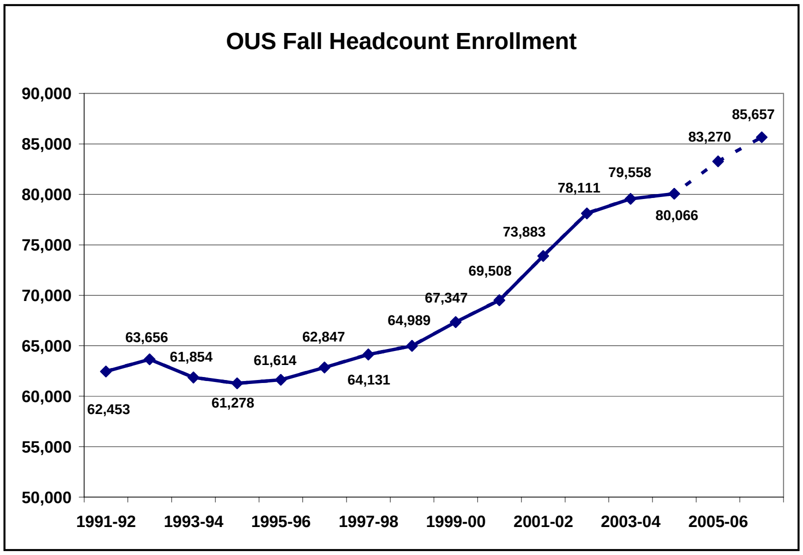
Budget Environment

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

In 1999, the Legislature increased General Fund support of the Education and General Services Program by 22%. This included $106.8 million of General Fund enhancements. Of this total, $15.3 million resulted in no additional revenue for the budget, since it was used to freeze tuition rates for resident undergraduates. The funds simply replaced increases in tuition that would have otherwise supported the current service level budget. The 1999-2001 budget also designated $5 million for engineering education enhancements. But the remaining enhancements, totaling approximately $86.4 million, were provided to be allocated through the then new Resource Allocation Model, and to support the implementation of that model.

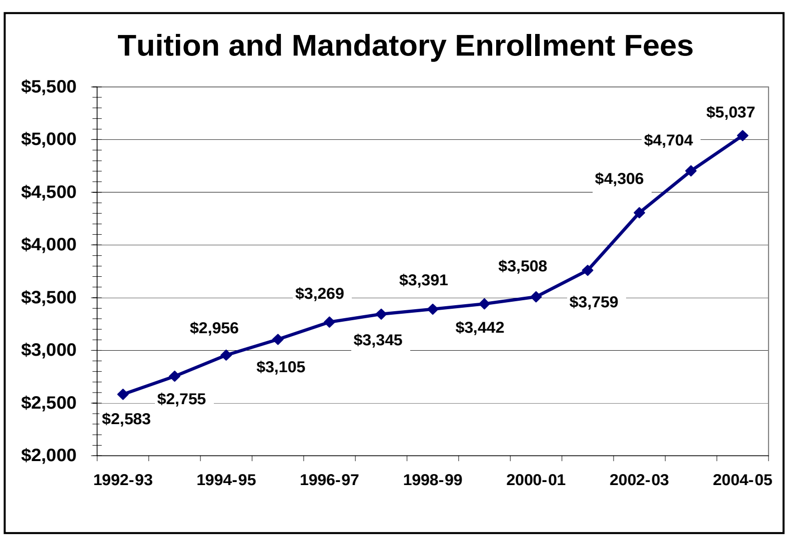
General Fund support of Education and General Services has decreased since the 1999-2001 biennium as the state has faced ongoing General Fund revenue shortfalls. Support in the 2001-03 biennium was reduced several times in special sessions as the revenue shortfall became known. When these reductions were complete, General Fund had been reduced to a level that was 1.4% below the 1999-2001 level. In the 2003-05 biennium, support declined a further 12% (after voter disapproval of Measure 30 reduced General Fund revenues and appropriations). During these two biennia, the legislatively approved budgets allowed for large tuition rate increases to offset declines in General Fund support and to allow OUS to address cost increases. The combined limited fund budget actually increased 7.9% in 2001-03, and a further 15.8% in 2003-05. Actual 2003-05 Other Funds revenues have fallen short of the amount in the legislatively adopted budget (LAB), because enrollments are lower than projected and because tuition rate increases were not as large as originally proposed. Actual OUS expenditures have been reduced even further from the 2003-05 LAB level than the lower-than-projected revenues would even require, and indeed 2004-05 academic year expenditures of combined limited funds were actually below the prior year level. The 2003-05 LAB anticipated that OUS would spend all of its education and general revenues, plus an additional $25.9 million of accumulated fund balances. Combined limited fund expenditures, though, are now projected to total $44.1 million below budget. This exceeds the $30.6 million revenue shortfall, so ending fund balances will be higher than budgeted.

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



Enrollment in the Oregon University System has been increasing since the 1995-96 academic year. This reverses an earlier decline during the 1990s that occurred when tuition rates were increased rapidly as a response to Measure 5. This year, enrollment is at record levels, exceeding not only the 1990-91 level (the last year prior to Measure 5), but also exceeding the all time record established back in 1980-81. This growth is occurring as a result of the increasing numbers of high school graduates each year in Oregon, and because a greater proportion of those graduates are choosing to attend an OUS school. The freshman participation rate, which measures resident first-time freshmen as a percentage of the state's number of high school graduates the previous June, has now returned to its all time peak rate of 24%. This freshman participation rate had been close to that level in the late 1980s, but the rate had fallen to a low of 17.5% in the early 1990s. The two trends of larger high school graduating cohorts and high freshman participation rates are expected to continue. OUS projects enrollment growth to continue in each of the two years of the 2005-07 biennium, and well beyond.

The rate of enrollment growth has fluctuated greatly, though, and displays an inverse correlation to the rate of tuition increases, with a short lag. Enrollment growth rates accelerated during the 1990s, peaking at approximately 6% per year in the 2001-03 biennium. This coincided with and followed a period of moderate tuition rate increases that were below the rate of inflation. Tuition rate increases then accelerated in the 2001-03 and 2003-05 biennia. Rate increases during these two biennia have averaged 9.5% per year. Enrollment growth has recently slowed down, to an average of 1.2% per year in 2003-05.



Average mandatory enrollment fees for full-time resident undergraduate students is shown in the chart to the left. Mandatory enrollment fees include tuition and other required fees such as building fees, incidental fees, health service fees, and technology fees. These fees increased from $1,864 in 1990-91 to $3,269 in 1996-97, an increase of 75.4%. In 1997, the Legislature addressed this issue by financing a tuition freeze for resident undergraduates. This freeze was extended in 1999 for an additional two years.

Through the 2000-01 academic year, mandatory fees then rose an average 7.3%, but this increase was due entirely to increases in the non-tuition mandatory fees.

The 2001-03 legislatively adopted budget allowed for a 4% tuition increase in the 2001-02 academic year, and a 3% tuition increase in the 2002-03 academic year. Although all campuses limited their tuition increase for resident undergraduate students to 4% in the 2001-02 academic year, they increased their non-tuition mandatory fees at a much greater rate, and most campuses imposed a new Energy Surcharge Fee. As a result, total mandatory enrollment fees increased by an average of 7.2% (for resident undergraduate students) in the 2001-02 academic year, almost equal in percentage terms to the increase over the prior four years combined. In the 2002-03 academic year, fees were increased twice: once at the beginning of the year as traditionally occurs, and a second time in the Spring Term when campuses imposed tuition surcharges to partially offset the impact of General Fund reductions required because of the defeat of a proposed temporary income tax increase (Measure 28), and General Fund cuts imposed by allotment reductions to prevent deficit. By the time the Spring Term surcharges were imposed, the mandatory enrollment fees for resident undergraduate students were, on average, 14.5% above the 2001-02 levels. Mandatory enrollment fees for resident undergraduates, shown in the above chart, increased a further 9.3% in 2003-04 and 7.1% in 2004-05. Many students, however, experienced even larger rate increases than shown here, as campuses reduced or eliminated their tuition credit plateaus.

Legislatively Adopted Budget

The legislatively adopted budget's $565.1 million of General Fund is a $21.8 million (or 4%) increase over the 2003-05 biennium level. These changes reflect that the Legislature added a net $16.1 million General Fund to the level proposed in the Governor's budget, a 2.9% increase. The Governor's budget had only increased General Fund support by 1% over the prior biennium level.

The funding level for Education and General Services incorporates the following principal changes from prior biennium program levels:

- General Fund distributions through the Resource Allocation model are reduced by a total of $10.4 million. The components of this reduction include:
  - Chancellor's Office (-$5.5 million, equal to the roll-up of 2003-05 biennium cuts)
  - Eliminate support for the Western Undergraduate Exchange program and for the fee remission equity program (-$1.6 million)
  - Campus public service programs (-$1,222,000)
  - Engineering Education (ETIC) (-$663,000)
  - Systemwide expenses (-$371,000)
  - Research support (-$390,000)
  - Veterinary College expansion funding (-$203,000)
  - Remaining reductions of less than $200,000 each (-$438,000)

- General Fund reductions other than to specific Resource Allocation Model programs, totaling $11.3 million:
  - Reject restoration of $5.1 million General Fund for IT purchases (-$5.1 million)
  - Reduce 3% of the General Fund budget for services and supplies and capital outlay (-$3.4 million)
  - Reductions in charges for Public Employees Retirement System contributions and state government service charges below the levels projected in the Governor's budget (-$2.8 million)

- General Fund is added to support new or expanded activities. The six General Fund enhancements total $27.4 million. They are:
  - Limit tuition and resource fee rate increases for resident undergraduate students to no more than an average 3% per year, without loss of revenue ($17.25 million)
  - Undergraduate and Graduate "Cell Value" Enrollment Funding ($6.05 million)
  - Faculty recruitment and retention funds ($809,158)
  - Limited restoration of certain recent Chancellor's Office cuts ($1.5 million)
  - Dispute resolution programs ($1.5 million to repeal a scheduled sunset of the programs)
  - Oregon State University Natural Resources Institute ($250,000)

- Other General Fund adjustments designed to distribute costs among fund types to reflect levels approved in the 2003-05 budget or to more accurately reflect projected costs. These adjustments sum to a reduction of

$15.8 million General Fund and $13.8 million Other Funds. These adjustments were entered into the budget as reductions from the essential budget level, but they are more properly viewed as technical corrections. Nonetheless, they could result in some program reductions because they would require OUS to use more of their Other Funds revenues for ongoing costs than they are currently using. As noted above, OUS has significantly reduced their Other Funds expenditures below 2003-05 LAB levels. The redistributions from General Fund to Other Funds are designed to maintain the fund split that was approved last session in the LAB, but it may require higher tuition rate increases (or lower program cuts) from the levels OUS originally requested.

- In addition to all of the above, the legislatively adopted budget also includes a $2.1 million General Fund special purpose appropriation to the Emergency Board for a K-16 integrated student data system. The Governor had proposed appropriating General Fund for the integrated student data system directly to the Department. The Legislature reduced the total appropriation by $95,000, removing funds for purchases of the system hardware and software that will reside at the campuses. The remaining funds were appropriated to the Emergency Board with the requirement that the Department report to the Joint Legislative Audit Committee on proposed performance measures for the integrated student data system prior to requesting an allocation of the appropriated funds. The Department, with the assistance of the Department of Education and the Department of Community Colleges and Workforce Development, will also report to the Emergency Board on the design, architecture, and total cost to complete the data system, and report on the timeline to completion and implementation, and the expected outcomes of system implementation. This $2.1 million of General Fund is not included in the tables describing Department funding levels.

- The legislatively adopted budget also includes a special purpose appropriation to the Emergency Board for 2005-07 biennium state employee compensation changes. The Legislative Fiscal Office estimates that the Education and General Services Program will receive approximately $24.3 million General Fund from the distribution of the $130 million special purpose appropriation to the Emergency Board for 2005-07 state employee compensation adjustments. These funds, as with the K-16 student data funds described in the previous bullet, are not included in the table describing Department funding levels. This combined $26.4 million from the two special purpose appropriations would be in addition to the $565.1 million total General Fund appropriated directly to the Department during the legislative session. With these additional funds included, General Fund support totals $591.4 million, and the increase over 2003-05 expenditures is $48.2 million (or 8.9%).

In the Education and General Services program, the universities and centralized operations combine General Fund with their limited Other Funds to finance program costs. These combined limited funds expenditures from both the General Fund and Other Funds sources is the best measure of the resources available to the Department to maintain its education and general programs. Tuition and resource fee revenues are the primary sources of the limited Other Funds. The budget accommodates average tuition and fee rate increases of 3.5% in the first year, and 3.2% in the second year, of the biennium. Within these overall increases, the budget limits tuition and resource fee rate increases for resident undergraduate students to no more than an average 3% increase each year. Combined limited funds support for the Education and General Services Program is increased $62.7 million (or 4.1%) over the level in the 2003-05 biennium budget. The increase, however, in **actual** expenditures is more than this, because actual 2003-05 biennium Other Funds expenditures were $49.6 million less than were budgeted. The limited Other Funds increase in the Governor's budget for the 2005-07 biennium is, therefore, closer to $112.3 million (or 7.6%) above the actual 2003-05 biennium expenditures. When anticipated funding from the Emergency Board for 2005-07 biennium state employee compensation changes and the K-16 student data system is added, the increase in combined limited funds in the Education and General Services program over 2003-05 actual expenditures is 11.4%.

The budget accommodates most, but not all, of the tuition and resource fee revenues that will be generated at forecast enrollment levels, if average tuition and resource fee rates are allowed to increase by 3.5% in the first year, and 3.2% in the second year, of the biennium. (Within these overall increases, the budget limits tuition and resource fee rate increases for resident undergraduate students to no more than an average 3% increase each year.) This rate increase will be significantly lower than recent tuition rate increases, including the average 7.1% rate increase imposed in Fall 2004. The Legislature added $26.6 million to the Other Funds expenditure limitation to allow expected tuition and resource fee revenues to be spent to pay for compensation costs allowed under the essential budget level, with the expectation that the Emergency Board will approve an additional

$31.1 million Other Funds expenditure limitation increase during the interim. This additional increase will allow all projected tuition revenues to also be used, to address 2005-07 state employee compensation changes.

The budget also includes $7 million of Lottery Funds to expand the Oregon Nanoscience and Microtechnologies Institute (ONAMI). ONAMI is a collaborative effort to promote research that will have commercial value to the state's economy. These funds are **not** included in the Department's budget, however. Instead, they are included in the Oregon Economic and Community Development Department budget, although the funds will be distributed primarily to Oregon State University, the University of Oregon, and Portland State University (where they will be spent as Nonlimited Other Fund grants).

DHED – Fee Remissions

	2001-2003 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	89,590,000	0	0	0
Total Funds	**$89,590,000**	**$0**	**$0**	**$0**

Program Description

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

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

Budget Environment

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

The 2003-05 legislatively adopted budget limited the level of fee remissions out of a concern that they were offsetting too much tuition revenue at a time when the budget was increasingly reliant on tuition revenue. The budget limited Programmatic fee remissions to no more than 8% of the tuition revenue. This was equivalent to $65 million in Programmatic fee remissions for the 2003-05 biennium. Because actual tuition revenues are below budgeted expectations, OUS has limited Programmatic fee remissions to $63.1 million this biennium to remain within the 8% cap. Many Programmatic fee remissions are offered on a multi-year basis, so campuses had to shift much of the fee remission reduction to the second year of the biennium. Programmatic fee remissions declined from $34.7 million in 2003-04 to $24.4 million in 2004-05. This decline was achieved through a severe reduction in new fee remission awards during the biennium.

Legislatively Adopted Budget

The Governor's budget proposed eliminating limits on Graduate fee remissions, and raising the limit on Programmatic fee remissions from 8% to 10% of tuition revenue in 2005-07, with the Programmatic fee remissions limitation eliminated entirely beginning in the 2007-09 biennium. The legislatively adopted budget repeals all limitations on fee remissions immediately, but instructs the Department of Higher Education to direct additional fee remission authority available from the ending of the 8% fee remission cap on Programmatic fee remissions into fee remission programs that are need-based. The Department is also required to report to the Joint Legislative Audit Committee and Emergency Board, prior to November 2006, on the impacts of expanding Programmatic fee remissions beyond the limit of 8% of gross tuition revenues. This report shall include information on fee remission program awards for the 2005-06 and 2006-07 academic years, and shall include information on funding of need-based and merit-based fee remission programs, and on the impact of expanding fee remission programs on the enrollment of lower-income resident students.

DHED – Agricultural Experiment Station

	2001-2003 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	51,146,706	50,238,500	49,345,558	51,860,395
Other Funds	14,331,543	16,390,171	16,387,905	16,399,999
Other Funds (NL)	53,682,535	57,703,059	63,473,365	63,127,844
Total Funds	**$119,160,784**	**$124,331,730**	**$129,206,828**	**$131,388,238**
Positions	868	815	795	807
FTE	661.76	610.41	619.90	631.90

Program Description

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

Revenue Sources and Relationships

Historically, Other Funds subject to expenditure limitation have come primarily from sales and service fees, with some indirect cost recovery on federal grants, interest earnings, and miscellaneous income. The Experiment Station receives federal funds (reported as Other Funds) through the Hatch Act. Nonlimited gifts, grants, and contracts will provide over $57.7 million for Experiment Station research in the 2003-05 biennium.

Budget Environment

In 1999, the Legislature approved an $8.2 million expansion of the Experiment Station's research activities, increasing state support over 18%. Since then, General Fund support has been reduced: first by $2.1 million in the 2001-03 biennium, and then by an additional $0.9 million in 2003-05. Growth in Other Funds has more than offset this decline, yet cost increases have required the Station to eliminate 28 FTE.

Legislatively Adopted Budget

The legislatively adopted budget's $51.9 million of General Fund is a $1.6 million (or 3.2%) increase over the 2003-05 biennium level. These changes reflect that the Legislature added a net $2.5 million General Fund to the level proposed in the Governor's budget, a 5.1% increase. The Governor's budget had actually reduced General Fund support by 1.8% from the prior biennium level. The net $2.5 million General Fund addition to the Governor's budget contains the following elements:

- A General Fund increase of $2.8 million and twelve positions (12.00 FTE) to partially offset a $4.1 million General Fund reduction in the Governor's budget. The remaining reduction is unspecified, as it was in the Governor's budget, but includes both funding reductions, and the reallocation of costs between General and Other Funds to reflect the fund split approved in the 2003 Session or more appropriate fund splits for state government service charges.

- A General Fund increase of $100,875 to support the recruitment and retention of highly qualified faculty. This is the Agricultural Experiment Station's portion of the $1 million included in the Governor's budget for faculty recruitment and retention. The Governor's budget had provided the full $1 million to the Education and General Services program, but the Legislature shifted a portion of this funding to each of the three statewide public service programs based on their proportionate share of total General Fund faculty salary costs.

- A $300,091 General Fund reduction in charges for Public Employees Retirement System contributions and state government service charges below the levels projected in the Governor's budget.

- A $85,947 General Fund reduction representing 3% of the General Fund budget for services and supplies and capital outlay.

- The Legislative Fiscal Office (LFO) estimates that the Agricultural Experiment Station will receive approximately $2.6 million General Fund from the distribution of the $130 million special purpose appropriation to the Emergency Board for 2005-07 state employee compensation adjustments. This $2.6 million would be in addition to the $51.9 million total appropriated during the legislative session. With these funds included, General Fund support totals $54.5 million, and the increase over 2003-05 expenditures is $4.2 million (or 8.4%).

Limited Other Funds expenditures are essentially flat at last biennium's level, and combined limited funds support is 1.7% below the essential budget level. The legislatively adopted budget shows a reduction of eight positions (1%) from the prior biennium level. This impact is not entirely the result of funding levels in the limited budget. Grant and contract funds are estimated to be $1.55 million short of the need to fund essential budget level costs. This shortfall contributes to the expected staff reductions.

DHED – Extension Service

	2001-2003 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	35,323,279	35,123,305	34,898,665	37,194,367
Other Funds	24,525,111	27,177,395	22,904,908	22,838,785
Other Funds (NL)	8,728,504	7,746,780	7,845,090	7,698,032
Total Funds	**$68,576,894**	**$70,047,480**	**$65,648,663**	**$67,731,184**
Positions	670	682	578	589
FTE	469.99	464.28	407.46	418.46

Program Description

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

Revenue Sources and Relationships

The Extension Service is funded cooperatively from federal, state, county, and private sources. Federal Funds are primarily from the U.S. Department of Agriculture through the Smith-Lever Act. Nonlimited funds include gifts and sponsored research financed by the federal government, private industry, and other private groups.

Budget Environment

In 1999, the Legislature approved a $3.65 million expansion of the Extension Service's service activities, increasing state support by 11%. In 2001-03, the funding of these expanded programs was continued. During the 2001-03 biennium, General Fund was reduced by $1 million, and essentially maintained at this reduced level in the 2003-05 biennium. The Extension Service budget has had to implement cutbacks to bring ongoing expenses in line with ongoing Other Funds revenues. The Service had been financing ongoing costs through a reduction of fund balances. This level of expenditure was not sustainable. The Extension Service will employ an estimated 46 fewer FTE during the 2003-05 biennium than its budget permitted.

Legislatively Adopted Budget

The legislatively adopted budget's $37.2 million of General Fund is a $2.1 million (or 5.9%) increase over the 2003-05 biennium level. These changes reflect that the Legislature added a net $2.3 million General Fund to the level proposed in the Governor's budget, a 6.6% increase. The Governor's budget had actually reduced General Fund support by 0.6% from the prior biennium level. The net $2.3 million General Fund addition to the Governor's budget contains the following elements:

- A General Fund increase of $2.45 million and eleven positions (11.00 FTE) to partially offset a $2.8 million General Fund reduction in the Governor's budget. The remaining reduction is unspecified, as it was in the Governor's budget, but includes both funding reductions, and the reallocation of costs between General and Other Funds to reflect the fund split approved in the 2003 Session or more appropriate fund splits for state government service charges.

- A General Fund increase of $80,561 to support the recruitment and retention of highly qualified faculty. This is the Extension Service's portion of the $1 million included in the Governor's budget for faculty recruitment and retention. The Governor's budget had provided the full $1 million to the Education and General Services program, but the Legislature shifted a portion of this funding to each of the three statewide public service programs based on their proportionate share of total General Fund faculty salary costs.

- A $231,944 General Fund reduction in charges for Public Employees Retirement System contributions and state government service charges below the levels projected in the Governor's budget.

- A $2,915 General Fund reduction representing 3% of the General Fund budget for services and supplies and capital outlay.

- LFO estimates that the Extension Service will receive approximately $1.9 million General Fund from the distribution of the $130 million special purpose appropriation to the Emergency Board for 2005-07 state employee compensation adjustments. This $1.9 million would be in addition to the $37.2 million total appropriated during the legislative session. With these funds included, General Fund support totals $39.1 million, and the increase over 2003-05 expenditures is $4 million (or 11.3%).

Limited Other Funds expenditures are down 16% from last biennium's level, resulting in combined limited funds support that is 3.4% below the essential budget level. Limited Other Funds are being reduced from earlier and unsustainable levels, that had been supported by one-time reductions in fund balances. The legislatively adopted budget shows a reduction of 93 positions (13.6%) from the prior biennium level. The Department reports that Oregon State University will have to eliminate some faculty positions that are partly supported with Extension Service funds. Reductions will be implemented in Agriculture and Forestry programs, in family and community development programming, and in 4-H program and Sea Grant program activities.

DHED – Forest Research Laboratory

	2001-2003 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	5,025,056	4,938,639	4,827,897	5,258,370
Other Funds	7,891,903	9,757,876	9,791,989	9,760,398
Other Funds (NL)	22,568,480	21,833,249	20,941,905	20,820,807
Total Funds	**$35,485,439**	**$36,529,764**	**$35,561,791**	**$35,839,575**
Positions	266	246	251	271
FTE	206.92	196.77	199.16	219.16

Program Description

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

Revenue Sources and Relationships

The Laboratory is supported by state, federal, and forest industry resources. Other Funds subject to expenditure limitation come from the Forest Products Harvest Tax; sales and service charges; and from Federal McIntire-Stennis funds. Nonlimited expenditures from grants and contracts support approximately $21 million of the Laboratory's expenditures.

Budget Environment

In 1999, the Legislature approved a $1 million General Fund expansion of the Laboratory's research activities, increasing state program support by 25%. Since then, General Fund support has remained essentially flat at around $5 million. The General Fund appropriation has therefore not kept pace with cost increases. The combined limited funds budget has grown by about 31% over this period, however. This, along with slowly increasing grant and contract funds (Nonlimited in the state budget), has allowed the Laboratory to increase program activity and staffing in comparison to the 1999-2001 levels.

Legislatively Adopted Budget

The legislatively adopted budget's $5.3 million of General Fund is a $320,000 (or 6.5%) increase over the 2003-05 biennium level. These changes reflect that the Legislature added a net $430,000 General Fund to the level proposed in the Governor's budget, an 8.9% increase. The Governor's budget had actually reduced General Fund support by 2.2% from the prior biennium level. The net $430,473 General Fund addition to the Governor's budget contains the following elements:

- A General Fund increase of $450,000 and one position (1.00 FTE) to offset a $453,196 General Fund reduction in the Governor's budget. The remaining funding reallocates costs between General and Other Funds to reflect the fund split approved in the 2003 Session and more appropriate fund splits for state government service charges.

- A General Fund increase of $9,406 to support the recruitment and retention of highly qualified faculty. This is the Forest Research Laboratory's portion of the $1 million included in the Governor's budget for faculty recruitment and retention. The Governor's budget had provided the full $1 million to the Education and General Services program, but the Legislature shifted a portion of this funding to each of the three statewide public service programs based on their proportionate share of total General Fund faculty salary costs.

- A $28,933 General Fund reduction in charges for Public Employees Retirement System contributions and state government service charges below the levels projected in the Governor's budget.

- LFO estimates that the Forest Research Laboratory will receive approximately $300,000 General Fund from the distribution of the $130 million special purpose appropriation to the Emergency Board for 2005-07 state employee compensation adjustments. This $300,000 would be in addition to the $5.3 million total appropriated during the legislative session. With these funds included, General Fund support totals $5.6 million, and the increase over 2003-05 expenditures is $620,000 (or 12.5%).

Limited Other Funds expenditures are essentially flat at last biennium's level, leaving combined limited funds support up 2.2% over the prior biennium level. The legislatively adopted budget shows an increase of 25 positions (10%) over the prior biennium level, but funding will not actually support such an increase. The reason is partly due to declines in restricted (i.e., Nonlimited) funding that will contribute to expected staff reductions.

DHED – Sports Action Lottery

	2001-2003 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Lottery Funds	4,400,753	4,902,324	5,561,871	5,744,213
Total Funds	**$4,400,753**	**$4,902,324**	**$5,561,871**	**$5,744,213**

Program Description

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

Revenue Sources and Relationships

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

Budget Environment

The expectations, during the 2001 session, of a large increase in Sports Action lottery game revenue in the 2001-03 biennium, did not materialize. Revenue increased to $4.87 million and not the $5.4 million projected. Revenues since then have held fairly steady at around $5 million per biennium. The Sports Action lottery, along with other non-video lottery games, is under pressure from both the Lottery's own video games and other competitors such as Indian gaming. The National Collegiate Athletic Association refuses to hold most college sports tournaments in the state, in protest of the Sports Action lottery games.

Legislatively Adopted Budget

The expenditure limitation for the Sports Action lottery is typically set equal to the projected revenue. This time, however, the budget includes expenditures above the level of revenues. The chosen expenditure level will leave a projected $300,000 ending balance, down from the $542,479 beginning fund balance that has built up when revenues exceeded projections in prior biennia. The $5.74 million of Lottery Funds expenditures will exceed the prior biennium level by 17.2%.

The Legislature also passed HB 3466, which abolishes the Sports Action lottery games on July 1, 2007. This abolition will have no effect on the 2005-07 budget, but beginning in 2007-09, HB 3466 dedicates 1% of net lottery receipts to the Department's Sports Action program area, *in lieu* of Sports Action lottery game revenues. The 1% of net lottery receipts exceeds the funding that is available from the Sports Action lottery games. The impact of HB 3466 is projected to increase program revenues in the 2007-09 biennium by approximately $4.5 million over the level they would be without this law.

DHED – Debt Service

	2001-2003 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	21,217,880	26,406,270	30,275,204	30,275,204
Lottery Funds	468,992	3,221,138	6,436,863	5,673,311
Other Funds (NL)	76,992,312	89,444,226	104,441,450	104,289,912
Total Funds	**$98,679,184**	**$119,071,634**	**$141,153,517**	**$140,238,427**

Program Description

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

Budget Environment

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

Legislatively Adopted Budget

State-paid (General Fund plus Lottery Funds) debt service costs are budgeted for a total $36.7 million, a $7.1 million (or 24%) increase over the 2003-05 biennium level. This reflects debt service added for approximately $32.5 million of new Article XI-G and Lottery bonds approved during the 2003-05 biennium for capital construction projects, plus the issuance of some bonds that had been approved in earlier biennia but which did not incur a full 24 months of debt service in the 2003-05 biennium. The actual cost to service this debt is $38.4 million, up 30% from the prior biennium. The budget substitutes $1.7 million of Other Funds Nonlimited interest earnings for General Fund, however, and thereby reduces the General Fund needed.

Including this fund transfer, total Nonlimited Other Funds payments of $104.4 million are included, a 17% increase from the prior biennium to support additional Article XI-F(1) bond and COP debt. Debt service payments for any capital construction projects approved for the 2005-07 biennium (see next section) will not appear in the agency's budget until the 2007-09 biennium.

DHED – Capital Construction

	2001-2003 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	15,916,477	11,519,853	17,196,329	14,796,329
Other Funds	449,906,858	436,238,120	338,174,058	395,522,060
Total Funds	**$465,823,335**	**$447,757,973**	**$355,370,387**	**$410,318,389**

Program Description

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

Revenue Sources and Relationships

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

Budget Environment

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

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

The 2003 Legislature approved $446.1 million of capital construction projects for the Department of Higher Education. The projects were funded from a number of sources, including various categories of bonds, gifts, grants and other revenues, and direct General Fund appropriation. A total of $11.5 million General Fund ($1 million less than the Governor proposed) was appropriated to support academic modernization, capital repair, deferred maintenance, and code and safety compliance projects.

Legislatively Adopted Budget

The legislatively adopted budget supports 46 specified capital construction projects, and includes general support for deferred maintenance and small projects. Six of the 46 specified projects are provided only $1 expenditure limitations, thus requiring further Emergency Board review prior to construction. These inclusions are to allow the full Legislature to consider planned capital projects in the early stages of development, and to reduce the number of projects that are considered by the Emergency Board but which the full Legislature never sees. The most significant of these six is the New Steam Plant/Utility Switch Construction at Oregon State University. Expenditure limitation for this project was reduced from the $55 million in the Governor's budget to four $1 limitations when it became clear that the funding plan contained in the Governor's recommended budget might not be possible. The Emergency Board will increase this expenditure limitation back up to the $55 million in the Governor's budget after the financing plan becomes known. This is a very high priority project in the budget, as the University's existing utility plant is unable to provide sufficient heating under cold winter conditions.

Expenditures approved for capital construction projects total $410.3 million (or $465.3 million including anticipated expenditures for the OSU New Steam Plant). This includes a total of $14.8 million General Fund. The General Fund includes $11.8 million for deferred maintenance projects, and $3 million for Southern Oregon University for a joint instructional facility with Rogue Community College in Medford. The Medford facility received approval for a total of $11.1 million in the Department of Higher Education budget, and $8.2 million in the Department of Community Colleges and Workforce Development budget.

The budget also authorizes $272.6 million in bonds for Department projects. These bonds can broadly be categorized into two groups: state-supported debt and self-supported debt. State-supported debt is repaid with state discretionary funds, including General Fund and Lottery Funds. The budget authorizes $275.7 million in bonds, including $112.2 million of state-supported debt. The remaining $160.4 million of debt is self-supported debt (Article XI-F(1) bond) paid by student building fees and Oregon University System auxiliary enterprise income. The $100.2 million of state-paid bonds (or $112.2 million including bonds for the OSU New Steam Plant) is a 208% increase (or a 245% increase including the OSU Steam Plant) over the prior biennium level, and comparable to the $103 million approved in 2001-03. The remainder of the capital construction budget is financed by donations, grants, or other cash.

Debt service on the state-paid bonds will total an estimated $18.2 million General/Lottery Funds per biennium when these costs are fully phased-in. The $112.2 million of state-paid bonds includes $48 million of Article XI-G bonds and $19.4 million of Lottery Bonds. State Energy Loan Program (SELP) bonds are also used as a financing mechanism for the first time. A total of $32.7 million of SELP bonds are included in the $112.2 million total. These SELP bonds are general obligation bonds. The debt service on them is paid with General Fund. SELP bonds are used for projects that produce an energy savings. Campus budgets would contribute to pay a portion of the debt service costs with their realized energy savings. This portion will total an estimated $2.5 million per biennium. Thus, although there is a total of $18.2 million of debt service costs incurred through state-paid bonds, only an additional $15.7 million per biennium will need to be financed after energy cost savings are applied toward debt service.

A list of approved capital construction projects and their financing is included in the table on the next page.

2005-07 Department of Higher Education Capital Construction Budget

Project list	General Fund	Art. XI-G Bonds	Lottery Bonds	Energy Loans	Art. XI-F Bonds	Other Funds	Total Funds
Department of Higher Education							
System							
- Capital Repair/Code Compliance	11,796,329	$ 11,796,329	$ –	$ –	$ 20,000,000	$ 10,000,000	$ 53,592,658
- Small Capital Projects	–	–	–	–	6,000,000	6,000,000	12,000,000
- Miscellaneous Student Building Fee Projects	–	–	–	–	3,000,000	–	3,000,000
Western Oregon University							
- Deferred Maintenance Tier 1, Physical Plant	–	–	2,538,000	1,552,000	–	–	4,090,000
- Deferred maintenance, Humanities and Social Sciences Building	–	–	–	–	–	1,500,000	1,500,000
Eastern Oregon University							
- Deferred Maintenance Tier 1, Central Heating Plant	–	–	–	3,044,000	–	–	3,044,000
Portland State University							
- Retail Development Various Locations	–	–	–	–	5,000,000	–	5,000,000
- University Place Redevelopment Phase 1	–	–	–	–	1	–	1
- Parking Structure Construction	–	–	–	–	30,000,000	–	30,000,000
- Student Recreation/Fitness Center and Housing	–	–	–	–	42,000,000	–	42,000,000
- Smith Memorial Student Union Renovation	–	–	–	–	1,500,000	–	1,500,000
- City Tower Building Acquisition	–	–	–	–	–	1	1
- Deferred Maintenance Tier 1, Heating Plant	–	–	32,000	5,498,000	–	2,570,000	8,100,000
- Deferred Maintenance Tier 2, Shattuck Hall	–	–	7,312,000	6,383,000	–	–	13,695,000
University of Oregon							
- Outside Tennis Courts Replacement	–	–	–	–	850,000	950,000	1,800,000
- Earl Residence Hall Complex Accessibility Upgrade	–	–	–	–	750,000	–	750,000
- Food Service Upgrade	–	–	–	–	3,500,000	–	3,500,000
- Erb Memorial Union, International Area Renovation	–	–	–	–	500,000	634,000	1,134,000
- Basketball Arena, land acquisition, parking structure	–	–	–	–	1	1	2
- New Education Building and Education Complex	–	19,400,000	–	400,000	4,300,000	24,000,000	48,100,000
- Deferred Maintenance Tier 1, Heating/Power Plant	–	–	174,000	13,049,000	–	–	13,223,000
- Living Learning Center	–	–	–	–	3,000,000	–	3,000,000
- Theater Complex	–	3,950,000	–	–	–	3,950,000	7,900,000
- Gilbert Hall	–	3,300,000	–	–	–	3,300,000	6,600,000
Oregon State University							
- Cauthorn Hall Housing Remodel	–	–	–	–	10,500,000	–	10,500,000
- Student Family Housing & Childcare Center. Construction	–	–	–	–	–	17,500,000	17,500,000
- Student Housing Suites & Apartments Construction	–	–	–	–	–	17,500,000	17,500,000
- Residential Infrastructure deferred maintenance	–	–	–	–	3,000,000	–	3,000,000
- Arnold Dining Center remodel	–	–	–	–	1,000,000	–	1,000,000
- Finley Hall remodel	–	–	–	–	12,500,000	–	12,500,000
- Memorial Union Phase 3 Renovation	–	–	–	–	–	7,500,000	7,500,000
- New Steam Plant/Utility Switch Construction	–	1	–	1	1	1	4
- Research Park Multi-tenant #1 and #2	–	–	–	–	–	1	1
- Our Little Village Child Care Center	–	–	–	–	2,200,000	–	2,200,000
- Deferred Maintenance Tier 2, Education Hall	–	–	7,152,000	1,355,000	–	–	8,507,000
- Apperson Hall	–	–	–	–	–	10,000,000	10,000,000
- Reser Stadium and Parking Addition	–	–	–	–	4,000,000	–	4,000,000
- Vet Medicine, Large Animal Hospital	–	–	–	–	–	12,000,000	12,000,000
- Deferred maintenance, Nash Hall	–	–	–	–	–	2,000,000	2,000,000
- Animal sciences education and research pavilion	–	4,000,000	–	–	–	4,000,000	8,000,000
- Nash Chiller (Transfers existing limitation - net $0)	–	–	–	–	–	–	–
Southern Oregon University							
- Jefferson Public Radio Equipment	–	–	–	–	–	500,000	500,000
- Land Acquisition	–	–	–	–	1	–	1
- Theatre Arts Expansion and Remodel	–	–	–	–	–	4,200,000	4,200,000
- Stevenson Union Addition Remodel	–	–	–	–	1,500,000	–	1,500,000
- Medford Instructional Facility w/ Rogue Community College	3,000,000	5,550,000	–	–	–	2,550,000	11,100,000
- Deferred Maintenance Tier 1, Central Heating Plant	–	–	881,000	363,000	–	–	1,244,000
Oregon Institute of Technology							–
- Student Housing Project Construction	–	–	–	–	1	–	1
- Deferred Maintenance Tier 1, Facilities Services	–	–	579,000	549,000	–	–	1,128,000
- Deferred Maintenance Tier 2, Snell Hall	–	–	762,000	532,000	–	550,000	1,844,000
Project Reserves	–	–	–	–	5,334,000	3,732,720	9,066,720
Total Department of Higher Education	**14,796,329**	**$ 47,996,330**	**$ 19,430,000**	**$ 32,725,001**	**$ 160,434,005**	**$ 134,936,724**	**$ 410,318,389**

The budget approved a number requests for capital projects requiring Article XI-G bonds, where a university had already accepted donations to be used as the required matching funds for the Article XI-G bonds. The Legislature found it in the public interest, however, that the Department of Higher Education not solicit or accept donations for any capital construction project that requires Article XI-G bond proceeds to be completed, prior to obtaining authorization in law for Article XI-G bond proceeds to be expended on that project. The budget requires the Department to report to the Emergency Board this interim on anticipated capital construction projects that are likely to require Article XI-G bond proceeds, and to identify those projects for which an Oregon University System campus has solicited or accepted pledges or contributions or expects to do so. Beginning with projects to be authorized in the 2009-11 biennium budget, the Department must obtain authorization for Article XI-G bond proceeds for the projects from the Legislature prior to seeking or accepting donations for them.

DHED – Other Services (Nonlimited)

	2001-2003 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds (NL)	648,211,543	809,812,489	946,007,820	945,938,615
Total Funds	**$648,211,543**	**$809,812,489**	**$946,007,820**	**$945,938,615**
Positions	1,661	1,739	1,649	1,649
FTE	1,460.73	1,530.00	1,462.71	1,462.71

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

Program Description

The Nonlimited Other Funds displayed here consist of: 1) self-support activities operated on an auxiliary basis such as dormitories, bookstores, parking, health centers, and food services; 2) self-support instruction; and 3) student aid and loan repayments. The scope of self-support instruction activities was reduced during the 1999-2001 biennium, when the Legislature provided General Fund support for most academic programs. Generally, only non-credit continuing education (distance learning) programs are still conducted on a self-support basis. Most nonlimited funds (including federal support for research) are not shown here, but are shown in the appropriate program level (Education and General Services, the OSU Public Services, or Debt Service), to provide a clearer picture of program costs and funding.

Revenue Sources and Relationships

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

Budget Environment

Projected Nonlimited expenditures appear in the budget for information purposes only. Available nonlimited funds may be spent without limitation by the Legislature. Showing the Nonlimited expenses in the budget gives a clearer picture of the Department's overall activities. Approximately 49% of all expenditures are in nonlimited programs. This figure refers to all nonlimited funds in the budget and not merely to the funds identified in this program area.

Legislatively Adopted Budget

The legislatively adopted budget anticipates an Other Services (Nonlimited) expenditures increase of 41% over the level adopted in the 2003 session. These expenditures are difficult to project with accuracy, however, and since they are Nonlimited they may end up varying significantly from the projected amounts without any legislative action. The budget also shifts approximately $6 million of charges for debt service on the state's Pension Obligation Bond to the Other Services (Nonlimited) program area.

Oregon Student Assistance Commission (OSAC) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	35,812,991	44,845,597	94,812,378	76,824,638
Lottery Funds	1,648,271	647,977	761,190	1,527,619
Other Funds	15,681,134	15,343,263	3,888,998	3,562,481
Federal Funds	1,097,891	1,239,605	2,103,860	2,103,860
Other Funds (NL)	58,471,638	54,174,750	9,014,812	9,014,812
Total Funds	**$112,711,925**	**$116,251,192**	**$110,581,238**	**$93,033,410**
Positions	93	87	26	23
FTE	91.72	87.00	26.00	22.35

Agency Overview

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

During the 2003-05 biennium, OSAC withdrew from administration of the federal student loan guarantee (FFELP) program. The agency had been unable to financially compete with other guarantor services, and was unable to recover its costs of participating in FFELP. Post-secondary institutions and students in Oregon will continue to have access to the federal student loan program through these alternative guarantors. For the agency and for the state budget, however, OSAC's withdrawal from FFELP has major consequences. Most of the agency's personnel and budget supported the FFELP program. OSAC's withdrawal from that program required the agency to be reorganized and drastically downsized. The Commission's remaining functions are to administer the Opportunity Grant and other state financial aid programs, and to administer the Private Award and ASPIRE programs and the Office of Degree Authorization.

Approximately 97% of the agency's budgeted state funds (General Fund and Lottery Funds) are paid out to students through the Oregon Opportunity Grant, a program that awards need-based grants to students attending Oregon post-secondary institutions. The remaining state funds are used for three small programs that fund student expenses, and to cover the Commission's administrative costs relating to its General Fund-supported programs.

The Commission also operates the Private Award program. This program had centrally administered over 250 privately funded scholarship programs, with awards projected to total $21.5 million in the 2003-05 biennium. The program's largest donor (the Ford Family Foundation), however, is withdrawing. The Foundation will self-administer its scholarship program instead.

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

Revenue Sources and Relationships

The Commission began receiving Lottery Funds in the 1999-2001 biennium. One-quarter of the earnings of the Education Endowment Fund (now renamed the Education Stability Fund) were continuously appropriated to the Commission for Opportunity Grants. All of the Commission's Federal Funds are also used for Opportunity Grants.

Most of the Other Funds revenue was received under the federal loan guarantee program. The Commission received Other Funds revenue from loan processing fees; federal reimbursements for defaulted loans that the Commission purchases from lenders; retained receipts from collections on defaulted loans; federal reimbursements for certain operating expenses; interest on accumulated loan program revenues; private award donations and charges for administering privately funded scholarship programs; and fees for reviewing degrees from private post-secondary institutions. Other Funds payments for administrative expenses (personnel costs, services and supplies) are limited in the budget. Other Funds payments for student aid (e.g., Private Award payments, JOBS Plus payments) are Nonlimited.

Budget Environment

In 1997, the Legislature made a major change in Opportunity Grant funding. The state constitution dedicated 15% (since increased to 18%) of net lottery proceeds to the Education Endowment Fund. The Fund's principal cannot be spent but the investment earnings of the Fund can be. In 1997, the Legislature dedicated 25% of the these earnings to the Opportunity Grant program. The 1999-2001 biennium was the first where the Commission spent funds from this source. All Lottery Funds in the budget are from this source.

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

In recent years, only 66-70% of the students eligible for the Opportunity Grant under the criteria established by the Commission were able to receive awards. The remaining students, although eligible, received no awards due to insufficient funding. The determining factor was the student's application date for aid. Late applicants, though otherwise eligible, did not receive awards.

The Legislature and the people approved changes to the Education Endowment Fund during the 2001 session and the interim following that session. These changes reduced the availability of Lottery Funds for the Opportunity Grant program. The Legislature referred and the voters passed a ballot measure (Measure 19) that changed the Education Endowment Fund to an Education Stability Fund, and that withdrew $150 million to offset reductions in funding to K-12 education that were taken to address the state General Fund shortfall. In the 2003 session, the Legislature transferred an additional $122 million from the Education Stability Fund to K-12. The effect of these actions eliminated most of the anticipated 2003-05 biennium Lottery Fund revenue to the Commission, leaving only about $650,000. Over the long term, Lottery Funds for the Commission budget will continue to increase if the Education Stability Fund balance grows over time, and will exceed $1.5 million in the 2005–07 biennium.

Legislatively Adopted Budget

The Legislature adopted major changes to the Commission's budget. Most of these changes result from a large increase in the level of state student aid support, or from the agency's withdrawal from the federal student loan guarantee program (FFELP). As a result, it is helpful to segregate the budget adjustments into three broad categories: Opportunity Grant Funding Increase, Withdrawal from Loan Guarantee Program, and Other Adjustments. The Other Adjustments category includes both the changes needed to continue funding existing activities in the 2005-07 biennium (essential budget level adjustments) and program changes that are independent of the changes in the Opportunity Grant and FFELP.

Opportunity Grant Funding Increase – The budget increases state support for the Opportunity Grant program from the 2003-05 biennium level, and broadly expands the number of students who will receive Opportunity Grant awards. State funding of Opportunity Grants is increased to $75.7 million, an increase of $31.7 million (or 72%) from the 2003-05 biennium level. Although this greatly increases Opportunity Grant activity, the award process incurs little administrative cost to the agency, and the budget does not provide any increased funding for administration of the Opportunity Grant program. The increased support will allow all eligible students to be funded, and will expand eligibility to part-time students for the first time.

Withdrawal from Loan Guarantee Program – The budget eliminates expenditure of approximately $12.2 million Other Funds, and 64 agency positions (64.65 FTE, or 74%, of the agency's existing approved positions) for administration of the loan guarantee program, and the expenditure of $41 million of Nonlimited Other Funds representing the non-administrative expenditures of the loan program (such as the purchases of defaulted loans from lenders, transfer of loan recoveries to the federal government, etc.). The budget shifts some expenditures formerly financed by FFELP program (Other Funds) proceeds to the General Fund. This lowers the reduction in administrative expenditures below the $12.2 million level, and prevents additional reductions in staff levels beyond the 64-position cut. Approximately $0.7 million of General Fund is added to finance expenditures previously financed by the loan program. This reduces the net reduction in administrative reductions to $11.5 million on an ongoing basis, and increases General Fund support for agency administrative costs by 89% over the prior biennium level.

Other Adjustments – ASPIRE program expenditures are expanded by $313,000 Other Funds to adjust to current program activity levels. The Private Awards program is reduced by $11.8 million Nonlimited Other Funds to reflect the withdrawal of the primary donor from that program. Numerous essential budget level adjustments are included as well.

A summary of General Fund and Lottery Funds in the agency budget appears below:

State Support (General Fund + Lottery Funds)

	2003-05 LAB	2005-07 LAB	Change
Opportunity Grant	$44,031,287	$75,732,121	72.0%
Rural Health Services Program	434,208	444,629	2.4%
Nursing Services Program	156,372	358,650	129.4%
Oregon Troops to Teachers	0	165,000	N/A
Agency Operations	871,707	1,651,857	89.5%
Total State Support	$45,493,574	$78,352,257	72.2%

OSAC – Administration Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	214,950	163,569	977,194	763,263
Other Funds	1,538,127	1,797,196	0	0
Total Funds	**$1,753,077**	**$1,960,765**	**$977,194**	**$763,263**
Positions	9	11	4	4
FTE	9.00	11.00	4.00	4.00

Program Description

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

Revenue Sources and Relationships

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

Legislatively Adopted Budget

The legislatively adopted budget reduces total Administration Division expenditures by $1.2 million (or 61%) from the prior biennium level, and eliminates seven of the Division's eleven positions.

After a review of the fiscal impact of the withdrawal from FFELP on Administration Division expenditures, the Legislature reduced General Fund by $204,988 from the level in the Governor's budget. The budget eliminates $1,656,820 of Other Funds expenditures that had been supported with loan program proceeds in the prior biennium. Offsetting this reduction is a $574,918 fund shift to (i.e., increase in) General Fund, resulting in a net budget reduction of $1,081,902. Seven of the Division's eleven employee positions, including the vacant deputy director position, were eliminated. The additional General Fund will allow four employees to continue – the agency director, and executive assistant, a fiscal analyst, and an accounting technician – and will finance services and supplies costs.

The agency also faced potential liabilities to the federal government, that totaled approximately $4 million, relating to its participation in the FFELP program. The State was able, through negotiations with the Federal government, to get these liabilities dismissed. The budget therefore does not include funds to pay for any of the potential liabilities.

OSAC – Grants and Scholarships

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	35,129,839	44,341,268	92,906,428	75,612,213
Lottery Funds	1,648,271	647,977	761,190	1,527,619
Other Funds	2,775,807	3,014,258	3,467,649	2,963,211
Federal Funds	1,097,891	1,239,605	2,103,860	2,103,860
Other Funds (NL)	17,532,196	20,914,770	9,014,812	9,014,812
Total Funds	**$58,184,004**	**$70,157,878**	**$108,253,939**	**$91,221,715**
Positions	15	18	17	14
FTE	14.72	18.00	17.00	13.35

Program Description

The Grants and Scholarships Division administers a number of programs. The largest of these is the state-funded (and federally supplemented) Opportunity Grant. The Opportunity Grant is a program that awards need-based grants to assist students attending Oregon public and private non-profit colleges and universities, and Oregon community colleges. Approximately 19,000 students received an Opportunity Grant each year during the 2003-05 biennium.

The Division administers two small state-funded grant programs as well. These are: a) the Rural Health Services Program, which pays the education loans of health care professionals who practice in qualifying rural health care shortage areas; and b) the Nursing Services program, which repays the student loans of nurses who serve in designated rural areas with nursing shortages. In 2005, the Legislature established an additional state-funded grant program – the Oregon Troops to Teachers program. This program pays all resident tuition charges at a public post-secondary institution for Oregon veterans who, after discharge from the Armed Forces, agree to teach for at least three years in a school district or charter school serving a high poverty area, or who agree to teach mathematics, science, or special education for at least four years.

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

Revenue Sources and Relationships

The largest source of Other Funds is donations received in the Private Award program. The budget does not limit the disbursements of Private Award grants, although total charges for administering these programs are subject to limitation.

Federal Funds are from the Leveraging Educational Assistance Partnership (LEAP) and Special Leveraging Educational Assistance Partnership (SLEAP) programs. LEAP and SLEAP funds are combined with the much larger state contribution to fund the Opportunity Grant. These programs require the state to provide matching funds and not reduce support levels for the Opportunity Grant to receive maximum funding. Because maintenance of effort requirements for state support for the Opportunity Grant were not met during the recent General Fund shortfall, Federal Funds equaled $1.2 million during the 2003-05 biennium – about $650,000 less than what would be received if the state maintained Opportunity Grant funding at 2001-02 fiscal year levels.

In 1997, the Legislature made a major change in Opportunity Grant funding when it dedicated 25% of the earnings of the Education Endowment Fund to the Opportunity Grant program. The Education Endowment Fund (now named the Education Stability Fund) is constitutionally funded by 18% of net lottery proceeds. The 1999-2001 biennium was the first where funds from this source were available to the Commission. All Lottery Funds in the budget are from this source.

Budget Environment

In recent years, significant numbers of students who have been eligible to receive an Opportunity Grant have not been awarded any funds. The Commission has approved eligibility standards and award levels that cannot be financed given the amount of Opportunity Grant funds available. Because of this, the Commission sets an application cutoff date each year. Students who do not finalize their plans until later, or who do not apply by the cutoff date for other reasons, do not receive an Opportunity Grant award. Approximately 66-70% of eligible students have received awards recently before funding is cut off. This practice had most severely affected community college students who often do not register for classes until shortly before the term begins. Most of the unserved students were community college students. In 1999, the Legislature directed the Commission to revise its administration of the Opportunity Grant so that community college students would not be disproportionately affected by fund limitations. The Commission responded by setting a separate cutoff date for community college applicants that was later than the cutoff date for students at four-year institutions.

The Legislature increased funding for the Opportunity Grant by 19% (to $44.1 million) in the 2001 session to address these issues. Funding needed to be reduced during the interim, however, to help address the state's General Fund shortfall. The Legislature avoided any General Fund reduction in Opportunity Grant funding at first, although Lottery Funds for the program were reduced $2.2 million because of a fall in earnings from the Education Endowment Fund as interest rates declined. As the state's budget situation further deteriorated, the Legislature eventually reduced General Fund support for the program in the 2002 fifth special session. These actions, along with a further allotment reduction by the Governor to prevent a deficit, reduced Opportunity Grant support by $5.4 million (or 12.8%) from the level originally approved during the 2001 regular session. The Legislature protected Opportunity Grant support, even as it struggled with a large potential General Fund budget deficit in the 2003-05 biennium. The 2003-05 biennium budget included $44 million for Opportunity Grants, a level that exceeded the 2001-03 level (after reductions) by 21%, and that basically matched the original 2001-03 biennium funding level.

Legislatively Adopted Budget

The budget increases total Grants and Scholarships Division expenditures by $21.1 million (or 30%) over the prior biennium level, and increases General Fund support by $31.3 million (or 70.5%) over the same period. Four positions (4.65 FTE) are eliminated. These changes represent the combined impacts of expanding the Opportunity Grant, withdrawing from FFELP, and other adjustments, as detailed below:

Opportunity Grant Funding Increase – The budget adds $31.4 million of General Fund support above the essential budget level for the Opportunity Grant. All available Lottery Funds from Education Stability Fund earnings are also allocated to the program, as well as all available Federal Funds support from the LEAP and SLEAP programs. State support (General Fund plus Lottery Funds) for Opportunity Grants totals $75.7 million, a 72% increase over the 2003-05 level. Adding in available Federal and Other Funds yields total Opportunity Grant funding of $78.1 million, which is also a 72% increase over the prior biennium level of funding.

The additional funding finances a two-stage expansion of the Opportunity Grant in each of the two years of the biennium. The expansions are:

- <u>2005-06 fiscal year</u> – The Opportunity Grant program is expanded to serve <u>all</u> eligible students attending qualified public institutions, i.e., Oregon University System campuses, Oregon community colleges, and the

Oregon Health and Science University. Approximately 70% (the 2003-05 biennium rate) of eligible students at private colleges will be served in this year.

- 2006-07 fiscal year – The Opportunity Grant program is further expanded to serve all eligible students attending qualified private institutions. The program is also extended to part-time students for the first time. The part-time student award amounts will be one-half of the amounts available to full-time students enrolled at the same institution, and will be available to eligible students enrolled for a minimum of six credit hours. Income eligibility criteria will be identical for full-time and part-time students, and all eligible part-time students will be served.

The budget instructs the Commission to retain the income eligibility requirements in place at the close of the 2003-05 biennium, and to calculate awards levels using the same methodology applied in 2003-05. This methodology, which will result in award level increases in both of the years of the biennium, sets awards at a calculated 11% of the cost of attendance, and establishes a common award amount for all Oregon University System campuses, and a common award amount for all community colleges.

The $78.1 million available for Opportunity Grants is projected to be sufficient to finance all of the approved program expansions. These expansions will increase Opportunity Grant awards significantly, from an estimated 38,400 students in the 2003-05 biennium, to 63,000 students in 2005-07. The 24,600 increase in the number of students served represents a growth of 64% over the prior biennium level. The projection of the number of part-time students included in this total is, however, subject to a fair amount of uncertainty, since there is no history of serving these students upon which to base a projection. If the Commission determines that funding is insufficient to serve all eligible students, it is instructed to restrict awards to part-time students, to allow as many eligible full-time students as possible to be awarded grants at the described award levels. The Commission is not to seek additional funding from the Emergency Board if funding is found to be insufficient. Rather, it is to restrict funding of the part-time program to support the expanded full-time program.

Withdrawal from Loan Guarantee Program – After a review of the fiscal impact of the withdrawal from FFELP on Grants and Scholarships Division expenditures, the Legislature reduced General Fund by $86,537, and Other Funds by $195,952, from the levels in the Governor's budget. The budget eliminates $349,564 of Other Funds expenditures that had been supported with loan program proceeds in the prior biennium. Offsetting this reduction is a $67,317 fund shift to (i.e., increase in) General Fund, resulting in a $282,247 net budget reduction from prior biennium levels. Four positions and 4.65 FTE are eliminated as a result of the agency consolidation.

Other Adjustments – The budget restores approximately $200,000 General Fund to the Nursing Services program, to allow for continuing the current number of annual awards, after $200,000 had been removed, last session, in a one-time fund shift. The budget also includes $165,000 for the new Oregon Troops to Teachers grant program. Expenditures are reduced by $11.8 million Nonlimited Other Funds to reflect the withdrawal of the primary donor from the Private Awards program. This reflects the decline in scholarship awards. The budget also includes $313,320 Other Funds to reflect expansion of the ASPIRE program to existing levels. This program provides assistance to high schools that train volunteers to advise students on their academic options. Funding accrues from donations and the federal AmeriCorps program.

OSAC – Loan Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	9,541,710	8,793,727	0	0
Other Funds (NL)	40,939,442	33,259,980	0	0
Total Funds	**$50,481,152**	**$42,053,707**	**$0**	**$0**
Positions	57	45	0	0
FTE	56.00	45.00	0.00	0.00

Program Description

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

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

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

Revenue Sources and Relationships

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

Budget Environment

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

OSAC has been unable to cover costs of participating in the FFELP program. FFELP revenues are largely generated by the level of loan volume, and OSAC has been unable to maintain sufficiently large loan volumes as the federal government reduced reimbursement rates and the loan guarantee industry consolidated. The program could not be made financially viable without an ongoing General Fund subsidy. As a result, and with the agreement of the Federal government, OSAC ceased operation as a loan guarantor agency on December 31, 2004.

Legislatively Adopted Budget

The Loan Division is eliminated in the legislatively adopted budget. OSAC withdrew from the FFELP program prior to the start of the 2005-07 biennium. The budget eliminates $9,175,279 of Other Funds expenditures for the Division's personal services and services and supplies costs, and abolishes 45 positions (45.00 FTE). The budget also eliminates all Nonlimited Other Funds expenditures associated with FFELP.

OSAC – Information Services Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	253,539	144,958	664,498	333,887
Other Funds	1,172,730	961,470	98,124	308,705
Total Funds	**$1,426,269**	**$1,106,428**	**$762,622**	**$642,592**
Positions	8	6	3	3
FTE	8.00	6.00	3.00	3.00

Program Description

The Information Services Division is responsible for the agency's computer systems. The Division maintains the computer hardware, software, and databases necessary to provide financial aid information to Commission staff, outside institutions, and individuals. The Commission contracts for services for its loan processing software. Since 2001, the Division has been reduced from eight to only three employees. In future biennia, the Information Services Division will be merged into the Administration Division program area.

Revenue Sources and Relationships

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

Budget Environment

In 1997, the Legislature significantly expanded the Information Services Division to allow the Commission to upgrade its main AS/400 computer system and to increase the services it offers through the Internet. The Division's employment was expanded 50%. These upgrades have allowed the agency, generally, to meet its technology needs. The agency's withdrawal from FFELP has greatly reduced its information services needs, and Division employment has been reduced to three full-time positions.

Legislatively Adopted Budget

The legislatively adopted budget reduces total Information Services Division expenditures by $463,836 (or 42%) from the prior biennium level, and eliminates half of the Division's six positions. The increase in Opportunity Grant Funding had no impact on the Information Services Division program area budget. After a review of the fiscal impact of the withdrawal from FFELP on Information Services Division expenditures, the Legislature reduced General Fund by $325,826 from the level in the Governor's budget. The budget eliminates $721,499 of Other Funds expenditures that had been supported with loan program proceeds in the prior biennium. Offsetting this reduction is a $174,633 fund shift to (i.e., increase in) General Fund, resulting in a net budget reduction of $546,866 from the withdrawal from FFELP. Three of the Division's six employee positions, including the division manager, are eliminated. The additional General Fund will allow three employees to continue, and will finance service and supply costs, including software contract costs.

The budget also adds $37,244 Other Funds to maintain the Oregon Financial Aid Exchange (OFAX). OFAX is a system allowing colleges to share student data of co-enrolled students. Oregon State University, and Central Oregon and Linn-Benton Community Colleges have been participating for three years. Other institutions are now joining this system. The expenditures would be financed from contributions by participating institutions.

OSAC – Office of Degree Authorization/Policy Research

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	214,663	195,802	264,258	115,275
Other Funds	652,760	776,612	323,225	290,565
Total Funds	**$867,423**	**$972,414**	**$587,483**	**$405,840**
Positions	4	7	2	2
FTE	4.00	7.00	2.00	2.00

Program Description

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

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

The agency has also created a Policy and Research Division to provide data collection, statistical analysis, lender and schools reviews, and general research support. This Division was created by transferring existing employees from other divisions of the agency.

Budget Environment

ODA charges fees for reviewing private institutions' proposed degrees. These fees are received as Other Funds, and are projected to total approximately $160,000 in the 2003-05 biennium. Because of unanticipated growth in the number of institutions seeking to offer degree programs in Oregon, fee collections were 53% higher than projected in the 2001-03 biennium. The budget projects that revenue will continue, in the 2003-05 biennium, at this increased level. These fees are collected to cover the cost of the ODA's degree authorization functions. General Fund is appropriated to support the ODA's other functions: reviewing public programs on detrimental duplication issues, and collecting data for the federal Integrated Post-secondary Education Data System (IPEDS). In 2003, the Legislature further expanded the Office's authority to raise fees, and shifted $200,000 of General Fund expenditures to Other Funds to allow these costs to be covered by new fees for degree validations and general information services. Revenue from these fees have fallen far short of $200,000, however, and this shortfall has prevented the Office from being fully staffed.

Legislatively Adopted Budget

The legislatively adopted budget reduces total Office of Degree Authorization/Policy Research expenditures by $566,574 (or 58%) from the prior biennium level, and eliminates most of the program area's seven positions. After a review of the fiscal impact of the withdrawal from FFELP on this program area's expenditures, the Legislature reduced General Fund $148,747 from the level in the Governor's budget.

The budget eliminates $392,067 of Other Funds expenditures that had been supported with loan program proceeds in the prior biennium. There is an additional $29,280 General Fund reduction, resulting in a total budget reduction of $421,347. Five of the Division's seven employee positions are eliminated as a consequence of the withdrawal from the loan program and from the inability to generate the fee revenues as supported in the 2003-05 budget. The remaining funds will support two employees, including the Administrator, and will finance ongoing services and supplies costs.

Teacher Standards and Practices Commission – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	3,320,018	3,639,664	3,820,753	3,915,455
Total Funds	**$3,320,018**	**$3,639,664**	**$3,820,753**	**$3,915,455**
Positions	19	21	22	22
FTE	17.75	20.00	21.50	21.50

Agency Overview

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

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

There are approximately 60,000 educators in Oregon who hold 68,000 current licenses. Slightly over one-half of these licensees were employed in Oregon's public schools in 2003-04. All new applicants for licensure, as well as all former licensees who allow their licenses to lapse for more than three years, are required to pass a criminal history and fingerprint check.

Revenue Sources and Relationships

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

HB 2095 (1999) increased the limit on fees charged for in-state applicants and renewals from $60 to $100. This legislation took effect July 1, 2001. The 2001-03 legislatively adopted budget assumed an increase in these fees as of January 1, 2002. However, revenues in 2001-03 were sufficient enough to delay the increase until January 2003, when fees for in-state applicants and renewals increased from $60 to $75. The 2003 Legislature ratified the increase (in HB 5055), the first since 1994. Because the life of a license ranges from three to five years, the annual increases ranged from $3 to $5.

Other fees include $62 for fingerprinting, $75 for registration of charter school educators, $90 for applicants graduating from other than an approved Oregon educational program, $100 for an expedited license, $150 for reinstatement of a revoked license (in addition to the $75 application fee), and an alternative assessment fee of up to $200. The alternative assessment is a process to determine professional eligibility of applicants without traditional educational backgrounds. The fee for a duplicate license is $10 and late fees are $15 per month to a maximum of $75.

The 2005-07 Governor's recommended budget assumed an increase in fees for in-state applicants and renewals – from $75 to $100 – as of July 2005. Although the 2005 Legislature did not specifically approve this increase, the 2005-07 budget for TSPC was adopted by the Legislature with the acknowledgment that the Commission quite likely would need to administratively increase certain fees up to their statutory limits to balance the budget.

Without a fee increase, total revenues for 2005-07 are estimated at $3.2 million. Based up this level of revenues and budgeted expenditures for this biennium, the 2005-07 ending balance represents less than one month's worth of expenditures. Reportedly, in the near future the Commission plans to examine the need to administratively increase certain fees.

Budget Environment

Retirements of "baby-boomer" teachers were expected to start in 2001-03 and, in fact, data indicate school district retirements were about 44% higher in 2001-02 compared to 2000-01. Retirements were 61% higher in 2002-03 compared to 2001-02, but changes to the Public Employees Retirement System as well as budget reductions contributed to the overall increase. Unlike previous years, new entries into the teaching profession may not offset retirements and other attrition given the current budget environment in K-12 education. While earlier forecasts indicated approximately 36,500 licenses would be issued in 2003-05, that number now has been revised downward – to approximately 34,400. TSPC estimates it will issue the same number of new and renewed licenses in 2005-07 as it did in 2003-05. However, although the number of licenses issued has decreased, the overall workload of the agency is growing.

Contacts from educators are increasing. The agency has made good use of technology in addressing this issue, such as allowing potential licensees to submit forms on-line, linking the database and e-mail systems to send automatic notifications of licensure status to customers, providing more information on the agency's website to decrease the number of phone calls, and using scanning to create electronic documents that are easily accessible by all staff. Even with these and other improvements, however, TSPC has been challenged in responding to customers in a timely manner and eliminating work backlog. Thus, in both the 2003 and 2005 sessions, the Legislature added limited duration positions to help address the backlog.

The federal No Child Left Behind Act of 2001 has increased the workload of the agency. This law mandates that all teachers be "highly qualified." TSPC has been working closely with the Oregon Department of Education to determine the requirements for elementary, middle, and high school teachers. Over the last couple of years, TSPC staff have reviewed thousands of teacher credentials to determine if individual teachers are "highly qualified." The work will continue until the spring of 2006, when all teachers must meet the requirements. In addition to these reviews, the Act has created other workload for staff.

The number and complexity of discipline cases and investigations continue to increase. This is due in part to a greater propensity by parents to file complaints over disputes with educators and school districts as well as a greater public awareness of child abuse issues. The increase is also a result of checking criminal history records through Oregon State Police and FBI fingerprints. The discipline caseload grew from 154 cases in 1997-99 to 282 in 2003-05, an 83% increase.

Legislatively Adopted Budget

The legislatively adopted budget is a 7.6% increase over the 2003-05 legislatively approved level and a 2.5% increase over the Governor's recommended budget. The budget includes:

- A phase-out of $86,321 Other Funds expenditure limitation for one-time costs in 2003-05, primarily for the agency's scanning project.
- The addition of $234,147 Other Funds expenditure limitation primarily for 2 limited duration positions (2.00 FTE) and a permanent position (1.00 FTE) to continue improvements in the customer service area, address clerical and disciplinary workload demands, and provide administrative support to other staff and the Commission.
- The addition of $136,000 Other Funds expenditure limitation to cover an increase in the costs of fingerprinting applicants for licensure.
- The addition of $23,708 Other Funds expenditure limitation to replace 15 obsolete computers, 5 laser printers, and a server. This will replace about 65% of the agency's existing computers, which have limited memory and technological capabilities. Additionally, the new server will allow the agency to have an internal back-up plan to adequately protect its data. The Legislature adjusted this package by $4,792 for estimated savings from the SmartBuy program, which is a bulk purchasing program for certain types of services and supplies.

The Legislature adjusted the recommended budget for a lower PERS employer contribution rate, a reduced Attorney General hourly rate, and reductions in various interagency service charges. It also supplemented the agency's 2003-05 budget with $65,000 Other Funds expenditure limitation for additional costs resulting from an increase in fingerprinting fees charged by the Oregon State Police. This fee increase – from $12 to $28 – became effective March 1, 2005.

HUMAN SERVICES

Commission for the Blind – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	1,219,568	1,170,546	1,206,100	1,192,304
Other Funds	2,262,705	2,463,120	2,579,710	2,579,765
Federal Funds	8,449,139	9,087,419	9,657,702	9,610,163
Total Funds	**$11,931,412**	**$12,721,085**	**$13,443,512**	**$13,382,232**
Positions	55	44	47	47
FTE	52.10	41.33	44.60	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 Commission, a consumer-controlled seven-member board appointed by the Governor, serves legally blind Oregonians and Oregon businesses that have, or are considering hiring, employees who are legally blind. The agency delivers service through five main programs described below.

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

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

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

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

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

Revenue Sources and Relationships

The agency's General Fund is used exclusively to match federal funds. Over 70% of the agency's budget is funded with 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 generous match rate of approximately $3.70 Federal Funds for every $1 of state or local-matching funds.

Over 60% of the agency's Other Funds revenue supports the *Industries for the Blind* program – comprised predominately of payments from Multnomah County for services to developmentally disabled persons. Cooperative agreements with school districts and non-profit rehabilitation providers, a transfer from the Department of Education, and business enterprise vendor assessments provide additional funds.

The agency also maintains a Bequest and Donation Fund. The fund has an estimated 2005-07 beginning balance of approximately $750,000 and projected ending balance of $600,000. In prior biennia, the Commission only used the interest earnings to fund programs. Beginning in 2003-05, the agency began using donation funding – as match Federal Funds – to offset a reduction in General Fund support.

Budget Environment

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

The agency continues to address technology issues on behalf of its clients. Because the market is relatively small and the technology is specialized, the cost of computer equipment for blind and visually impaired persons is high. 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.

Legislatively Adopted Budget

The Legislature approved a budget of $13,382,232 Total Funds, a .5% reduction from the Governor's budget, and 44.60 FTE. The budget was adjusted to reflect the following rate and assessment reductions: Department of Administrative Services ($71,695), Oregon State Library ($125), and Secretary of State Audits Division ($367). The budget also includes various line-item and program shifts to more closely align the budget with actual spending patterns.

The Legislature approved the conversion of four limited-duration positions (3.50 FTE) to permanent, using Bequest and Donation funds and reinvested the agency's Smart Buy and Public Employees Retirement System and Attorney General rate reduction savings ($45,725) into direct services for clients.

Commission on Children and Families (SCCF) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	51,074,837	43,807,497	49,756,320	45,995,966
Other Funds	18,291,914	23,591,506	23,049,232	23,043,849
Federal Funds	288,658	377,404	3,825,865	3,823,717
Total Funds	**$69,655,409**	**$67,776,407**	**$76,631,417**	**$72,863,532**
Positions	36	25	32	32
FTE	33.90	23.50	29.50	29.50

Agency Overview

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

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

Revenue Sources and Relationships

General Fund makes up about 63% of this budget. Part of the General Fund spent in this agency is used to meet state match requirements for federal funding, most notably federal Maintenance of Effort requirements for the Temporary Assistance to Needy Families program administered by the Department of Human Services. Other General Fund is used as state match for Safe and Stable Families (Family Preservation and Support) funds.

Other Funds revenue supports about 32% of the Commission's budget. Most of the Other Funds is federal money that comes to the Commission from other state agencies. The Department of Human Services (DHS) will transfer $15 million in Title XX Social Services Block Grant and Title IV-B (2) Safe and Stable Families (Family Preservation and Support) revenue to the Commission. Title XX supports programs for non-delinquent, at-risk youths aged 11-18 (formerly called Level 7 youth) and relief nurseries. Title IV-B (2) funds are used for grants to counties and tribes, and for Healthy Start program support. The Employment Department will transfer $3.7 million in Child Care and Development Fund (CCDF) revenue for local commissions to expand access to quality child care.

The Commission also uses General Fund to match federal Title XIX Medicaid funds through DHS, for qualified services in local Healthy Start programs. About $3 million in matching funds is expected for the 2005-07 biennium. The Commission spends the Medicaid revenues as Other Funds.

The adopted budget moves juvenile crime prevention grants and program oversight from the Criminal Justice Commission to this Commission effective July 2005. The transfer includes $3.3 million Federal Funds from the U.S. Department of Justice, Office of Juvenile Justice and Delinquency Prevention. This will increase Federal Funds revenue in this Commission to more than 5% of the total budget.

Other designated grants provide a small amount of Other and Federal Funds. For 2005-07, the Commission will receive grants for the Court Appointed Special Advocates program and Positive Youth Development activities.

The Commission's budget does not include revenues leveraged by local commissions to support local programs and activities. For the 2003-05 biennium, local commissions were expected to leverage over $20 million in private and federal cash and in-kind resources, excluding the value of volunteer hours.

Budget Environment

The Commission system began operations in 1994 to carry out legislative policy to develop and implement a statewide system of services for children and families. Local commissions on children and families were created as the basis for both planning and investments of community supports and services. In 1999, the Legislature significantly expanded the scope of this effort with SB 555, to require a coordinated, comprehensive planning process for all early childhood, alcohol and drug, and juvenile services. Counties have developed these plans, have put their programs in place, and are tracking local outcomes. State agencies have worked to review and consider the local plans as they look at their program operations and budget requests, based on direction from a 2002 Executive Order from Governor Kitzhaber. Further, an on-going collaboration of state and local agencies involved in planning, policymaking and providing services for children and families – the Partners for Children and Families – is working to increase efficiency and effectiveness; set guidelines for planning, coordination, and delivery of services; and engage citizens in local decision making about Oregon's system of supports to children and families. The Commission and its partners reported on this work to the 2005 Legislature.

The Commission and its local and state partners have continued work on early childhood policy and program issues to implement HB 3659 (2001), a policy framework for the Oregon Children's Plan. The Oregon Children's Plan defined a statewide system of voluntary screening, referral, and supports for children ages 0 to 8 and their families. This system was to be a part of the local coordinated comprehensive plans. The Oregon Children's Plan anticipated additional state funding to support expanded home visitation programs and other community-based services. However, later budget reductions in the Commission, the Department of Education, and the Department of Human Services have virtually eliminated any increased resources for this initiative.

The Commission's 2001-03 legislatively adopted budget was reduced by over $9 million General Fund in 2002 special session actions and in the 2003 legislative session. The reductions affected the Healthy Start home visitation program; county locally invested program funds and local staffing grants; relief nurseries and Court Appointed Special Advocates (CASA) funding; funding for community one-call centers and referral lines, physician training, and program evaluation for the Oregon Children's Plan; and state staffing levels. The reductions also eliminated First Steps violence prevention, family resource centers, and Together for Children programs. The 2003 Legislature also abolished one-third of the state Commission's technical assistance and administrative staff positions. The 2003-05 budget carried forward most of these reductions. With the defeat of Ballot Measure 30 in February 2004, the Commission made a further $4.8 million General Fund budget reduction. This significantly reduced the Healthy Start program, so that the program would serve about 45% of the estimated 18,000 first-birth families annually in the state, rather than the 80% level originally anticipated by the 2001 Legislature. It also reduced relief nurseries' funding and state administration costs. After these actions, the 2003-05 budget was 28.7% General Fund and 18.7% Total Funds less than the original 2001-03 budget level. The reductions in program funds and support services have limited counties' capacity to carry out their local comprehensive plans, and the state Commission's ability to help counties and other state agencies.

The current structure for planning and funding juvenile crime prevention programs and services involves the Commission, the Criminal Justice Commission, the Oregon Youth Authority, local juvenile departments, and local commissions on children and families, as well as other state and community partners. Counties' local comprehensive plans for children and families incorporate the juvenile crime prevention plans. Since 1999, however, the Criminal Justice Commission (CJC) and the Juvenile Crime Prevention Advisory Committee (JCPAC) have administered the juvenile crime prevention grants. The CJC program has declined substantially since 2001-03, losing roughly two-thirds of its General Fund support. The Governor proposed moving the juvenile crime prevention grants, related federal funding, and the operations of the JCPAC from the CJC to the Commission on Children and Families. The intent is to allow the CJC to focus on other functions, and better tie the juvenile crime prevention effort to the Commission on Children and Families' prevention programs. The 2005 Legislature made the statutory program transfer in HB 3029.

In 2003, the Legislature passed Senate Bill 267, which requires state-funded crime-prevention programs and services to reflect scientifically based research and demonstrate cost-effectiveness. The bill applies to certain programs of the Department of Corrections, the Oregon Youth Authority, the Commission on Children and Families, the Criminal Justice Commission, and parts of the Department of Human Services dealing with mental health and addiction issues. For the 2005-07 biennium, these agencies must spend 25% of the state money they receive for these programs on evidence-based programs. The requirement increases to 50% in the 2007-09 biennium and 75% beginning in 2009. The Commission had determined that SB 267 would apply only to its

Youth Investment grants, which are supported by Other Funds, not state funds; however, SB 267 will also apply to the juvenile crime prevention grants that are being transferred from the Criminal Justice Commission.

Legislatively Adopted Budget

The $46 million General Fund and $72.9 million Total Funds budget for the Commission is 5% General Fund and 7.5% Total Funds higher than the 2003-05 legislatively approved budget. The increase reflects the transfer of the juvenile crime prevention grants to this agency from the Criminal Justice Commission ($6.3 million General Fund, $3.3 million Federal Funds, 4 positions, 3.50 FTE). The funding pays for juvenile crime prevention grants to local governments and tribes, and agency operations related to those grants. Without this transfer, the Commission's budget would be 9.4% General Fund and 6.7% Total Funds below the 2003-05 level.

The legislatively adopted budget reduces funding to the Commission system overall but will maintain the locally based infrastructure. The Healthy Start program is reduced by $4 million General Fund. General Fund support for the Great Start grant; the Children, Youth and Families grant; and the Basic Capacity grant are reduced by a total of $1 million. The Legislature added $350,000 General Fund to support two new relief nurseries in Albany and Medford, but funding for the seven existing relief nurseries is reduced by $250,000 General Fund. State staff technical assistance, administrative support staff, Services and Supplies and Capital Outlay expenditures are also all reduced.

The budget includes four new permanent positions, all funded with Other or Federal Funds. One of these positions will replace the limited duration Resource Developer position first approved for the 2003-05 biennium. The other three positions will help develop community schools, administer a federal Positive Youth Development grant, and support the work of Partners for Children and Families, and cultural competency.

SCCF – Community Development and Program

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	48,510,342	41,294,659	47,341,670	43,629,652
Other Funds	18,271,687	23,454,194	22,757,939	22,754,289
Federal Funds	288,658	375,449	3,825,865	3,823,717
Total Funds	**$67,070,687**	**$65,124,302**	**$73,925,474**	**$70,207,658**
Positions	21	12	18	18
FTE	19.52	11.00	16.50	16.50

Program Description

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

Counties receive program funds and operating resources for local commissions on children and families through four grant streams that provide for local investments. Communities use the Great Start grant; the Children, Youth, and Families grant; and the Youth Investment grant to address local priorities for programs and services for children and families. The Basic Capacity grant funds local commission staff and overhead, as well as on-going support for the local coordinated comprehensive plan. The Commission passes federal resources for Family Preservation and Support, and the Child Care and Development Fund, to counties for investments in more targeted populations. Other designated program funding supports the Healthy Start home visitation program, Court Appointed Special Advocates (CASA), and relief nurseries.

The Commission's scope will expand with the transfer of juvenile crime prevention grants from the Criminal Justice Commission. The grants are used by counties and tribes to support services that reduce risk factors that lead to juvenile crime. The Oregon Youth Authority's budget includes related funds for local juvenile department basic services and diversion. The juvenile crime prevention grants are distributed based on each county's juvenile population (ages 0-17), and are used for such services as:

- School related services, including after-school programs, court school, truancy, and tutoring.
- Family-based services, including the Family Functional Therapy program.
- Alcohol and drug programs, including assessment, treatment, and after-care services.
- Mental health services, including multi-systemic therapy, treatment foster care, and evaluations.
- Flexible and wrap-around services.

Budget Environment

As previously noted, the Commission's budget has been significantly reduced since its 2001-03 legislatively adopted budget was enacted. The reductions have affected all aspects of the Commission, but the largest share of the reductions have been in the Community Development and Program budget because it makes up over 96% of the Commission's total budget.

Reduction actions have eliminated funding for three programs: family resource centers, parents-as-teachers (Together for Children), and First Steps violence prevention training. Funding for new initiatives to support the Oregon Children's Plan was also eliminated. Resources available to communities through the locally invested county grants were cut by over 23%: the original 2001-03 budget included over $30 million total funds for the four locally invested county grant streams, but the comparable funding in the 2003-05 budget was less than $23 million. General Fund support for the Healthy Start and relief nurseries programs has also decreased, although the Legislature directed some Other Funds resources to partially backfill General Fund reductions for relief nurseries.

The Healthy Start home visitation program is the Commission's largest program. The program operates in all 36 counties, but at a much more limited level than first expected due to statewide budget constraints. The 2001 Legislature planned to reach 80% of Oregon's 18,000 first-birth families each year by the end of the 2001-03 biennium. However, budget reductions during that interim, in the 2003 session, and during the 2003-05 interim have had a significant impact. As a result, the Commission expected counties to reach only about 45% of first-birth families during the 2003-05 biennium. This level will be even lower for the 2005-07 biennium. The reduced funding level makes it difficult for some smaller counties to maintain viable local programs. Further, the program was originally designed as a "universal" program to offer services to all first-birth families. Given the budget constraints, there has been interest in changing the model to target services to more at-risk families.

Funding for the CASA program has held steady over the past several biennia. However, current funding allows local programs to serve only about one-third of the children in the juvenile court system statewide.

Legislatively Adopted Budget

The legislatively adopted budget for Community Development and Program is a net 4.1% General Fund and 7.8% Total Funds increase from the 2003-05 legislatively approved budget. The increase is a result of the transfer of the Criminal Justice Commission's juvenile crime prevention program to this agency (HB 3029). The transfer adds $6.3 million General Fund, $3.3 million Federal Funds, and four positions (3.50 FTE) to this budget. This transfer does not reflect all of the funding in the Criminal Justice Commission's budget for juvenile crime prevention activities for 2003-05. Some operational efficiencies are expected, since several of the Commission on Children and Families' existing positions will take over some of the program workload.

The Legislature appropriated $350,000 General Fund to support two new relief nurseries in Albany and Medford. However, the budget also makes a $250,000 General Fund reduction for the seven existing relief nurseries. This is 14% below the 2003-05 General Fund level adjusted for inflation, and about a 7.5% reduction in total state funding. The adopted budget for the existing relief nurseries is $3.1 million Total Funds.

General Fund support for the Healthy Start program was reduced by $4 million (17%) from the $23.1 million in the Governor's budget. The Legislature encouraged the Commission to target state funds for the program to high-risk first-birth families, with services to low-risk families provided by volunteer services or from other funding sources. The Commission was also encouraged to adopt administrative rules that require a 25% local match (including a 5% cash match) for Healthy Start program funds. The Commission is to report to the 2007 Legislature on how it implements the changes, and the impact on program operations and outcomes.

The Legislature accepted reductions in other local grants as proposed by the Governor: the Great Start and Children, Youth, and Families grants are reduced by 10% ($551,212 General Fund total) and the Basic Capacity grant is reduced by 5% ($497,014 General Fund). The adopted budget maintains funding for the CASA program at the 2003-05 level as adjusted for inflation.

State staff technical assistance expenditures were further reduced for PERS, Department of Administrative Services, and Attorney General rate and assessment reductions, and for a 3% General Fund reduction in Services and Supplies and Capital Outlay expenditures.

The adopted budget includes a new Community Schools Initiative Coordinator position (1.00 FTE) to work on developing local community schools (2001's HB 2082). The Department of Education will pay the $144,778 Other Funds cost. The budget also replaces a limited duration position for a federal Positive Youth Development grant with a permanent position, shifts the position's funding and adds professional services costs. This reduces General Fund by $21,139, but adds $251,104 Federal Funds and one position (1.00 FTE).

SCCF – Policy and Support Services

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	2,564,495	2,512,838	2,414,650	2,366,314
Other Funds	20,227	137,312	291,293	289,560
Federal Funds	0	1,955	0	0
Total Funds	**$2,584,722**	**$2,652,105**	**$2,705,943**	**$2,655,874**
Positions	15	13	14	14
FTE	14.38	12.50	13.00	13.00

Program Description

The Policy and Support Services program supports the 17-member State Commission, and gives policy direction and oversight of local programs for the 36 local commissions. This section handles agency administrative functions and support services, which includes communication, planning and policy management, program monitoring, fiscal control, and information systems management. It helps counties with the statewide Fiscal, Monitoring, and Outcomes Reporting System.

Budget Environment

SB 555's coordinated comprehensive planning process and HB 3659's Oregon Children's Plan increased workload and costs in this area. The 2001 Legislature approved an auditor position and funding to do county and program site reviews and improve system accountability. However, budget reductions in the 2001-03 interim and during the 2003 session pared down the Commission's support staff as well as resources for travel, training, Commission meetings, and program evaluation.

Legislatively Adopted Budget

The Policy and Support Services budget makes up 3.6% of the Commission's total funds budget. The budget is 5.8% General Fund less than the 2003-05 legislatively approved budget, but about equal in total funding.

The adopted budget adds two new permanent positions. One position replaces the limited duration Resource Developer position first included in the 2003-05 budget. This position helps counties locate federal and private funds that will enable them to leverage the state's investment, and builds relationships with private foundations for future fund development. The other position supports the Partners for Children and Families and works directly with counties to develop cultural competency in their programs and services. The $275,339 cost of these two positions will be paid with Other Funds from other agencies and Medicaid administrative fees. The budget also reduces an administrative support position from full-time to half-time (0.50 FTE).

The Legislature adjusted the budget for reductions in PERS, Department of Administrative Services, Attorney General, Secretary of State Audits Division and State Library rates and charges. It also approved an across-the-board 3% General Fund reduction in Services and Supplies and Capital Outlay expenditures.

Disabilities Commission – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	281,641	0	0	0
Other Funds	509,749	719,087	584,797	0
Federal Funds	895,792	829,445	248,058	0
Total Funds	**$1,687,182**	**$1,548,532**	**$832,855**	**$0**
Positions	6	5	4	0
FTE	5.20	4.00	3.00	0.00

Agency Overview

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

The Client Assistance Program (CAP) provides advocacy for clients of DHS's Vocational Rehabilitation Services, the Commission for the Blind, and Independent Living Centers who are not satisfied with their services. ODC contracts with the Oregon Advocacy Center (an independent non-profit agency) to provide dispute resolution services for clients and the rehabilitation agencies. Without an independent client assistance program, no federal Rehabilitation Act funds would be awarded in the state.

The Technology Access for Life Needs (TALN) program offers information and demonstrations on assistive technology to individuals with disabilities, their employers, and representatives of agencies and programs that serve them. The program provides outreach through community colleges around the state.

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

Revenue Sources and Relationships

Federal funding from the U.S. Department of Education supports 100% of the CAP, through the Rehabilitation Services Administration (RSA), and TALN programs, through the National Institute on Disability and Rehabilitation Research. Oregon is designated as a "minimum allotment state" based on its population and expects to receive $248,058 to support the CAP during the 2005-07 biennium. Since the initial five-year grant period for TALN ended in 2000, funding has been limited to one-year extensions. It is unknown whether or not TALN funding will be available in 2005-07.

The primary source of Other Funds revenue is an interagency agreement with the DHS to provide hearing impaired translator services, sign language interpreter coordination, dispatching, training, and technical assistance.

Budget Environment

ODC funding has been steadily declining since 1997-99. With the loss of General Fund support in 2003-05, ODC relied on the DHHAP cash balances to fund advocacy and outreach activities. DHS has historically provided the majority (80% since 2001-03) of DHHAP revenue. The 2005-07 Governor's budget continued reliance on DHS by transferring the CAP to the Oregon Advocacy Center and "transitioning" ODC into DHS. The goal being to reduce ODC's administrative burden while maintain its status as a separate agency.

Legislatively Adopted Budget

The Legislature approved House Bill 3230-C which transfers the ODC into the DHS and creates the Oregon Deaf and Hard of Hearing Services Program (ODHHSP) – separate and distinct from the Commission. The transfer eliminates the need for double-budgeting and generates a nominal General Fund savings. The legislatively adopted budgets for ODC ($233,609 Total Funds and 1.50 FTE) and ODHHSP ($346,901 Total Funds and 2.50 FTE) are included in the DHS budget.

Department of Human Services (DHS) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved *	2005-07 Governor's Recommended **	2005-07 Legislatively Adopted
General Fund	2,333,137,095	2,302,317,245	2,429,486,799	2,534,422,673
Lottery Funds	5,875,507	5,600,000	7,804,844	9,312,000
Other Funds	1,185,207,091	1,094,337,156	1,160,374,908	1,129,742,248
Federal Funds	4,681,889,924	4,947,981,715	4,982,999,839	5,051,002,177
Other Funds (NL)	27,361,262	28,643,625	29,331,072	29,331,072
Federal Funds (NL)	727,645,640	950,115,509	957,102,894	1,053,277,631
Total Funds	**$8,961,116,519**	**$9,328,995,250**	**$9,567,100,356**	**$9,807,087,801**
Positions	9,473	9,574	9,533	9,417
FTE	8,813.94	9,115.21	9,184.52	9,061.51

** 2003-05 Legislatively Approved is adjusted for the May 2005 rebalance plan (HB 5077).*

*** The number of positions and FTE in the Governor's Recommended is overstated by 280 and 84.00, respectively, because of an arithmetic error.*

Agency Overview

The Department of Human Services (DHS) is the largest agency within the Human Services program area, making up over 98% of program area expenditures. Overall, DHS comprises 21% of the state's combined $12.3 billion General Fund and Lottery Funds budget, and 23% of the state's $42.4 billion total funds budget.

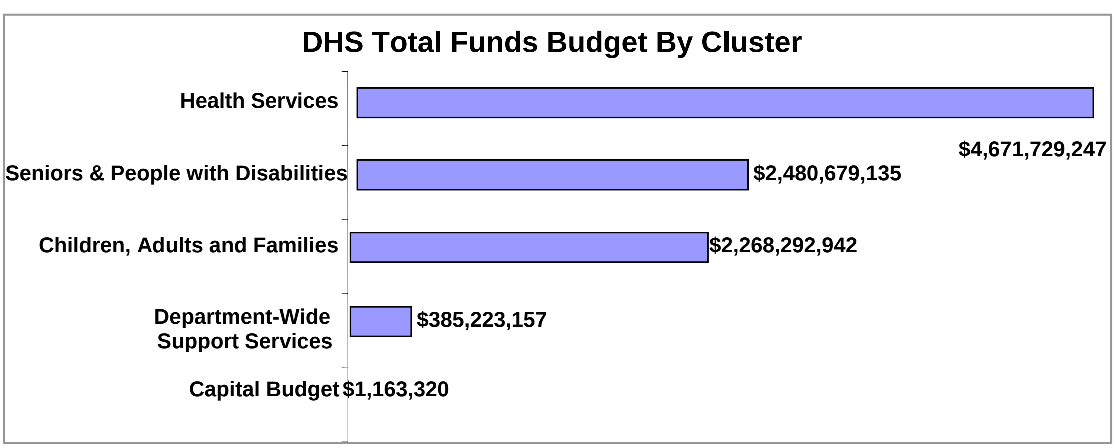
HB 2294 (2001) restructured the divisions and program offices within DHS and realigned responsibilities. The goal was to improve services for clients, families, and communities by reducing fragmentation, improving accountability, increasing efficiency, strengthening local partnerships, and focusing on measurable outcomes.

For the 2005-07 biennium, the DHS budget is organized by four program areas, or "clusters":

- ***Children, Adults and Families*** includes self-sufficiency and family safety services, child protection, child welfare, and adoption services. The field staff for these programs was part of the Community Human Services budget for 2003-05, but DHS moved those expenditures and the Office of Vocational Rehabilitation Services into this cluster for the 2005-07 biennium.
- ***Health Services*** consists of public health programs; mental health and addiction treatment services; and medical assistance programs, which includes the Oregon Health Plan.
- ***Seniors and People with Disabilities*** includes Medicaid long-term care, Oregon Project Independence, and direct financial support for seniors and persons with disabilities, including developmental disability services. The field staff associated with these programs is also included in this budget; these expenditures were moved from the Community Human Services budget during the 2003-05 biennium.
- ***Department Wide Support Services*** includes the agency's centralized administrative and support functions.

The budget also includes a $1.2 million General Fund appropriation for capital improvements and $2 as a placeholder for capital construction related to the Oregon State Hospital.

The chart below shows each cluster's share of the $9.8 billion DHS total funds budget for the 2005-07 biennium.



Revenue Sources and Relationships

In the 2005-07 legislatively adopted budget, the General Fund supports 26% of DHS expenditures. Almost all of the General Fund is used to match or meet state maintenance of effort requirements to receive Federal Funds.

DHS receives a small amount of statutorily-dedicated Lottery Funds for gambling addiction prevention and treatment services.

Other Funds revenues support about 12% of DHS expenditures. These come from a wide variety of sources including tobacco taxes, grants, the unitary tax assessment, beer and wine taxes, fees, estate collections, child support collections, health care premiums, third party recoveries, pharmaceutical rebates, transferred federal funds from other state agencies, and charges for services. Nonlimited Other Funds come from infant formula rebates in the Department's Women, Infants and Children (WIC) program.

Overall, Federal Funds support about 62% of DHS expenditures. Federal Funds subject to expenditure limitation are about half of the DHS budget. Almost two-thirds of the Federal Funds come from the Title XIX Medicaid program. Other major Federal Funds revenues include Temporary Assistance to Needy Families (TANF), Foster Care and Adoption Assistance, Child Welfare Services, Social Services Block Grant, Child Health Insurance Program (CHIP), and Basic 110 Rehabilitation funds. Some of these sources are capped block grants (e.g., TANF, Social Services Block Grant); others provide federal matching funds as partial reimbursement of state costs (e.g., Medicaid, Foster Care and Adoption Assistance). Nonlimited Federal Funds are for the Food Stamps and Women, Infants and Children (WIC) nutrition programs.

Budget Environment

The factors that influence the DHS budget are complex and varied. Five of the most important are listed below: Oregon's demographics and economics, federal law, health care cost inflation, state policy that has governed human services programs, and politics.

<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 DHS services. The health of the economy also has a significant effect on this budget. Typically, when the economy is poor, there is increased demand for DHS services. During the 2001-03 biennium and the state's economic recession, for example, growth in TANF caseloads, Food Stamps caseloads, Oregon Health Plan caseloads, and long-term care for elderly and disabled Oregonians put significant pressure on the DHS budget, at the very time state revenue was declining.

<u>Federal Law</u>
As noted above, federal revenue supports about 62% of the agency's total expenditures. The revenue brings with it a significant body of law and federal administrative rules. A number of the Department'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 in the first place, or later approved 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 is used to meet federal maintenance of effort or match requirements. Consequently, General Fund budget reductions often also result in federal revenue reductions, and might jeopardize the state's ability to meet maintenance of effort requirements, thus incurring penalties or forfeiting federal funds.

<u>Health Care Cost Inflation</u>
DHS will use $3.6 billion of its $9.8 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 been significantly greater than general economic inflation rates, and have also exceeded the rate of state revenue growth by a large margin. This has meant that the health care budget consumes a larger share of the overall state budget.

<u>State Human Services Policy</u>
Oregon's human services programs have, for the last 20 years or more, been focused on intervening earlier and in less-costly ways to prevent or mitigate the problems these programs address. For example, the Medicaid long-term care system acquired federal waiver approvals to implement the nation's first home and community-

based care system in the early 1980's. Mental health services or programs for persons with developmental disabilities, which once were dominated by large institutional care (such as the Oregon State Hospital or Fairview Training Center), are now more focused on smaller community-based care settings. In some respects these changes have lowered the state's costs—federal Medicaid funds have been used to replace some General Fund expenditures and, arguably, these programs have prevented more costly care in the future. On the other hand, having some programs operating with more latitude as a result of federal waivers has meant that the state's human service caseloads are larger than they might otherwise have been—and that state government expenditures are greater then they might have been.

Politics

About 85% of the entire DHS budget is earmarked for special payments to individuals, health care providers and suppliers, long-term care providers, training institutions, and foster care providers. As a result, numerous organizations, trade associations, advocates, and clients have a direct economic interest in the Department's budget. When budget reductions need to be made, as they have over the last several years, these groups become more actively involved in the politics that surround the agency's budget.

All of these factors tend to make significant policy changes difficult to implement. A proposed program change might be inconsistent with federal law (or at the very least, require a lengthy federal approval process), might not allow the Department to meet client demands that result from economic downturns, or might simply be unable to survive navigation through the political process.

Legislatively Adopted Budget

The legislatively adopted budget includes $2.534 billion General Fund and $9.807 billion Total Funds. The total funds budget is 2.5% higher than the Governor's recommended budget of $9.567 billion. The General Fund in the adopted budget is 10.1% more, and total funds 5.1% more, than the 2003-05 legislatively approved budget.

The legislatively adopted budget includes the effects of the Department's May 2005 rebalance plan that was approved by the Legislative Assembly in HB 5077. Caseload forecasts developed for that rebalance for TANF, foster care, OHP, and long-term care were also used to generate the adopted budget. The adopted budget adjusts General Fund and Federal Funds expenditures where needed to reflect the latest Medicaid match rates, including General Fund to replace almost $80 million in one-time federal fiscal relief authorized in the Jobs and Growth Tax Relief Reconciliation Act of 2003 and used in the 2003-05 budget. The budget also adjusts 2003-05 costs using standard inflation, medical inflation where appropriate, and, with respect to OHP reimbursement, actuarially-determined cost increases. It includes the expected impact of the Medicare Modernization Act (MMA) as mitigated by SB 1088 (which effectively eliminates Medicaid prescription drug coverage for persons who are eligible for both Medicare and Medicaid), passed by the 2005 Legislative Assembly. Persons who are dually-eligible will, beginning on January 1, 2006, receive their prescription drugs through Medicare Part D.

The 2005 Legislative Assembly restored some, but not all, of the reductions that the Governor had proposed in his budget. The Governor's budget maintained core programs and services for seniors, persons with mental and physical disabilities, children, and families. On the other hand, his budget made $226.8 million General Fund and $518.5 million Total Funds in reductions to the projected 2005-07 biennium costs of current programs. DHS updated the Governor's budget in May with a proposed "reshoot" that used updated caseload, cost per case, and other expenditure forecasts. It also corrected a mixture of errors that had been made as the Governor's budget was developed. The reshoot added nearly $66.2 million General Fund and $159 million Total Funds to the Governor's recommended budget as presented in December 2004. The Legislative Assembly ultimately approved most of the suggested reshoot adjustments, and added $38.7 million General Fund and $81 million Total Funds more to restore or enhance a number of programs. Highlights of the legislatively adopted budget actions for each cluster are listed below.

Health Services

- Added funding to restore most of the OHP adult dental benefit eliminated in the Governor's budget.
- Increased OHP funding related to program restorations in the Seniors and People with Disabilities budget.
- Increased funding to reverse a proposal in the Governor's budget to control OHP fee-for-service prescription drug costs using a preferred drug list and prior authorization.
- Funded the Tobacco Prevention and Education Program (TPEP) at its 2003-05 level of $6.9 million.
- Restored the cost of living adjustment for the providers of durable medical equipment.

- Added funding to the mental health budget to fully fund the Eastern Oregon Psychiatric Center, to continue to develop community-based residential mental health treatment, and to implement Phase 2 of a detailed study of the Oregon State Hospital.
- Reduced the hospital cost component for OHP managed care capitation rates to 72% of the actuarial cost.
- Enacted SB 1088, which eliminates Medicaid prescription drug coverage for persons eligible for both Medicare and Medicaid. These persons will receive their drug benefit under Medicare Part D coverage.

Seniors and People with Disabilities
- Increased staffing to assist with the expected impact of the Medicare Modernization Act.
- Restored the relative adult foster care program that had been eliminated in the Governor's budget.
- Provided $12 million of General Fund for Oregon Project Independence.
- Added funding to maintain the current reimbursement structures for assisted living facilities and adult foster homes and to add cost of living adjustments for both sets of providers.
- Increased funding to avoid the imposition of a cap on the number of persons allowed services under the Medicaid home and community-based care waiver.
- Enhanced reimbursement for Area Agencies on Aging for case management services.
- Increased wages for providers of services to persons with developmental disabilities.
- Appropriated $10 million to the Emergency Board to fund benefits for home care workers.
- Enacted HB 3230 to transfer the Oregon Disabilities Commission to the Department of Human Services.

Children, Adults and Families
- Restored funding to maintain TANF benefits for children in the care of non-parent relatives.
- Fully funded TANF Domestic Violence services and grants to local domestic violence and sexual assault service providers, which were reduced in the Governor's budget.
- Added funding to avoid the Governor's proposed restriction of Employment Related Day Care (ERDC) to people leaving TANF, and retain initial co-payment subsidies for new ERDC clients.
- Restored the Governor's proposed 20% cut in the rate paid to foster parents for children with diagnosed special needs.
- Partially restored reductions in child welfare System of Care flexible funding.
- Increased funding to restore vocational rehabilitation client services, and to ensure Oregon will meet its federal maintenance of effort requirement for the program special payments for basic rehabilitative services.
- Appropriated $2.5 million to the Emergency Board to address the issue of legal representation for child welfare workers in court hearings

A number of budget reductions proposed by the Governor were included in the legislatively adopted budget. Field staffing for self-sufficiency and child welfare programs is not fully funded, nor are program services in TANF cash assistance, JOBS, ERDC and some child welfare programs. The agency has limited options to manage the unfunded workload, but would need to take management actions to stay within the approved budget if caseloads and costs in these programs hold at the projected level.

Department Wide Support Services
- Approved funding to continue work on the Medicaid Management Information System (MMIS) replacement project and the new State Automated Child Welfare Information System (SACWIS) project.
- Increased staffing and funding to support compliance with the federal Health Insurance Portability and Accountability Act (HIPAA), address Medicaid quality control mandates, and support Medicare Modernization Act work being done in other areas of the Department.
- Added resources to improve the Department's caseload forecasting and overpayment collection functions.
- Made cuts in central office staffing and administrative costs, which include closing eight field offices and reducing information system staff and equipment replacement expenditures.

More detail on each program area and its legislatively adopted budget follows this agency overview.

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

	2001-03 Actual	2003-05 Legislatively Approved *	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	367,402,987	374,483,507	413,341,571	422,550,299
Other Funds	252,594,357	131,517,825	134,881,920	132,745,638
Federal Funds	1,033,815,580	786,251,709	755,470,030	762,448,425
Federal Funds (NL)	648,585,091	849,325,420	874,373,843	950,548,580
Total Funds	**$2,302,398,015**	**$2,141,578,461**	**$2,178,067,364**	**$2,268,292,942**
Positions	4,789	4,290	4,257	4,093
FTE	4,354.81	4,036.80	4,119.65	3,974.50

** 2003-05 Legislatively Approved is adjusted for the May 2005 rebalance plan (HB 5077).*

Summary Description

Children, Adults and Families (CAF) administers self-sufficiency programs that promote independence for families and adults, and child welfare programs that help provide safe and permanent families for Oregon's abused, neglected, and dependent children. It carries this out through coordination and collaboration with community partners, and through direct services provided by state staff. The Field Services staff provides CAF program services and benefits to clients through more than 150 community offices throughout the state. The Office of Vocational Rehabilitation Services, the designated state entity responsible for vocational rehabilitation services for individuals with disabilities, is also part of this program area.

Self-sufficiency programs include Temporary Assistance for Needy Families (TANF), Job Opportunity and Basic Skills (JOBS), Employment Related Day Care, Food Stamps, Refugee Assistance, and Prevention Services. The primary focus of these programs is to meet immediate critical needs for low-income families while helping them become independent of public assistance.

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

The Office of Vocational Rehabilitation Services administers programs for Rehabilitation Services, the Youth Transition Program, Supported Employment Services, the Independent Living Program, and Interagency Partnerships.

Revenue Sources and Relationships

General Fund supports about 19% of CAF's budget; Other Funds, about 6%; and Federal Funds, about 75%.

The major source of Other Funds in this budget is $92.5 million in federal Child Care and Development Funds CAF receives from the Employment Department to help pay for child care costs. The budget also includes child support recoveries and client trust account funds from client resources, such as federal Supplemental Security Income disability payments. These are used to offset state assistance and maintenance costs for children in care. Other overpayment recovery revenues are also used in this budget to offset General Fund. CAF receives Criminal Fines and Assessment Account revenues to support grants for Domestic Violence Services and the Sexual Assault Victims Fund. Domestic Violence Services also receives Other Funds from a surcharge on marriage licenses, and federal funds. User fees are collected to cover the costs of the Adoption Assisted Search Program and Independent Adoption Home Studies. Law Enforcement Medical Liability Account revenues come from local bails and court fines transferred to the program.

Nonlimited Food Stamps benefits are the single largest source and use of federal funds in CAF. Food Stamps benefits, which are 100% federally funded, are projected at $950.5 million for 2005-07. This is up 11.9% from the 2003-05 legislatively approved budget. CAF also receives federal Food Stamps funding to help pay for Food Stamps program administrative costs, which are shared on a 50% state, 50% federal basis.

Other Federal Funds come from capped or formula-based block grants, payments for partial reimbursement for eligible state costs, and miscellaneous grants for specific amounts and purposes. The federal Temporary Assistance to Needy Families (TANF) block grant is expected to provide about $310 million for CAF programs in the 2005-07 biennium, although federal reauthorization of the block grant is still pending. TANF funds pay for cash assistance, JOBS services, child care, and other self-sufficiency programs. The Title XX Social Services Block Grant (SSBG) is estimated at $35 million for the biennium. Another federal source is the Title IV-B Safe and Stable Families (Family Preservation and Support) grant, estimated at $15 million for 2005-07. CAF uses these funds in its own budget to pay for time-limited family reunification work and post-adoption services. CAF will transfer $10.6 million in federal funds to the State Commission on Children and Families to support grants to counties, relief nurseries, and Healthy Start program support.

Section 110 of the Rehabilitation Act of 1973 (Basic 110 Grant) provides federal support for rehabilitative services. This grant is distributed to states based upon population and per capita income. DHS receives about 87.5% of Oregon's allocation of Section 110 Federal Funds and the Commission for the Blind receives the remaining 12.5%. The Basic 110 Grant requires General Fund or Other Funds match, at a 21.3% state/78.7% federal rate. Rehabilitative services revenue also includes federal Rehabilitation Act funds for Supported Employment and staff training, and for Independent Living Rehabilitation.

The federal government partially reimburses eligible state costs through the Title XIX Medicaid program and the Title IV-E Foster Care and Adoption Assistance program. Medicaid funding is spent for case management services, special rates for certain children in foster care, and related administrative services. Title IV-E funding is used for child welfare services, adoption assistance, and related administrative costs. The level of reimbursement in these programs varies with federal match rate changes, the number of children served, and eligibility of the services provided. Caseload growth in the foster care and adoptions programs make it likely that these federal revenues will be higher in 2005-07 than in 2003-05.

CAF expects to receive about $16 million in federal Refugee Resettlement funds to pay for refugee program and administrative expenditures. Other federally-designated grants will support family violence prevention, child abuse prevention and treatment, and other targeted services.

Budget Environment

<u>Self-Sufficiency Programs</u>

Federal welfare reform was initiated with the passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA). This act repealed the Aid to Families with Dependent Children (AFDC) program and combined its funding stream with several child care and training programs into the Temporary Assistance for Needy Families (TANF), a capped block grant. It also focused public assistance efforts on employment and self-sufficiency, and required client participation as a condition for receiving benefits. The legislation sunset September 30, 2002. Congress has approved numerous temporary extensions to continue the program while it considers program changes and determines future funding levels. The current extension is through December 31, 2005.

Oregon's welfare reform actually began earlier than federal reform, with an Oregon Option waiver that emphasized participation in employment and training activities. The federal waiver was effective July 1996 but expired in June 2003. The federal government has not extended the waiver. As a result, Oregon has modified its programs to better meet the work participation requirements under the standard TANF program. The timing and scope of Congress' reauthorization of the TANF program is uncertain; however, proposed changes in participation requirements or current caseload reduction credits would be problematic for Oregon.

States must meet "maintenance of effort" (MOE) requirements to receive federal TANF funds. In Oregon, non-federal support must be at least 75% of the state contribution in the 1994-95 base year. This means state support from the General Fund or other state resources must be at least $183.6 million per biennium. This state support has come from several agencies, including Department of Human Services, Employment Department, Department of Education, and State Commission on Children and Families. Budget decisions on General Fund appropriations in these agencies can affect the state's ability to meet TANF MOE requirements. In recent years, Oregon has also counted the refundable Working Family Child Care tax credit towards its MOE requirement.

With cash assistance caseloads declining since 1994, the base year for the TANF block grant, Oregon redirected TANF funds from cash assistance payments to employment and training and child care enhancements. It also used TANF to offset some General Fund expenditures in self-sufficiency and child welfare programs. Many states built up large amounts of unobligated TANF funds through the 1990's. Oregon, however, chose to use all available TANF funds and not "bank" caseload savings to hedge against future caseload growth. When caseloads began to increase again during the 2001-03 biennium, other TANF-supported services were reduced. TANF caseloads continued to increase through the 2003-05 biennium, although at a slower rate than during the 2001-03 biennium, and are expected to continue to grow through 2005-07.

Child Welfare Services

Oregon continues to experience increased reports and incidents of child abuse and neglect. Younger children continue to be at greater risk of abuse and neglect. The largest single age group of victims of abuse or neglect is under one year old, with almost half the victims younger than age 6. Families of abused and neglected children often face multiple stressors such as alcohol and drug abuse, law enforcement involvement, unemployment, and domestic violence. The large number of young victims, combined with the intensity of family problems, result in very complex cases that take longer and are more costly to resolve.

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

The 1997 federal Adoption and Safe Families Act (ASFA) mandated strict timelines for achieving permanent placement for children in out-of-home care. The 1999 Legislature adopted SB 408 to match Oregon law with federal ASFA requirements. As a result, CAF intensified casework efforts for children and families, revised data collection and reporting procedures, and added staff to complete adoptions more quickly. Meeting the legal requirements under ASFA remains challenging, especially as budget reductions in other areas of the DHS budget limit access to services needed to help families resolve their problems.

Oregon's child welfare system is under regular federal review, with resources added in recent years to address staff training, case planning, federal reporting, and services for older youth. In 2004, however, the federal Department of Health and Human Services noted that, based on 2002 data, no state fully complies with new federal standards assessing performance in protecting children and finding safe, permanent homes for those who have suffered abuse or neglect. DHS is continuing to work to improve its performance, but is challenged by the case complexities described above, as well as caseload, training, and resource issues at the state level.

Legislatively Adopted Budget

The 2005-07 budget for Children, Adults and Families is $422.6 million General Fund and $2,268.3 million Total Funds, 12.8% General Fund and 5.9% total funds higher than the 2003-05 legislatively approved level. The largest factor in the overall growth in this budget is an additional $100 million – an 11.9% increase -- in federal funding for Food Stamps benefits. The budget includes a total of $950.5 million in Nonlimited Federal Funds for these benefits, about 42% of the total CAF budget.

The adopted budget maintains CAF's core programs, services, and service delivery infrastructure, albeit with significant reductions in some programs from the full estimated 2005-07 costs of continuing services. The 2005 Legislature added back over $27 million General Fund and $36 million Total Funds to restore a number of program reductions proposed in the Governor's budget, including:

- $2.1 million General Fund to maintain TANF benefits for children in the care of non-parent relatives.
- $11.2 million General Fund to restore the proposed restriction of Employment Related Day Care (ERDC) to people leaving TANF.
- $3.3 million General Fund to reinstate the minimum co-payment for new ERDC clients for the first month of program eligibility.
- $0.3 million General Fund to restore a 10% cut in grants to local domestic violence and sexual assault service providers.
- $2.1 million General Fund to restore TANF Domestic Violence services that were reduced by 15% in the Governor's budget.

- $1 million General Fund and $5.2 million matching Federal Funds to restore vocational rehabilitation client services. The increased funding level helps ensure Oregon meets its federal maintenance of effort requirement for this program.
- $3 million General Fund and $3.8 million Total Funds for System of Care Flex Funds, which are used to fund individualized services for children in or at risk of placement in foster care.
- $4.2 million General Fund and $9.5 million Total Funds to restore the Governor's 20% cut in the rate paid to foster parents for children with diagnosed special needs.

Budget reductions remain in field staffing for self-sufficiency and child welfare programs, the JOBS employment and training program, cost-of-living adjustments for clients and providers, and abstinence education and the Community Safety Net programs. Further, the budget does not fully fund projected growth in TANF, ERDC and some child welfare programs, an estimated additional $25.4 million General Fund cost. The funding was not included in the Governor's budget due to statewide revenue constraints, and was not added by the Legislature. DHS testified that it has limited options to manage the unfunded workload if caseloads and costs in these programs hold at the projected levels, but would probably have to change eligibility criteria, decrease client or provider payments, or take other management actions to stay within the approved budget. It will report to the Emergency Board and discuss options on how to manage to the funding level if needed.

The Governor's budget requested $4.8 million General Fund, $7.8 million Total Funds, and added staff to improve child welfare operations by increasing Attorney General representation for child welfare workers in court hearings. The Legislature did not approve that request, but made a $2.5 million appropriation to the Emergency Board that can be allocated when a revised plan is presented by DHS and the Department of Justice.

New permanent positions will replace previous limited duration positions in CAF to continue increased overpayment collections, with a net $2.9 million General Fund savings projected for the state. Added funding and positions in CAF will help the Department meet federal mandates for Medicaid quality control. The budget also adds staffing to process applications and review eligibility for Oregon Health Plan Standard clients, using provider taxes and matching federal Medicaid funds. Other positions are transferred from CAF to other areas in the Department, most notably to centralize overpayment recovery work in Department Wide Support Services.

More detailed information on the major programs and services within CAF, and the legislatively adopted budget for each, follows.

CAF – Self-Sufficiency

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	79,672,015	48,132,046	43,525,555	57,520,753
Other Funds	122,717,207	95,251,590	96,737,297	93,503,970
Federal Funds	482,107,839	246,217,699	225,871,779	228,218,089
Federal Funds (NL)	648,585,091	849,325,420	874,373,843	950,548,580
Total Funds	**$1,333,082,152**	**$1,238,926,755**	**$1,240,508,474**	**$1,329,791,392**

Program Description

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

The ***Food Stamps*** program is a federally funded benefit program to help low-income families, single adults, and childless couples buy the food they need to stay healthy. In June 2005, more than 430,000 Oregonians, about 12% of Oregon's population, received food stamp benefits through DHS. The food stamp benefit is based on household size, income, and expenses; the average monthly household benefit is $175. Recipients receive an Oregon Trail Card to access benefits through electronic funds transfer at the point of sale. The benefit costs are included in the Self-Sufficiency budget as Nonlimited Federal Funds; eligibility determination staff costs are included in the Program Support budget as limited expenditures.

Temporary Assistance to Needy Families (TANF) provides cash assistance, which, when coupled with food stamps, supplies minimal support for families with children under the age of 19 that meet eligibility criteria. Income qualification and benefit amounts are based on family size and expenses. A family of three must have income under $616 per month to qualify, with limited cash resources. The maximum monthly benefit for a family of three is $503. TANF also provides temporary financial assistance and support services for Domestic Violence survivors. Up to $1,200 is available to meet immediate needs, such as rent, utilities, and household items, for families fleeing abuse, or to help families remain free of abuse.

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

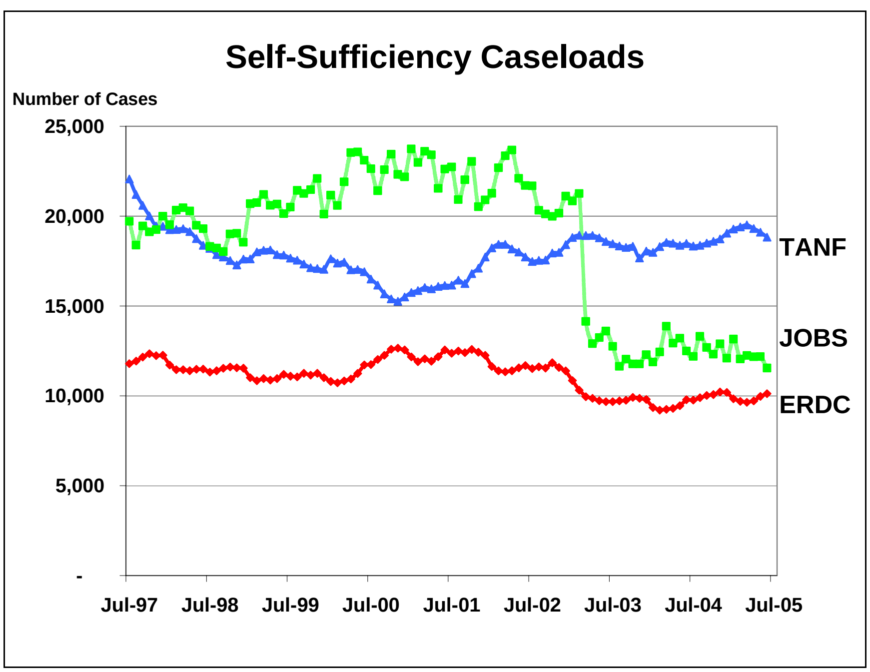
Employment Related Day Care is designed to encourage employment by subsidizing child care services for former or potential cash assistance recipients or persons currently on cash assistance who are participating in training programs. Clients pay a minimum co-payment and the state subsidizes the remaining cost on a sliding scale, based upon the client's income and the number of children needing child care services. A limited number of slots is available for parents in post-secondary education through the Student Child Care program.

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

Prevention Services in this budget support abstinence education programs for youth community pregnancy prevention efforts, as well as local Community Safety Net programs to help prevent child abuse and neglect.

Budget Environment

The number of families receiving cash assistance has declined dramatically since the 1990's. As Oregon's economy weakened at the start of this decade, however, cash assistance caseloads increased. TANF caseloads grew 16.5% in four years, from 16,161 cases in July 2001 to 18,833 cases in June 2005. JOBS program services and day care subsidies can help families reduce or end their need for cash assistance, but funding for these programs has been reduced due to state revenue constraints and other human services caseload growth. In July 2001, there were 22,737 JOBS participants, but since then the program was cut nearly in half, to 11,548 in June 2005. Employment Related Day Care cases dropped 18% over the same time, from 12,367 in July 2001 to 10,121 in June 2005. The table below illustrates caseload history in the TANF, JOBS, and ERDC programs since July 1997.



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. Budget reductions in treatment programs and support services make it more difficult to address these problems and move clients off cash assistance.

The U.S. Department of Agriculture has released its estimate of food insecurity with hunger based on 2002-2004 data. That report indicates 3.8% of Oregon households were food insecure with hunger. The national average was 3.6%. Oregon ranked 17th, tied with Georgia and Michigan, compared to other states. Although still above the national average on this measure, Oregon has made significant improvements over the past several years. The 1999-2001 data indicated Oregon, with a 5.8% prevalence rate, had the highest level of food insecurity with hunger of any state in the nation. Food stamps are one way to address hunger directly, and the Department of Human Services and community organizations have increased outreach efforts to provide food stamps to people who need them. Food Stamps program caseloads have grown significantly since 2001, from 146,642 households in July 2001 to 219,316 households in June 2005. This is a 50% increase over four years.

Legislatively Adopted Budget

The adopted budget for Self-Sufficiency programs is 19.5% General Fund and 7.3% total funds more than the 2003-05 legislatively approved budget for these programs. The General Fund increase, about $9.4 million above the 2003-05 level, reflects growing demand for cash assistance, education, training and child care services for unemployed and low-income families with children. The major federal funding sources in this area -- TANF and the Child Care and Development Block Grant -- are capped grants; the federal revenues do not grow with program caseloads. Most of the total funds increase, over $100 million, is in Nonlimited federal Food Stamps and Food Stamps cash out benefits. These are expected to grow from $849.3 million in 2003-05 to $950.5 million in the 2005-07 biennium.

The 2005 Legislature restored some of the program reductions originally proposed by the Governor, but did not fund all program services in this area. During budget discussions, DHS identified $10.7 million General Fund in unfunded TANF program costs and $7 million in unfunded ERDC program costs that would be needed to fully fund expected caseload growth and cost increases. DHS has limited options to manage the unfunded workload, but will need to take management actions to stay within the approved budget if caseloads and costs in these programs hold at the projected level.

The budget as adopted:

- Maintains TANF benefits for all children who are cared for by non-parent relatives.
- Restores ERDC eligibility for low-income families who have not previously been on TANF cash assistance.
- Continues the first month co-payment subsidy for new ERDC families.
- Maintains funding for TANF domestic violence services.
- Partially restores General Fund support for teen pregnancy prevention efforts.
- Eliminates JOBS support services for families who are not yet on TANF cash assistance but "at risk" of coming into the TANF system, limits support service payments for families in transition from TANF and families in the Oregon Food Stamp Employment and Training (OFSET) program, and reduces JOBS program expenditures overall.
- Delays cost-of-living adjustments for clients and providers until April 2006.

The Legislature supported the Governor's proposal to add staff in the CAF Program Support budget and in the Department Wide Support Services budget to improve overpayment collections. The Self Sufficiency budget reflects a $3.6 million General Fund savings from using the increased collections to offset General Fund; after staff and other costs, DHS expects to save a net $2.9 million General Fund in 2005-07. The budget also uses $3.4 million in revenues from the Individual Education Account and the Law Enforcement Medical Liability Account to offset General Fund in this budget.

CAF – Child Safety

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	18,881,328	6,318,585	9,700,001	10,494,894
Other Funds	6,943,394	4,444,540	1,624,275	4,390,253
Federal Funds	20,050,036	31,119,221	30,936,575	31,767,950
Total Funds	**$45,874,758**	**$41,882,346**	**$42,260,851**	**$46,653,097**

Program Description

Child safety covers a variety of purchased or contracted child protective services, family preservation services, and domestic violence services. These services support families and develop or provide appropriate care to children when a threat to child safety is identified. The field staff that provide child protective services are not in this budget, but part of the CAF Program Support budget. Child safety services funded in this budget include:

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

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

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

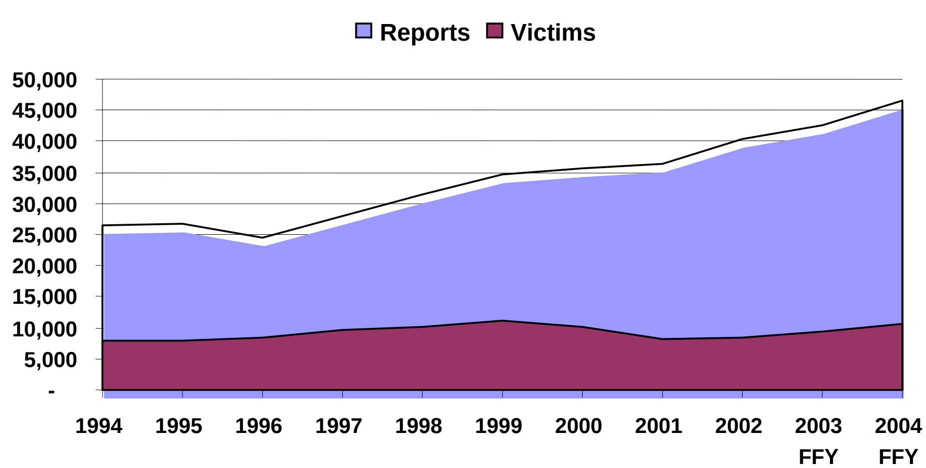
Addiction Recovery Teams – These multidisciplinary teams intervene with families with pre-school age children and parental substance abuse, where there have been allegations of child abuse and neglect. The teams help ensure child safety and provide services and support to address the substance abuse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

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

Budget Environment

In federal fiscal year 2004, CAF received 46,524 reports of suspected abuse and neglect, continuing a trend of increased reports since 1996. The number of victims increased to 10,622, about 1.2% of the state's 884,000 children aged 0 to 18. The following table shows the number of reports and abuse victims since 1994. Total abuse and neglect reports have increased by 76% over that period. The number of victims peaked in 1999, dropped significantly in 2001 and 2002, but began to grow again in 2003 and 2004.

Child Abuse/Neglect Reports and Victims



Child safety expenditures are designed to provide early intervention and support services to families to help prevent out-of-home placement or return children home more quickly. For example, research on the System of

Care flexible funding has shown a positive correlation between that funding, lower re-abuse rates, and shorter length of stays in foster care. However, contracted services and System of Care flexible funds have been reduced in the last two biennia due to statewide revenue constraints and caseload growth in other human services programs.

Legislatively Adopted Budget

The Child Safety budget is 66.1% General Fund and 11.4% total funds higher than the 2003-05 legislatively approved budget. The 2003-05 budget reflects over $4 million in General Fund savings during the interim in the Supportive Remedial Day Care and System of Care budgets. These lower expenditure levels are not expected to continue in 2005-07. The Legislature funded projected growth in Supportive Remedial Day Care services, and restored $3 million of the Governor's proposed $4.8 million General Fund reduction in System of Care funding.

The adopted budget maintains $2.7 million in funding for Domestic Violence and Sexual Assault grants from Criminal Fines and Assessment Account (CFAA) Other Funds. The Legislature also used $0.3 million General Fund to restore the Governor's proposed reduction in those grants.

Other adjustments delay cost-of-living increases in all programs to April 2006 and eliminate the Homemaker program that provided contracted in-home services for a small number of families.

CAF – Substitute Care

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	67,157,875	51,693,145	60,470,739	63,883,993
Other Funds	12,873,657	14,649,160	15,914,473	16,103,351
Federal Funds	156,783,082	116,985,406	117,695,741	123,333,340
Total Funds	**$236,814,614**	**$183,327,711**	**$194,080,953**	**$203,320,684**

Program Description

Substitute care provides out-of-home care to children in foster care or residential care settings. A child may be placed either through a court order or a voluntary consent agreement with the child's parents, if:

- the child is a victim of, or at significant risk of, abuse or neglect;
- the parents or guardians are not able to care for the child;
- the child is in the permanent custody of the state for adoption planning;
- the child requires skilled care for a severe disabling condition; or
- the child's behavior is a serious danger but can be managed in an appropriate substitute living situation.

Some limited funding is available through Foster Care Prevention Funds and a federal foster care waiver agreement to tailor services or purchase items needed to prevent foster care placement or reduce time spent in foster care.

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

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

Budget Environment

In federal fiscal year 2004, 14,485 children were served in all foster care arrangements. Family foster care is the primary setting, with about 4,830 foster families providing care. The base foster care payment rates range from $378 per month for a child through age 5, to $485 per month for a teenager. The payment is partial reimbursement for the cost of room and board, clothing, school, and personal items. These rates were reduced 7.5% during the 2001-03 biennium as a cost-saving measure, but were restored to prior levels in November 2003.

The number of children in paid foster care has increased significantly since 2003, from 5,790 in April 2003 to 7,076 in April 2005. The paid foster care caseload was expected to average 6,326 for the 2003-05 biennium, increasing to a 6,939 average for the 2005-07 biennium. This is a 9.7% growth over the biennium. One factor in the growth is the increase in parental drug abuse, especially methamphetamine abuse, leading to the removal of children living in the household.

There is upward pressure on substitute care costs because more foster care placements require special rates above the base foster care payment rate. Special rates are based on emotional, behavioral, mental, or physical problems that require special services for the children and increased skills and supports for foster parents and relative caregivers. Over half of all children in foster care require special rates or medical Personal Care payments. The average special rate payment is about $600 per month. These rates were reduced by 10% during the 2001-03 biennium, but were partially restored by a 7.5% increase effective November 2003.

Other, higher cost services may be required in residential treatment or specialized service plans for children whose needs cannot be met by an existing residential program. The 2003-05 legislatively adopted budget reduced residential treatment and special contract services by about 5% overall.

Legislatively Adopted Budget

The legislatively adopted budget for Substitute Care programs is 23.6% General Fund and 10.9% total funds higher than the 2003-05 legislatively approved budget. The increase is due in part to about $4 million General Fund added to backfill federal match rate changes and SSBG revenues carried forward to offset General Fund in 2003-05 but not available in 2005-07.

The other major cost driver is continuing growth in foster care. Projected caseload growth in foster care and special rates foster care adds about $5 million General Fund and $10 million Total Funds to the budget. The Legislature also added $4.2 million General Fund and $9.5 million Total Funds to restore the Governor's proposed 20% reduction in special rates foster care expenditures. This fully funds the expected foster care and special rate foster care caseload for 2005-07.

However, the budget does not include $4.5 million General Funds and $10.4 million Total Funds that DHS has identified as unfunded costs in other areas. These include Subsidized Guardianship, Other Medical payments, and Residential Treatment services. This may result in children remaining in foster care longer if funding is not available for appropriate services or more suitable placement alternatives.

The adopted budget also delays the cost-of-living adjustment for providers until April 2006.

CAF – Adoptions

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	46,491,557	43,604,226	55,776,518	52,731,793
Other Funds	604,236	1,265,918	1,435,570	1,361,601
Federal Funds	53,312,844	44,168,297	57,945,681	55,306,766
Total Funds	**$100,408,637**	**$89,038,441**	**$115,157,769**	**$109,400,160**

Program Description

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

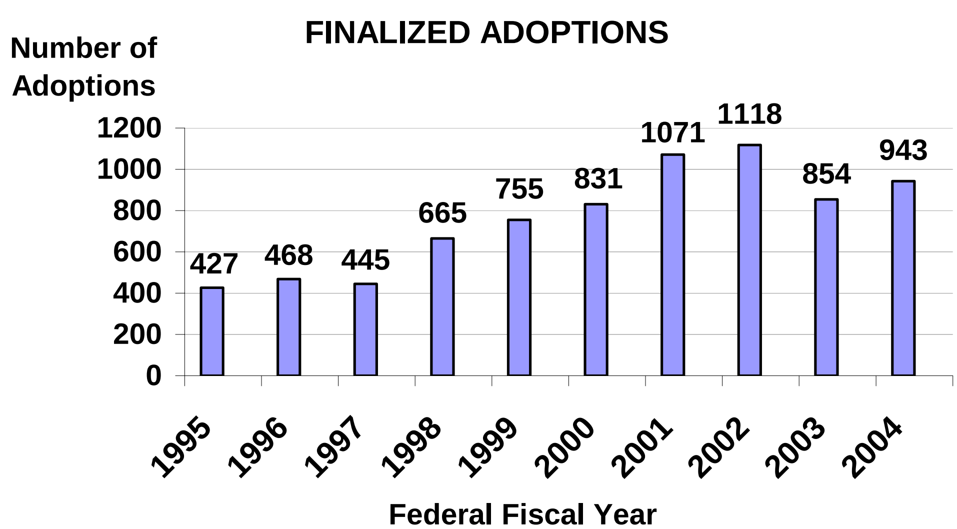
Adoption Assistance is made available to help remove financial barriers to adoption for special needs children. The assistance can include one-time payments for adoption expenses, ongoing monthly cash subsidies and medical coverage, and one-time payments for extraordinary expenses for special needs adopted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

Budget Environment

Adoption Assistance caseloads are growing rapidly because almost all the children placed with adoptive families are considered to be special needs children, with one or more medical, emotional, mental, physical, or sensory disabilities. Payments generally continue until the children "age out" at age 18. Recent increased state and federal emphasis on making adoptive placements means more children are being added to the caseloads than are "aging out." The average Adoption Assistance payment is about $425 per month.

CAF is required to report finalized adoptions to the U.S. Department of Health and Human Services. As shown in the chart below, adoptive placements have increased significantly since 1995. There were 1,118 finalized adoptions in federal fiscal year 2002, up 161.8% from federal fiscal year 1995. The number of adoptions dropped off in 2003; the number grew again in 2004, but is still below the historical highs in 2001 and 2002.

The recent lower placement level is primarily due to two factors. The Federal Adoptions and Safe Families Act deadlines to place a "backlog" of children who had been in foster care greatly increased adoptions between 1999 and 2002. With these children placed, the median time to adoption dropped to a historic annual low in 2004, at 34.6 months from the date of a child's last removal from home to finalized adoption. Also, in 1999, DHS began its Subsidized Guardianship program as a permanent placement alternative to adoption for some children. More children have been placed with subsidized guardianships each year since 1999.



Legislatively Adopted Budget

The Adoptions budget is 20.9% General Fund and 22.9% total funds higher than the 2003-05 legislatively approved budget. The Legislature reduced the Governor's budget by $2.7 million General Fund and $5.5 million Total Funds based on a small reduction in the level of growth projected in Adoption Assistance caseloads, but the budget overall reflects significant on-going growth in the program.

The adopted budget limits one-time adoption payments to $1,500 per child, down from $2,000 previously. These payments are used to help families pay legal fees or other required costs for adoptions. As in other CAF budgets, the standard cost-of-living adjustment is delayed to April 2006.

CAF – Other Programs

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	787,161	1,065,653	1,712,604	3,400,282
Other Funds	1,559,917	792,531	810,006	806,202
Federal Funds	22,286,386	13,727,256	11,592,099	12,242,095
Total Funds	**$24,633,464**	**$15,585,440**	**$14,114,709**	**$16,448,579**

Program Description

This budget unit is a compilation of programs, services, and grants. The Law Enforcement Medical Liability Account (LEMLA) pays for medical services for persons injured by police as a result of law enforcement apprehension. Claims are paid to medical service providers when efforts to recover costs from injured parties or their insurance companies fail. The budget includes transfers of federal Title XX Social Services Block Grant (SSBG) funds to the State Commission on Children and Families for its Youth Investment Program grants to counties and relief nurseries funding. DHS also passes through SSBG and Title IV-E Foster Care funds to Oregon's Native American tribes for child welfare services for Native American youth.

Budget Environment

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

LEMLA program expenditures are variable, and over time, program revenues may build up in excess of projected costs. The Legislature has previously redirected some LEMLA funds to offset General Fund expenditures elsewhere in the Department of Human Services. This has been done as a revenue transfer and does not affect this budget's expenditures.

Legislatively Adopted Budget

General Fund in the Other Programs budget for 2005-07 is more than triple that for 2003-05, although total funds increase only 5.5%. There are two reasons for the large General Fund increase: 1) $1.7 million General Fund is moved to this budget from the Self Sufficiency budget to pay costs associated with the Employment hearings panel; and 2) $0.5 million General Fund is used to replace SSBG funding used in the 2003-05 budget but not available for 2005-07. A one-time $1.4 million increase in federal funding passed on to the State Commission on Children and Families in the 2003-05 biennium is eliminated A small budget reduction is made based on delaying the standard cost-of-living adjustment to April 2006.

CAF – Basic Rehabilitative Services

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	3,857,864	4,870,892	2,941,153	4,680,624
Other Funds	11,685,589	2,349,636	1,822,348	1,813,980
Federal Funds	21,953,397	28,697,747	17,841,335	29,343,843
Total Funds	**$37,496,850**	**$35,918,275**	**$22,604,836**	**$35,838,447**

Summary Description

This budget supports vocational rehabilitation services to individuals with disabilities, with a goal to prepare and engage them in gainful employment.

Vocational Rehabilitation Services (OVRS) provides training, vocational, and educational services to persons with disabilities that are substantial impediments to obtaining or maintaining employment. These services are delivered in 56 locations across the state. Services include vocational evaluation, training, physical and mental restoration services, transportation, job placement, training supplies, and on-the-job training. Clients typically are assigned a vocational rehabilitation counselor who determines eligibility and then works with the client to develop a plan that will result in employment. OVRS expects that about 30,000 clients will receive services during the 2005-07 biennium.

Youth Transition Program provides coordinated vocational rehabilitation services to students who are currently in school to ensure a smooth transition to adult services and employment after school completion. The program currently contracts with over 40 school districts for services to over 1,300 students each year.

Supported Employment Services provides vocational rehabilitation services, on a time limited basis, to severely disabled clients for placement in community based competitive work sites. The program estimates about 500 clients will be served in this program during the 2005-07 biennium.

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.

Interagency Partnerships focus on interagency collaboration to allow expanded services to Vocational Rehabilitation clients who are also clients of other agencies. Examples include the JOBS program and Foster Care Transition.

Budget Environment

Almost all of the clients who receive basic rehabilitative services have severe disabilities which require a broad array of services. Oregon ranks in the top 5% of all vocational rehabilitation programs in the nation for percent of persons with the most severe disabilities. For fiscal year 2004, the most frequent primary disabilities were cognitive impairments, psychosocial or other mental impairments, mobility and manipulation, and other physical 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.

Oregon's economic downturn has also made it more difficult to place clients, making fewer jobs available and increasing competition for jobs that are available. Case closures for employment have trended downward since 2000, from a peak of 3,434 that year to 2,714 in 2004. Wages at placement have been good, however, increasing from $8.67 per hour in 2000 to $9.86 per hour in 2004.

Federal funding has remained flat, with only cost-of-living adjustments, for the past two decades. Although Oregon has occassionally received additional federal allocations from other states' unused funding, the Basic 110 Grant has not kept pace with the increased demand for rehabilitative services. The vocational rehabilitation program served 25% more persons with disabilities between fiscal years 1996 and 2001, compared to an 11% increase in Oregon's general population over the same time period.

Further, state budget constraints have made it more challenging to provide services. The level of field staffing for vocational rehabilitation services has remained constant since the late 1980's, although demand for services has increased. As a result, eligible clients wait for a rehabilitation plan to be written before receiving services. General Fund reductions in the 2001-03 and the 2003-05 budgets reduced funding for vocational services by eliminating any cost-of-living increase, eliminating the Sheltered Services Program for about 100 severely disabled clients working in rehabilitation facilities, and reducing grants to local Independent Living Centers.

Legislatively Adopted Budget

The legislatively adopted budget for this program is 3.9% General Fund less than the 2003-05 legislatively approved budget, but essentially the same in total funds. The Legislature added $1.8 million General Fund to reverse the Governor's proposed reduction in program services. With federal match, this restores a total of $8.2 million for client services. The restoration will help Oregon keep pace with the demand for services and ensure that the state meets federal maintenance of effort requirements in this program. The Legislature also approved the use of $5.1 million Federal Funds that the Office of Vocational Rehabilitation Services has identified and carried forward from previous budgets; these funds will be used for direct client services and strategic investments with local partners to leverage other funding sources.

The adopted budget eliminates a $0.3 million General Fund, $1.4 million Total Funds contract with the Senior and People with Disabilities program area for employment readiness services. DHS indicates clients will still receive rehabilitative services, but the quality and duration of services provided will be reduced.

CAF – Program Support/Central Administration

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	150,555,187	218,798,960	239,215,001	229,837,960
Other Funds	96,210,357	12,764,450	16,537,951	14,766,281
Federal Funds	277,321,996	305,336,083	293,586,820	282,236,342
Total Funds	**$524,087,540**	**$536,899,493**	**$549,339,772**	**$526,840,583**
Positions	4,789	4,290	4,257	4,093
FTE	4,354.81	4,036.80	4,119.65	3,974.50

Program Description

This budget includes field staff for Self-Sufficiency, Child Safety, Substitute Care, Adoptions, Other Programs, Basic Rehabilitative Services, and the Service Delivery Area field administration. It also reflects expenditures for the Office of Administration, the Office of Self-Sufficiency and Training Services, the Office of Safety and Permanency for Children, the Office of Prevention and Transitional Benefits, the Office of Program Performance and Reporting, and the Office of Vocational Rehabilitation Services. These offices provide policy and program direction and oversight for CAF. Centralized support for program service delivery is provided through eligibility determination, payment processing, fraud investigation, and quality control functions.

Budget Environment

For the 2003-05 biennium, field staff expenditures for CAF programs were part of the Community Human Services (CHS) budget structure. The CHS structure was eliminated for 2005-07. The field staff delivering CAF programs and services moved into the Program Support budget, and policy staff moved into the Central Administration budget.

DHS has developed staffing standards for most CAF programs. These standards have historically been used to adjust staffing levels and budget based on caseload growth or reductions. Since 2001, because of statewide revenue constraints, staffing levels have been funded at lower levels than the historical models would support. This has increased caseloads for existing field staff and challenged the agency to develop alternative or more efficient methods of providing services to clients.

The 2003 Legislature, by budget note, directed DHS to undertake a staffing study during the 2003-05 interim to review current staff needs and work practices. Phase I of the study focused on Food Stamps, Medicaid eligibility, and adult protective services staffing. The initial Phase I recommendations included moving from the current caseload-based standards to workload-based standards that better reflected expected process times for key transactions. The findings also suggest the CAF staff-to-supervisor ratios, averaging 14:1, generally are broader (i.e., more staff per supervisor) than in other states. However, there appear to be more case managers, more support staff, and fewer eligibility workers than would be needed if workload-based standards were adopted. The 2005-07 legislatively adopted budget makes some staffing adjustments to reclassify some CAF positions in line with the study's findings. The Department will also develop a plan to implement other elements of the study's Phase I recommendations, and complete a second phase of the study to look at staffing in other programs during the 2005-07 biennium.

Legislatively Adopted Budget

The legislatively adopted budget for Program Support and Central Administration is 5% General Fund more than the 2003-05 legislatively approved budget, but 1.9% lower in Total Funds. Although a variety of factors contribute to the overall funding reduction, the three most notable are the continued policy choice to fund program staff at levels below current staffing standards, services and supplies expenditure reductions, and technical adjustments and transfers of CAF staff and related funding to other areas of the Department.

To restrain overall costs, the budget continues several actions proposed by the Governor to reduce staffing levels from what would be funded based on current staffing standards. The adopted budget:

- Eliminates 82 positions (77.83 FTE), mostly new field staff in Food Stamps and foster care, that would have been filled during the last months of 2003-05 based on the November 2004 rebalance plan. However, some existing field positions and one Central Administration position are also eliminated ($5 million General Fund, $12 million Total Funds).
- Does not fund 80 field staff positions (72.07 FTE) associated with projected caseload growth in Food Stamps and foster care ($4.2 million General Fund, $8.4 million Total Funds).
- Does not fund an additional 36 positions (29.64 FTE) that would be needed to address caseload increases in other CAF programs, including TANF, ERDC, child safety, and substitute care programs ($3.1 million General Fund, $3.8 million Total Funds).

These 198 unfunded positions, in total, represent about 4.8% of overall CAF staffing.

Based on TANF and ERDC program restorations in the Self Sufficiency budget, the Legislature reversed a number of staffing changes proposed in the Program Support budget, adding over $2 million General Fund and a net 10 positions back into the budget. The adopted budget also includes funding to restore 25 field staff positions to process client caseloads and ongoing caseload reviews for the Oregon Health Plan standard program; continue seven limited duration positions as permanent positions to improve Food Stamp overpayment recoveries; and add 12 new positions to meet new federal Medicaid quality control requirements. The budget eliminates funding for one position for the Office of Juvenile Compact Administrator. HB 2561 moved the responsibility for this function from DHS to the Oregon Youth Authority.

The Legislature did not approve the Governor's package to address issues with Attorney General representation for child welfare workers in court hearings. Concerns were expressed with the scope and the sustainability of the Governor's package. That package had a cost of $4.8 million General Fund and $7.8 million Total Funds, and would have reclassified some existing child welfare workers as well as add new staff in CAF and in the Department of Justice. The Legislature instead made a $2.5 million General Fund special purpose appropriation to the Emergency Board for this purpose. This will allow the two departments to come to the Emergency Board during the interim with a revised proposal that will effectively address the problem at a lower cost.

Other legislative actions reduced costs in this budget for adjusted rates for Public Employee Retirement System contributions and Department of Justice Attorney General charges. Other reductions cut services and supplies expenditures generally by about $2 million General Fund and $5 million Total Funds, and eliminate the $1 million in General Fund support for the Community Safety Net program. The budget also eliminates funding for a contract with Portland State University for child welfare research. The standard cost-of-living adjustment is delayed until April 2006.

Technical adjustments and transfers shift 136 positions previously in CAF to other areas of DHS, reducing this budget by $6.4 million General Fund and $13.3 million Total Funds. The largest share of the position shift is in 80 auditor, investigator, and related management and clerical support positions that move from CAF to DWSS' Office of Payment Accuracy and Recovery.

DHS/Health Services (HS) – Program Area Totals

	2001-03 Actual	2003-05 Legislatively Approved *	2005-07 Governor's Recommended **	2005-07 Legislatively Adopted
General Fund	1,192,720,644	1,064,226,000	1,167,701,891	1,132,472,699
Lottery Funds	5,875,507	5,600,000	7,804,844	9,312,000
Other Funds	520,811,645	800,215,985	811,981,868	785,529,783
Federal Funds	2,245,148,906	2,652,882,716	2,661,602,839	2,612,354,642
Other Funds (NL)	27,361,262	28,643,625	29,331,072	29,331,072
Federal Funds (NL)	79,060,549	100,790,089	82,729,051	102,729,051
Total Funds	**$4,070,978,513**	**$4,652,358,415**	**$4,761,151,565**	**$4,671,729,246**
Positions	2,220	2,207	2,378	2,230
FTE	2,056.94	2,123.15	2,222.78	2,163.80

** The 2003-05 Legislatively Approved Budget is adjusted for the May 2005 rebalance plan.*

*** The number of positions and FTE in the Governor's Recommended Budget was overstated by 280 and 84.00, respectively, because of an arithmetic error.*

Summary Description

The Health Services Cluster includes public health programs, mental health and addiction prevention and treatment services, the Oregon Health Plan, and program support and central administration. It is the largest of the Department of Human Services' (DHS) cluster budgets, and the legislatively adopted budget includes $1.1 billion of General Fund. The chart below summarizes the adopted 2005-07 funding levels for each major program area within the Health Services Cluster.

Adopted Budget (In millions of $)	General Fund	%	Total Funds	%
Public Health (Special Pmts. Only)	17.2	2	281.1	6
Oregon Health Plan and CHIP	573.0	51	3,311.2	71
Non-OHP – Pmts. To Medicare	163.5	14	270.7	6
Mental Health and Addiction Services	338.9	30	576.5	12
Program Support and Central Admin.	40.0	4	232.1	5
Total	1,132.5	100	4,671.7	100

Public Health Programs work at the local level to provide support and technical assistance to county health departments. Public Health programs assure statewide control of environmental public health hazards through safe drinking water, radiation protection, and sanitation programs. In addition, program staff administer preventive health programs and services, regulate hospitals, and oversee the state emergency medical system. The public health program area includes the Women, Infants, and Children's (WIC) program. The chart above lists public health special payments. The staff that work within public health programs are included in the program support and central administrative budget.

The ***Oregon Health Plan (OHP)*** provides medical care to about 400,000 low income Oregonians. The Health Plan includes the state's Medicaid waiver programs, the Children's Health Insurance Program (CHIP), and the Family Health Insurance Program (FHIAP). The FHIAP budget is not part of the DHS budget, but is instead in the Insurance Pool Governing Board (IPGB)—now called the Office of Private Health Partnerships.

The ***Non-OHP*** budget includes payments of Medicare premiums and other Medicare cost-sharing for certain low-income eligible populations. In addition, the legislatively adopted Non-OHP budget contains a General Fund "clawback" payment that is required under the Medicare Modernization Act (MMA) of about $97 million.

The ***Mental Health and Addiction Services*** budget includes the costs of operating the Oregon State Hospital system (including staffing of 1,394.44 FTE) as well as payments to various community organizations (e.g., non-profits and local governments) that provide treatment services for persons with mental illness and substance addictions.

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

Revenue Sources and Relationships

Other Funds revenue includes a significant amount of Tobacco Tax ($344.7 million), Tobacco Settlement ($24.5 million), pharmaceutical manufacturer drug rebates, client contributions, third party recoveries, numerous licensing and other fees, and other governmental agency (such as the Oregon Department of Education) funds eligible for federal match. The budget includes $9.3 million of Lottery Funds dedicated to the treatment of problem gambling and addiction.

Federal Funds revenue is dominated by Medicaid, which accounts for nearly 90% of the cluster's $2.6 billion federal revenue sources. Medicaid requires a state match and the match rate is recalculated each year by the federal government. The composite match rate used in the Governor's budget for Medicaid is approximately 40% state funds and 60% Medicaid funds. Other federal revenue sources include the Children's Health Insurance Program (CHIP), Alcohol and Drug and Mental Health Block Grants, and numerous smaller federal grants related to public health.

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

Budget Environment

The Health Services cluster includes programs that provide health care, mental health, and addiction services and promote public health. As such, the program budgets are subject to a variety of influences. Certainly, population growth is a factor in all these budgets—most notably in the public health area. In addition, the Oregon Health Plan budget is greatly influenced by federal Medicaid and Medicare law, the Centers for Medicare and Medicaid Services (CMS—the federal agency which oversees Medicaid), and changes in health care costs and utilization. In December 2003, Congress passed the Medicare Modernization Act, which will have a significant impact upon the 2005-07 budget. This is discussed below within the OHP and Non-OHP budget sections.

Over the last several years, the Health Services budget has been affected by caseload increases that are, at least in part, a result of economic conditions. As the economy worsened throughout the 2001-03 biennium, many persons lost their jobs and sought medical insurance through the OHP. Many others retained their jobs, but may have lost medical insurance. In 2004, the uninsured rate for health coverage was estimated at about 17% of Oregon's population, or about 609,000 persons—up from a rate in 2000 of 12%, or 422,000 persons. The Health Services budget has also been greatly affected by rising health care costs.

Mental Health and Addiction Services have been greatly influenced by the nature of mental illness and, fortunately, like many somatic health services, by effective treatment technology. An ideal mental health system would offer a continuum of services because mental illness is dynamic and varies in severity. For this reason, services over the last 40 to 50 years have become less institutional and centralized and more community-based. The advancement of pharmacological treatment has also enabled more mental health services to be provided at the community level.

Legislatively Adopted Budget

The legislatively adopted budget for Health Services is $4.7 billion ($1,132.5 million General Fund). This budget is about $89.5 million Total Funds ($35.2 million General Fund) less than the Governor's proposed budget. The adopted budget uses actuarial estimates of OHP costs, standard inflation for other cluster cost of living adjustments—delayed until April 1, 2006, the latest Medicaid match rate, and the caseload forecasts used in the May 2005 departmental rebalance. It includes some, but not all, of the reductions proposed in the Governor's budget and the impact of the Medicare Modernization Act (MMA) which ultimately is expected to increase the state's General Fund cost by about $2.7 million, but reduce Other Funds and Federal Funds expenditures by about $25.7 million and $95 million, respectively.

The Legislature decreased the OHP budget—partially by approving the department "reshoot" of the Governor's recommended budget which lowered estimates of program costs, as well as reducing hospital reimbursement within managed care capitation rates from what the Governor proposed (90% of actuarially determined cost) to

72% of cost. The adopted budget restores most of the adult dental benefit for seniors and persons with disabilities within the OHP Plus caseload.

Within the Public Health program, the Legislature accepted a proposal in the reshoot which restored the Family Planning Expansion Program (FPEP) and added $1.6 million General Fund and $14.4 million Federal Funds. In addition, the adopted budget includes a higher (by $20 million) estimate of non-limited federal expenditures for the Women, Infants, and Children's (WIC) nutrition program. The Legislature funded the Tobacco Prevention Education Program (TPEP) at its 2003-05 level of $6.9 million and it accepted a funding recommendation within the Governor's budget to expand school-based health clinics to five more counties.

The Mental Health and Addiction Services budget was increased by $10.3 million Total Funds ($4.1 million General Fund). The Legislature included $350,000 General Fund that was in the Governor's budget to complete Phase 2 of an Oregon State Hospital study. It made several program restorations that are described below and it added $1.2 million of Lottery Funds (given a higher Lottery revenue forecast) for the Gambling Addiction Treatment program. Federal Mental Health Services Block Grant and Alcohol Drug Block Grant maintenance of effort issues were not yet resolved with the Department of Health and Human Services at the time this analysis was written.

HS – Public Health Programs

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	16,560,381	13,800,296	16,006,763	17,155,049
Other Funds	5,158,986	5,110,203	1,946,543	4,206,033
Federal Funds	77,803,434	122,084,901	111,620,998	127,708,102
Other Funds (NL)	27,361,262	28,643,625	29,331,072	29,331,072
Federal Funds (NL)	79,060,549	100,790,089	82,729,051	102,729,051
Total Funds	**$205,944,612**	**$270,429,114**	**$241,634,427**	**$281,129,307**

Program Description

Public Health Programs consist of six program offices that are listed below. All Offices except for the Office of Multi-cultural Health include, for budget purposes, special payments. These payments are included in this budget category. All Public Health Office budgets include expenditures for program staff, but those expenditures are included in Health Services Program Support and Central Administration budget unit which is discussed later in this analysis. The six Public Health Offices are:

- Office of the State Public Health Officer
- Office of Public Health Systems
- Office of Family Health
- Office of Disease Prevention and Epidemiology
- Office of State Public Health Laboratories
- Office of Multi-cultural Health (the budget for this Office is exclusively in the Program Support and Central Administration budget)

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

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

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

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

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

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, Nevada, and several other non-Oregon communities. 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. Its special payment budget is included in this Health Services public health program budget area.

The ***Office of Multi-cultural Health*** ensures that the programs administered and services delivered by the Department of Human Services, Health Services are planned and provided in a manner that recognizes and respects the racial, ethnic, linguistic, and cultural differences inherent in the population being served. The Office's entire budget is included within the Program Support and Central Administration budget. The Office is mentioned here only to provide a more complete picture of all the public health programs within Health Services. A more complete discussion is included below.

Revenue Sources and Relationships

Of the 2005-07 legislatively adopted public health budget revenue, $33.5 million is classified as Other Funds. Most ($29.3 million) is Women, Infants, and Children (WIC) baby formula rebates from manufacturers. This rebate revenue supports additional expenditures for WIC. Most of the remaining $4.2 million consists of Tobacco Tax to support prevention and education programs, a National Safe Kids grant, and revenue from charges for services that are provided by public health programs.

Federal Funds revenue of $230.4 million in the adopted budget support approximately 82% of this public health special payments budget. The largest source of federal revenue ($102.7 million) is expended within the Women, Infants, and Children (WIC) food voucher program and these expenditures are not subject to expenditure limitation. The amount is included in the budget to provide a perspective on total program expenditures.

Approximately $42 million of federal revenue is generated by Medicaid and is used to support the Family Planning Expansion Program—a 9 to 1 federal match program that provides contraceptive services, including annual medical exams and contraceptive supplies to eligible clients. Other federal revenue sources include the Bioterrorism Preparedness and Response Grant, the Maternal and Child Health Block Grant, the Cancer Prevention and Control grant, HIV Prevention Project and HIV Title II Care grants, as well as other individual federal grants that range from $109,000 to $950,000 for the biennium.

Budget Environment

The program's budget is driven primarily by the growth in Oregon's population, but also is affected, to some degree, by increasing medical costs and the number of persons who have no health insurance coverage. As in-migration to the state continues, there is more demand for health services, a greater need for health education, and more necessity for health surveillance to avoid or minimize communicable disease outbreaks. In addition, the country's concern about possibilities of bioterrorism led Congress to provide greater funding to states to prepare appropriate public health responses. Tobacco use has declined over recent years. Part of the decline in tobacco use may be attributable to public health cessation and prevention programs, which are funded with tobacco tax revenues.

Legislatively Adopted Budget

The legislatively adopted budget is about $39.5 million Total Funds higher than the public health special payments budget proposed by the Governor. Half of the increase is the result of adding $20 million to Federal non-limited funds as a new estimate for Women's Infants and Children (WIC) program payments. Other changes to the Governor's budget are listed below.

- The Department proposed in its reshoot (and the Legislature approved) restoration of the Family Planning Expansion Program (FPEP) by adding $1.6 million General Fund and $14.4 million Federal Funds expenditure limitation.
- The special payments budget adds $1.1 million Federal Funds expenditure limitation to accommodate the transfer of the Housing Options for People living With AIDS (HOPWA) grant program from the Department of Housing and Community Development to DHS. An additional $1 million of Federal Funds expenditure limitation was provided to the Program Support budget for staff support.
- The Legislature added $0.2 million General Fund to support the Children's Emergency Medical Services (EMS) program and $0.1 million General Fund to restore the Juvenile Diabetes Database program; both had been eliminated in the Governor's proposed budget.
- The adopted budget removes all General Fund support ($0.1 million) for the Tobacco Prevention and Education Program (TPEP), but adds $1.7 million of Tobacco Tax revenue to fund the 2005-07 program at its 2003-05 level of $6.9 million Total Funds.
- The public health budget also implements a $0.3 million fund shift—it reduces General Fund and increases Other Funds expenditure limitation to reverse a proposal in the Governor's budget to shift Criminal Fines and Assessment (CFAA) funds to the General Fund. This proposal was not approved by the Legislature.
- The budget also reflects the delay of cost of living adjustments for public health contractors.

HS – Medical Assistance Programs: OHP Payments

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	823,932,310	673,233,847	615,922,029	572,991,055
Other Funds	381,745,923	695,605,846	695,778,850	674,998,093
Federal Funds	1,756,359,641	2,133,032,279	2,078,168,301	2,001,387,017
Total Funds	**$2,962,037,874**	**$3,501,871,972**	**$3,389,869,180**	**$3,249,376,165**

Program Description

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

As mentioned briefly above, OHP Medicaid payments are made to managed care organizations and, on a fee-for-service basis, to doctors, hospitals, pharmacies, dentists, and other contractors to provide medical services to nearly 400,000 Oregonians who are eligible for Medicaid. Nearly 70% of these persons are served through managed care organizations, which receive capitation payments from DHS and who assume the risk of providing necessary medical services for their members. The remaining 30% are served on a fee-for-service basis.

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

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

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

Although the 2003 Legislative Assembly made changes in health plan policy, the OHP2 waiver will remain the governing agreement for the Oregon Health Plan until a new set a waivers and state plan amendments are approved by CMS. The OHP2 waiver allows Oregon to distinguish its program from traditional Medicaid in the following five major ways:

- Eligibility – the OHP2 waiver divided the Medicaid health plan population into two large groups. The first group is eligible for the health plan because they are eligible for other human services programs such as Temporary Assistance to Needy Families or Supplemental Security Income (SSI). These persons are "categorically" eligible and described below. The second group (single adults, couples, and parents of categorical children) is eligible because of a Medicaid waiver that allows them to be covered. Under traditional Medicaid, these persons would not have qualified for benefits even if they met income criteria. The second group is called "new eligibles."

- Benefits – Categorically eligible persons receive a benefit package known as "OHP Plus." The new eligible group receives a benefit package called "OHP Standard." Today, OHP Plus includes hospital, physician, prescription drug, durable medical equipment, dental, non-institutional mental health and drug and alcohol services, and transportation to medical providers with limited or no co-payments. OHP Standard is a less costly benefit package and, as initially designed, excluded transportation, vision, and a portion of the dental services. In addition, Standard requires premium payments, and if the premium is not paid, the client will lose coverage. Initially, OHP Standard also required clients to make a co-payment. However, a court decision in early 2004 prohibited the imposition of co-payments and this practice has been discontinued.

The OHP2 waiver allows the Standard package to be reduced further (without CMS approval) by excluding all services except for those considered Medicaid minimums: hospital, physician, X-ray, and laboratory. Although the federal waiver was not modified by the 2003 Legislative Assembly, it passed HB 3624 which established a minimum OHP Standard package that would include primary care, prescription drugs, mental health treatment, and alcohol and drug abuse treatment benefits. The "optional" benefit would be hospital coverage. In other words, the hospital benefit could be eliminated by the Legislature (without further CMS approval) if funding were unavailable. Until the last few days of the 2003 session, it appeared that the hospital benefit might be dropped from the Standard benefit package. In the end, however, the Legislature, in agreement with hospitals and managed care plans, passed a provider tax. The higher revenue produced by this tax was, at the time, earmarked to fund an emergency hospital benefit to the Standard population. Thus, OHP Standard would have been funded throughout the 2003-05 biennium with General Fund, provider tax revenue, as well as federal Medicaid funds. This funding arrangement was, of course, predicated on the passage of HB 2152 and, subsequently, Ballot Measure 30. The measure, however, failed and provisions of HB 5077 then called for a significant reduction to the Health Services budget ($154 million General Fund). The Emergency Board facilitated this reduction by approving a DHS rebalance plan in April 2004. Among the proposals to reduce expenditures was the elimination of OHP Standard. During the next few months, DHS and the Governor's Office negotiated with hospitals and managed care plans to use provider taxes as the sole state funding source for a reduced OHP Standard program. CMS approved the provider taxes and this source of revenue is used to support the Standard program today. Enrollment to OHP Standard was closed in July 2004—the caseload has been decreasing since then and must be further reduced to about 22,000 to coincide with the projected provider tax revenue available for the program.

- Services – For the OHP Plus package, services are available based on a prioritized list of health conditions and treatments. Theoretically, the amount of funding available determines the services that are covered. The Health Services Commission, administered by the Office for Oregon Health Policy and Research in the Department of Administrative Services, determines the content and establishes the priority of listed services. In practice, however, excluding treatments from the bottom of the list has been difficult to do. Historically, HCFA allowed only modest rationing of services using this method. Under OHP2, CMS and Oregon's DHS were to develop a streamlined method for making reductions to the prioritized treatment list. The 2003-05 budget anticipated that further treatment reductions would be allowed, but after considerable negotiation with CMS, only a small treatment reduction was approved.

- Service Delivery – 70% of OHP clients are served through a coordinated system of managed care plans, rather than the more traditional fee-for-service approach.

- Payment – Providers of health services under the OHP managed care plans are supposed to be reimbursed at reasonable cost rather than a percent of charges. Statutes creating the OHP mandate the payment of reasonable cost to encourage providers to participate in the Plan and to reduce cost shifting to other parts of the health delivery system.

The following people are eligible for the OHP Plus benefit package:
- Persons receiving cash assistance under the Temporary Assistance to Needy Families (TANF) program.
- Families transitioning from TANF into employment, who are eligible for 12 months after cash assistance ends.
- Children in foster care or for whom adoption assistance payments are made.
- Persons in the Poverty Level Medical (PLM) program, which includes children from birth to age 5 in households with incomes up to 133% of the federal poverty level (FPL), children 6 to 18 in households with incomes up to 100% of FPL, and pregnant women and their newborns in households with incomes up to 185% of FPL. Persons who are age 65 or over who are eligible for SSI. In 2004, the SSI grant of $564/month for a household of one was about 73% 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 218% of FPL. To qualify for long-term care, however, a person must have functional impairments.
- Blind and disabled persons who are eligible for SSI or, like seniors, are eligible for Medicaid long-term.
- Blind and disabled persons who are presumed eligible for SSI. Many of these persons would have likely qualified for the General Assistance program, a program that was eliminated in the 2005-07 legislatively adopted budget.

Other Oregonians (new eligibles) with incomes under 100% of FPL who are not eligible for Medicare are eligible for the Standard benefit package. The OHP2 waiver actually allows the state to increase the income level for this group up to 185% of FPL. However, this has never happened. As noted above, the OHP Standard program was significantly scaled back because of the failure of Ballot Measure 30.

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

Revenue Sources and Relationships

The federal government funds approximately 60% of OHP Medicaid costs. Most of the state's 40% match comes from the General Fund and tobacco taxes. As noted above, however, the state match for the OHP Standard program is now exclusively funded with provider tax revenue. The remaining state match for the OHP Plus benefits comes from a variety of Other Funds revenue sources including OHP premiums; federally required drug manufacturer rebates; and recoupments from insurance companies, providers, and clients. Additional revenue comes from state agency and county transfers designed to maximize the receipt of federal matching funds, and from miscellaneous receipts. The 2003-05 budget included about $42.2 million of Tobacco Master Settlement Agreement funds. The legislatively adopted budget for 2005-07 uses $24.5 million of this resource.

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

Budget Environment

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

Caseload Changes – The OHP budget is based on caseload forecasts and cost estimates that are projected for the coming two years. Because of the size of the OHP budget, even the slightest variance from the original forecast can result in a significant budget shortfall—or windfall. In collaboration with Willamette University, DHS developed a new method of forecasting OHP caseloads that showed promise of being more accurate and providing better data for management planning. However, the new methodology has limitations. Because of its reliance upon recent historical data, the model could not predict the significant upswing in caseload that resulted from the economic recession during the 2001-03 biennium. Nor could the model accurately predict the rapid reduction in the Standard caseload that occurred in the spring of 2003 resulting from the elimination of certain benefits and, more importantly, the requirement to pay premiums for coverage. During the 2003-05 biennium, DHS expanded its forecasting unit and is working to enhance the original forecasting model.

Medical Inflation and Utilization Trends – Under federal Medicaid law and state statutes, DHS is responsible for paying rates that are sufficient to assure access to health care services for Medicaid recipients. In other words, Medicaid must adequately reimburse providers of medical care to compete with other health care purchasers in the market place. Costs for these services have risen dramatically over the last several years and with them, commercial premiums for health insurance. The Office for Oregon Health Policy and Research states that commercial premiums are growing at approximately 12% each year. Similarly, *The New York Times* reported in September 2005 that Medicare premiums would increase 13% during the next federal fiscal year. Causes for these cost increases are varied and include greater use of medical services, the use of high-cost medical technology, medical labor shortages, and a growing uninsured population which, when it uses but cannot pay for medical care, may force providers to increase their charges to clients who will pay, thereby further driving up commercial and public health care costs. Further, some analysts believe that having 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 are not easy to implement either by private health care insurers or by Medicaid or Medicare managers.

Federal Policy and Funding Changes – Medicaid is a state-federal partnership of unequal partners. The federal share of administrative costs ranges from a low match rate of 50% for most functions to 90% for certain planning activities. Most program costs are matched at a rate of approximately 40% state to 60% federal funds. The federal government sets the rules and guidelines for the program and must approve any waivers and changes to waivers that are authorized for the state. Changing congressional priorities and federal funding levels greatly impact funding for OMAP programs. The Medicare Modernization Act, passed by Congress in December 2003, for example, greatly influences the health plan budget. The MMA and its impact upon the OHP budget are described below in the subsection that discusses the "Legislatively Adopted Budget." Also, the President and Congress are seeking ways to control or reduce the federal share of the Medicaid budget. A federal Medicaid Commission was considering over 30 proposals, several of which could reduce Oregon's provider tax revenue, and with it, the OHP Standard 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, OMAP and the Legislature have looked to alternative methods of budgetary control, such as eliminating specific eligible groups, finding greater efficiencies in delivering care, changing the effective date of eligibility, and attempting to control medical costs through managed care.

Legislatively Adopted Budget

The legislatively adopted budget is $3.2 billion ($573 million General Fund and $675 million Other Funds). This is about $140.5 million Total Funds less than the Governor's proposed budget for OHP Payments. The Other Funds revenue includes better than $330.2 million in Tobacco Tax revenue and $24.5 million of available Tobacco Master Settlement Agreement revenue to offset General Fund. The budget uses the latest available estimates of the Medicaid match rate and the caseload forecast used to develop the April 2005 departmental rebalance plan. The Medicaid match rate used in the Governor's budget is lower than the 2003-05 Medicaid match rate for two reasons: first, the enhanced match rate approved by Congress is no longer available, and second, Oregon's per capita income relative to other states is expected to improve somewhat. This improvement actually lowers the estimated Medicaid match rate during the 2005-07 biennium.

HB 3624, passed by the 2003 Legislative Assembly, directed the Health Services Commission (HSC) to work with an actuary to generate benchmark costs for OHP services—and to see how those costs compared with actual OHP rates of reimbursement. The HSC released its report at the end of November 2004. The report includes a comparison between 2002 fee-for-service rates and benchmark costs for the same time period. In general, some reimbursement rates are well below cost and others are slightly higher than the benchmark costs. For example, hospital reimbursement is about 78% of hospital benchmark costs; physician reimbursement is about 67% of costs; mental health inpatient rates are about 45% of costs; prescription drug reimbursement, on the other hand, is 102% of benchmark costs. Given the fee-for-service budget in 2002, DHS could have paid all providers about 81% of their fee-for-service costs. The intention of conducting this study was to provide some perspective on the fairness of fee-for-service reimbursement. Clearly, DHS should not overpay its Medicaid providers, given budget constraints and prudent management practice. At the same time, adequate payment is necessary to assure access to services by Medicaid clients.

The Legislature made a number of changes to the Governor's proposed budget—many of them generated by DHS in its "reshoot" of the Governor's budget. These changes are listed below:

- The adopted budget adds $10.2 million General Fund to replace Tobacco Taxes that, in the May 2005 forecast, are expected to be less than the revenue included in the Governor's proposed budget.
- The Governor's budget included a number of reductions to the OHP that totaled nearly $185 million ($70 million General Fund). New actuarial cost estimates, caseload forecasts, changes in the mix between fee-for-service and managed care, decreased these savings by about $25 million Total Fund ($9 million General Fund).
- Caseload and cost per case reductions included in the Department's reshoot of the Governor's budget reduced the budget by $94.7 million Total Funds ($36.9 million General Fund).
- The reshoot reduced funding for the General Fund only program for HIV and Transplant patients who were formerly eligible for the Medically Needy program by $3.9 million General Fund.

- The Medicaid match rate was increased in the reshoot based upon later estimates than those used in the Governor's recommended budget. This decreased General Fund by $4.9 million and increased Federal Funds expenditure limitation by the same amount.
- Three technical adjustments included in the reshoot increased Other Funds expenditure limitation by a net amount of $6.2 million but reduced the same amount of General Fund. First, $2.6 million General Fund was transferred from the CHIP program to OHP payments and $2.6 million of Tobacco Tax was transferred from OHP payments to the CHIP program— in order to fund CHIP exclusively with Tobacco Tax. Second, $10.5 million General Fund was transferred from the OHP payments budget to Non-OHP payments in exchange for $10.5 million of Other Funds. DHS did this in order to finance the state-funded portion Non-OHP payments exclusively with General Fund. Third, $1.7 million of Tobacco Tax revenue was shifted to the Public Health Tobacco Prevention Education Program (TPEP) in exchange for General Fund. This shift was implemented in order to fund TPEP exclusively with Tobacco Tax.
- The reshoot removed $8.9 million of unnecessary Other Funds expenditure limitation and reduced both Other Funds and Federal Funds expenditure limitation by $9.6 million and $17.3 million, respectively, to account for less anticipated provider tax revenue. This revenue source is expected to be lower than in the Governor's budget because drug costs for dual-eligible persons (who will be covered under the MMA) were inadvertently included in the calculation of provider tax revenue amounts; and because program reductions which lowered overall hospital and managed care revenue (and thus, the estimate of provider tax revenue) had inadvertently not been included in the calculation of the provider tax. Excluding the drug costs and including the program reductions lowers Medicaid provider (hospital and managed care plans) revenue and consequently, also lowers provider tax revenue.
- The Legislature restored four programs that had been cut in the Governor's budget using $21.8 million General Fund ($59.7 million Total Funds). These program restorations included adding back the Relative Adult Foster Care within SPD (OHP impact was $3.9 million General Fund and $10.3 million Total Funds); not implementing prior authorization for OHP preferred drugs ($5.2 million General Fund, $16.9 million Total Funds); reinstating most of the adult dental benefit for OHP Plus ($11.7 million General Fund, $30 million Total Funds); and adding $1 million General Fund ($2.5 million Total Funds) for durable medical equipment providers to restore their fee-for-service rates.
- The Legislature reduced the diagnostic-related grouping hospital reimbursement component within managed care capitation rates from 90% of actuarially determined cost assumed in the Governor's budget to 72% of cost—the reimbursement level for the 2003-05 biennium. This action reduced the Governor's budget by $84.4 million Total Funds ($32.3 million General Fund).

The adopted budget includes sufficient Other Funds and Federal Funds expenditure limitation to continue funding the OHP Standard program at an average caseload of about 23,925 during the 2005-07 biennium.

<u>The Medicare Modernization Act</u>
As noted earlier, the adopted budget also makes provision for the Medicare Modernization Act (MMA). This Act was signed into law in December 2003. Its most important component is the addition of a Medicare prescription drug benefit—"Medicare Part D." The Act is extremely complex and CMS has not finished its work to prepare for implementation. The following is a simplified discussion of the MMA budgetary impact within the adopted budget. The amounts in the budget are estimates, based upon assumptions about client behavior, which are untested and speculative—but extremely important in generating MMA budgetary affects.

The MMA provided Medicare recipients with a prescription drug benefit. When Medicare was begun in 1965, prescriptions were fewer in number and less expensive. Today, prescriptions have exploded in number and many are extremely costly. Congress wanted to acknowledge those facts—hence the legislation's purpose: to modernize the Medicare benefit. The relevance of the MMA to the state's Medicaid program is that many persons who receive Medicare also receive Medicaid. These "dual-eligibles" receive much of their acute care from providers who receive Medicare reimbursement. But because prescription drug coverage was historically omitted from Medicare, Medicaid paid for dual-eligibles' prescription drugs. Within the OHP, dual eligibles are primarily seniors and persons with disabilities, including those in the state's Medicaid long-term care program. All told, there are over 54,000 dual eligible persons on the OHP.

The table below shows the major state OHP and Non-OHP budgetary impacts from the MMA, as well as a proposed state statutory change that is assumed within the 2005-07 legislatively adopted budget. The MMA impacts were approved in the adopted budget as policy packages 110 and 111.

	Impact of the Medicare Modernization Act on the OHP and Non-OHP Budgets (Does not include impact on the SPD budget) (in millions of $)				
	Policy Package 110	**GF**	**OF**	**FF**	**TF**
1	Estimated Cost of Dual Eligible Rx for 24 months	$132.4	$35.0	$270.5	$437.9
2	Savings to Medicaid from MMA Rx Benefit for 18 months	(99.7)	(26.4)	(203.8)	(329.9)
3	MMA requires a payment to the federal government known as a "clawback" - (assumes 15% duals refuse Medicare Rx)	83.4			83.4
4	State Law – added costs to provide wrap-around for duals enrolled in new Medicare benefit	98.1			98.1
5	State Law – added costs to provide drugs for duals who refuse to enroll in new Medicare benefit	49.5			49.5
6	Total State Law impact = line 4 + line 5	147.6			147.6
7	Impact of MMA outreach and information on OHP and Non-OHP. Overall caseload is expected to grow by 2,388 clients.	2.6		3.2	5.8
8	Continued cost of covering drugs not available under Medicare law.	2.7	0.7	5.6	9.1
9	Amount **above** original estimated cost of Dual Eligible Rx = lines 2 + 3 + 6 +7+8 = **Policy Package 110**	136.6	(25.7)	(195.0)	(84.1)
	Policy Package 111				
10	SB 1088 – eliminate current state law requiring Rx coverage for dual eligibles under Medicaid	(147.6)			(147.6)
11	Increase in clawback resulting from fewer persons refusing Medicare Rx coverage – (assumes only 1% of those eligible will refuse Medicare coverage)	13.7			13.7
12	**Total Policy Package 111** = lines 8 +9	(133.9)			(133.9)
13	Total clawback payment to federal government with passage of SB 1088 = lines 3 + 11 **Included in the Non-OHP Budget**	97.1			97.1
14	Net impact to adopted budget = lines 9 + 12	2.7	(25.7)	(195.0)	(218.0)

Line 1 of the chart shows the expected 2005-07 OHP cost of the dual eligible drug benefit of $437.9 million Total Funds. In theory, because Medicare would now be paying for dual-eligible drugs instead of Medicaid, the state Medicaid program should realize savings, shown in the chart above on line 2 as a budget reduction of $329.9 million. (The MMA drug benefit known as Medicare Part D begins on January 1, 2006.) The MMA, however, requires states to pay the federal government a portion of these savings. This payment is known as the MMA "clawback" and it represents a portion (90% for 2006—lower percentages in future years) of the *theoretical* state cost of the dual eligible drug benefit. Dual eligibles who refuse to be covered under Medicare are excluded from the clawback calculation because Medicare will not have to provide coverage for them. DHS assumes, for budget purposes, that 15% of those eligible would actively opt out of Medicare coverage if Medicaid continued to cover their drugs, absent a change in state law such as the one SB 1088 would allow. (Medicare recipients will automatically be enrolled in a Medicare drug plan unless they take necessary steps to refuse or opt out of this coverage.)

Oregon law, prior to the passage of SB 1088 during the 2005 legislative session, required the state to provide a drug benefit for those who are dual eligibles. The estimated cost of a General Fund program to fulfill this law is $147.6 million for 2005-07 (shown on line 6). It consists of two components: the cost of completely covering the 15% who would refuse Medicare coverage is shown on line 5 and is $49.5 million General Fund, and the cost of providing a wrap-around drug benefit for those who enroll in Medicare Part D coverage, but whose prescriptions are not all covered by the Medicare drug plan in which they are enrolled or have significant

Medicare Part D coinsurance payments to make. This latter cost is estimated at $98.1 million General Fund and is shown on line 4.

Lines 7 and 8 show two other costs associated with the MMA, but not associated with state law requiring the coverage of dual-eligible persons. Line 7 shows the anticipated caseload cost to the OHP and Non-OHP budgets. DHS expects that some of the persons seeking information about the MMA low income subsidy will also be found eligible for Medicaid health coverage under OHP or Medicare premium or co-pay assistance. The cost is estimated at $2.6 million General Fund and $3.2 million Federal (Medicaid) Funds. Line 8, a Total Funds expense of $9.1 million ($2.7 million General Fund), represents the cost of providing certain prescriptions and over-the-counter drugs that are not offered under Medicare Part D coverage to dual-eligible persons. Thus, the total expected General Fund impact from the MMA—without passage of SB 1088—is Policy Package 110 (on line 9) and it amounts to $136.6 million. Other Funds and Federal Funds expenditures are reduced by $25.7 million and $195 million, respectively.

In response to the MMA, the Legislature passed SB 1088 which allows DHS to implement rules to effectively eliminate most of the Medicaid drug benefit for dual eligible persons. (The cost of the drugs excluded from Medicare Part D and shown on line 8 is the exception.) The impact of SB 1088 law will reduce the General Fund cost by $133.9 million and was approved in the budget as policy package 111. It consists of two components: it negates the General Fund wrap-around cost on line 4 and the cost of providing a drug benefit for those who refuse Medicare Part D enrollment on line 5 (the total is on line 6 and is $147.6 million General Fund), and it assumes that once dual eligibles are aware that there is no state prescription drug benefit, that fewer will refuse Medicare coverage (only 1% instead of 15%) and the clawback payment will increase by $13.7 million.

The total clawback payment included in the adopted budget is $97.1 million on line 13 (lines 3 + 11). This payment is not included in this OHP Payments budget subsection, but is included in the Non-OHP budget section below. The overall net cost of the MMA within the Health Services budget, with the passage of SB 1088, is a General Fund increase of $2.7 million, but a decrease in Other Funds and Federal Funds expenditures of $25.7 million and $195 million, respectively, shown on line 14.

The assumptions used in developing the budgetary impact of the MMA were examined carefully by the Legislative Assembly and its staff. The percentages of those who actually opt out of Medicare will influence the state's General Fund clawback payment. The analysis above assumes that 1% will ultimately refuse coverage. If this percentage is less, however, the General Fund clawback could be greater. Likewise, if the opt out percentage is higher than 1%, there could be General Fund savings.

HS – Medical Assistance Programs: Non-OHP Payments

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	77,491,181	43,126,434	152,247,681	163,451,773
Other Funds	4,965,051	7,116,483	10,510,809	0
Federal Funds	107,934,603	80,945,982	89,358,214	107,237,520
Total Funds	**$190,390,835**	**$131,188,899**	**$252,116,704**	**$270,689,293**

Program Description

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

- *Qualified Medicare Beneficiaries (QMBs)* are clients who have incomes up to 100% of the federal poverty level (FPL) for who Medicaid covers deductibles, coinsurance, co-payments, and health insurance premiums for the health plans or insurance carriers in which they are enrolled. ($5.6 million Total Funds is included in the adopted budget.)
- *Clients who are eligible for both Medicare and Medicaid with incomes up to 135% of the FPL.* This benefit pays the Medicare Part B outpatient services premium. For clients between 120% and 135% of FPL, the program is funded exclusively with federal Medicaid revenue up to an allotment cap. The allotment cap has, for the time being, been reached and enrollment is currently closed. The budget also funds a limited number of Medicare Part A hospital premiums payments. ($160.7 million Total Funds is included in the adopted budget.)

- *Persons qualifying for the Breast and Cervical Cancer Prevention and Treatment Program*. Under this Medicaid option, women who are found through the Public Health Programs screening system to have breast or cervical cancer are eligible for Medicaid services if they are under age 65 and otherwise uninsured. To be eligible for Public Health Program screenings, women must be over 40, uninsured or under-insured, ineligible for Medicare Part B, and have incomes below 250% of the federal poverty level. The federal Breast and Cervical Cancer Prevention and Treatment Act was signed into law in October 2000. The 2001 Legislative Assembly began to provide funding in HB 3214 to implement the program in Oregon. ($5.9 million Total Funds is included in the adopted budget.)
- *Persons formerly on the Medically Needy program who take HIV or Transplant prescription drugs*. When the Medically Needy program was ended (see below), the Legislature appropriated General Fund for former clients who required prescription drugs for HIV or aftercare for an organ transplant. The Non-OHP adopted budget includes about $0.8 million for this program. The OHP adopted budget includes an additional $6.9 million General Fund for this program.
- *The Non-OHP adopted budget also includes about $0.7 million for reimbursement of health insurance premiums.* The reimbursement occurs when a person who is eligible for health plan coverage has also been covered under another insurance policy, perhaps provided by an immediate family member. In those cases, DHS reimburses the cost of the health insurance premium.

In addition to funding these caseloads, the Non-OHP legislatively adopted budget also includes a General Fund payment of $97 million to the federal government required by the Medicare Modernization Act known as a "clawback" payment. The clawback, and other aspects of the MMA, are discussed above in the Health Services OHP Payments section concerning the "Legislatively Adopted Budget." The clawback is included in the Non-OHP budget because, like the payments for Medicare premiums, it represents a payment to the federal government, albeit, exclusively a General Fund payment. *The New York Times* reports that "[s]ome states, including Texas, are openly resisting the requirement for such payments. But federal officials said that if states did not comply, the money could be deducted from federal payments to the states for other programs like Medicaid." (New York Times, October 18, 2005)

The Medically Needy program, which was historically part of the Non-OHP budget, was eliminated during the latter part of the 2001-03 biennium. Although the 2003-05 Legislative Assembly provided funds to reinstate a lower cost program known as the Medical Expansion for persons with Disabilities and Seniors program (MEDS), the Centers for Medicare and Medicaid Services (CMS) did not approve MEDS. The MEDS program would primarily offer coverage of prescription drugs and CMS believed that most of the potential MEDS clients would be receiving a Medicare Part D benefit.

Revenue Sources and Relationships

The General Fund appropriation for the QMB and SLMB programs are used to match federal Title XIX Medicaid funds at the rate of approximately 60% federal to 40% state funds.

Budget Environment

Apart from the clawback payment, the non-OHP budget is driven primarily by Medicare premium increases, which reflect overall health insurance cost increases and are expected to be significant over the next several years. In addition, the non-OHP budget is affected by changes in federal match rates and Medicare policies.

Legislatively Adopted Budget

The Legislative Assembly approved four changes to the Non-OHP budget that was proposed by the Governor. All four of the changes were included in the Department's "reshoot" of the Governor's budget. First, the estimate of the MMA clawback was reduced by $0.6 million General Fund. The Department confirmed that the monthly clawback payment can be made one month in arrears. This saved about $3.1 million General Fund compared to the Governor's 2005-07 proposed budget. An assumption in the clawback model, the percentage of dual eligible persons opting out of Medicare prescription drug coverage, was changed as well. The percentage in the Governor's budget had been 3%; it was changed to 1%, causing an increased General Fund cost of $2.5 million.

The second change made to the Non-OHP budget was the modification of the federal Medicaid match rate. This allowed $0.3 million of General Fund to be replaced with Federal Funds. Third, the adopted budget reflects higher caseloads—particularly the Old Age Assistance caseload—than had been assumed in the Governor's budget, as well as even higher Medicare premium increases. These changes cost $19.2 million Total

Funds. Fortunately, most of this increase was able to be covered with Federal Funds because the match rate assumed in the Governor's budget for the Medicare buy-in program had been too low. As a result, only $1.6 million of the total $19.2 million increase needed to be funded with General Fund. The fourth change transferred $10.5 million of Other Funds expenditure limitation (funded with actual revenue) that had arbitrarily been allocated to the Non-OHP budget to the OHP budget.

HS – Medical Assistance Programs: CHIP Payments

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	0	1,556,707	6,073,346	0
Other Funds	15,622,264	13,353,882	13,353,882	15,957,633
Federal Funds	24,663,433	41,261,232	54,918,658	45,914,025
Total Funds	**$40,285,697**	**$56,171,821**	**$74,345,886**	**$61,871,658**

Program Description

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

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

Revenue Sources and Relationships

Tobacco tax revenue has been used to match federal CHIP funds on approximately a 28% state to 72% federal basis. The CHIP match rate is a function of the Medicaid match rate. Because the Medicaid match rate changes based upon Oregon's relative per capita income, so too does the CHIP match rate. Because of the OHP2 waiver, federal CHIP revenue is now able to be used in the Insurance Pool Governing Board's Family Health Insurance Assistance Program, a program which subsidizes the purchase of commercial medical insurance for lower income Oregonians.

Budget Environment

Prior to 1997, the OHP covered children through age five and up to 133% of the federal poverty level. Using Measure 44 tobacco taxes as the state match, the 1997 Legislative Assembly expanded coverage to children through the age of 11 and up to 170% of the poverty level. Subsequently, when CHIP money became available, funding for the federal portion of this expansion was switched from Medicaid to CHIP. The additional federal dollars resulting from the higher match rate allowed further expansion without increasing the state's matching funds. This made it possible to cover children through age 18 and up to 185% of the federal poverty level.

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

Legislatively Adopted Budget

The Legislature approved four changes to the 2005-07 CHIP budget as proposed by the Governor—all of them presented in the DHS "reshoot." First, the adopted budget reflects a more recent caseload forecast for CHIP which is less than the one used to develop the Governor's budget. The Governor's budget assumed an average biennial CHIP caseload of 22,614 and the adopted budget assumes a caseload of 21,702. This caseload change reduced the budget by $4.5 million Total Funds ($1.2 million General Fund). Second, the adopted budget used a revised federal CHIP match rate based upon updated information that allowed $0.1 million General Fund to be replaced with Federal Funds. Third, after reviewing the Governor's budget, DHS analysts concluded that $8 million Total Funds ($2.2 million General Fund), the amount necessary to fund medical inflation and utilization costs for the CHIP, had been included twice in the proposed budget. Thus, the adopted budget removes the excess $8 million Total Funds cost. The fourth change to the Governor's budget for CHIP replaced the remaining $2.6 million General Fund (after the prior three adjustments) with Tobacco Tax, so that the state funding obligation is met exclusively with Tobacco Tax. This simplifies budgetary tracking of CHIP.

The table below shows the services that DHS expects to purchase for CHIP clients over the 2005-07 biennium.

Service	Budget (in Millions of $)	Percent of Budget
Fee For Service (FFS) Inpatient Hospital	2.6	4
FFS Outpatient Hospital	2.4	4
FFS Physicians	3.7	6
FFS Drugs	2.6	4
FFS Other including FFS Mental Health	1.8	3
Managed Care – Fully Capitated Health Plan	31.0	50
Managed Care – Dental Care Organization	9.0	15
Managed Care – Mental Health Organization	5.0	8
Managed Care – Partial Capitation	1.2	2
All Other	2.5	4
Total	61.9	100%

HS – Mental Health and Addiction Services

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	223,985,248	296,929,064	334,821,768	338,921,475
Lottery Funds	5,704,321	5,414,861	7,780,745	9,018,100
Other Funds	64,828,703	34,811,318	40,502,799	40,026,023
Federal Funds	149,001,766	150,977,757	183,063,093	188,582,265
Total Funds	**$443,520,038**	**$488,133,000**	**$566,168,405**	**$576,547,863**
Positions	1,378	1,339	1,518	1,439
FTE	1,266.74	1,294.48	1,381.96	1,394.44

Program Description

Mental health services are provided to people who have been clinically diagnosed as having a serious mental or emotional disorder. Illnesses include schizophrenia, bipolar disorder, and major depression. Diagnosed individuals typically have a normal to high measured intelligence, but people with low intelligence (developmentally disabled) also may have a mental illness. Medicaid-eligible persons receive mental health diagnoses and treatment under the Oregon Health Plan. Mental health organizations receive capitation payments and manage much of the risk of providing treatment for OHP eligible persons with mental disorders. A substantial amount of OHP mental health and addiction service capitation expenditures and some fee-for-service payments are included in the OHP payments budget category discussed above—about $282.4 million Total Funds within the 2003-05 legislatively adopted budget.

The Mental Health and Addiction Services program is comprised of three main cost centers: community mental health, alcohol and drug treatment and prevention, and the Oregon State Hospital (OSH) and Eastern Oregon Psychiatric Center (EOPC). The FTE associated with this budget are state employees who work at the OSH or EOPC. The positions and FTE listed with the Governor's budget are overstated by 280 positions and 84.00 FTE because of an arithmetic error. The correct position and FTE count for the Governor's budget is 1,238 and 1,295.96, respectively.

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 civil commitment to the OSH. For individuals and services not covered under the OHP, DHS funds a variety of services that include supported housing and employment opportunities; clinic-based outpatient care; local crisis services; regional acute care facilities; and, as a last resort, referral to state psychiatric hospitals.

Alcohol and Drug Treatment and Prevention
Like community mental health services, alcohol and drug treatment services are also offered through county and other local governments and private non-profit organizations. The 2003-05 budget funded 384 beds for residential alcohol and drug treatment for adults and about 70 beds for children aged 15-17. In addition, the budget supports approximately 50 beds for the dependent children of adults receiving residential treatment services.

Oregon State Hospital and Eastern Oregon Psychiatric Center
The state operates institutional facilities in Salem, Portland, and Pendleton for patients who have a severe mental illness. The Oregon State Hospital (OSH) provides psychiatric evaluation and diagnosis, as well as intermediate and long-term inpatient care. Oregon State Hospital - Salem includes 48 buildings on a 148-acre campus. One-third of the space was constructed between 1883 and 1912. The newest building was built in 1955. Oregon State Hospital - Portland is in leased space near the Lloyd Center. The Eastern Oregon Psychiatric Center (EOPC) in Pendleton serves 60 adult general psychiatric patients at any one time, including 10 regional acute psychiatric care beds.

Revenue Sources and Relationships

Funding for mental health and alcohol and drug treatment programs is about 59% General Fund, 8% Other Funds and Lottery Funds, and 33% Federal Funds. Most of the federal funding (roughly $140 million of the $187.9 million) comes from Title XIX Medicaid, which supports institutional care for some children and elderly patients and community mental health services. The Title XIX federal match rate is about 60% for program services and 50% for administration. The match rate is based on the economy of the state compared to the nation as a whole. In addition to Title XIX Medicaid funding described above, the federal Alcohol and Drug and Mental Health Services Block Grants provide about $41 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 a maintenance of effort (MOE) requirement. Because of budgetary reductions in recent years, Oregon was notified by the federal Department of Health and Human Services (DHHS) that it had not met these MOE requirements. In response, Oregon's DHS requested waivers from these requirements.

Other Funds revenues are also received from patient resources, beer and wine tax receipts, Lottery Funds for the prevention and treatment of gambling addictions, and earnings for patient work. The legislatively adopted budget includes a Lottery Funds expenditure limitation of $9 million to fund the Gambling Addiction and Treatment Program, two times the amount allocated during the 2003-05 biennium. The Gambling Addiction and Treatment Account receives 1% of net lottery proceeds.

Other Funds revenue also consists of patient resources include Social Security benefits and private insurance, as well as personal assets. The Salem Rehabilitation Facility at Oregon State Hospital, which provides work training, generates about $2.5 million gross revenue each biennium through the sale of wood products.

Budget Environment

The most significant driver for the mental health treatment budget is whether appropriate "least restrictive" therapy can be delivered in a timely manner. Inadequate treatment which does not stabilize a person in the face of mental illness is costly and wasteful because the person may recycle through the therapeutic system repeatedly. On the other hand, keeping a person with mental illness in an institutional setting for too long and delaying his or her return to the community is also costly and inefficient. Because mental illness and mental health are on a continuum, effective mental health treatment requires a range of therapeutic interventions and clinicians who can assess which intervention to employ. This understanding of mental illness and effective treatment regimes has and will continue to have budget implications. Underlying this concept is the requirement in SB 267, passed by the 2003 Legislature. SB 267 requires that mental health and addiction services with DHS (along with various programs within the Oregon Youth Authority, Department of Corrections, the Commission on Children and Families, and the Criminal Justice Commission) to provide services that are "evidence-based." The programs are, in other words, required to reflect scientifically based research and demonstrate cost-effectiveness. For the 2005-07 biennium, agencies must spend at least 25% of the state funds they receive for evidence-based services. The requirement increases to 50% in the 2007-09 biennium and 75% in 2009-11.

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

Population growth, legal rulings, and federal policies concerning treatment and funding are other factors that significantly affect this budget. Funding for mental health services has not been tied directly to Oregon's growing population; however, population growth means more persons are expected to need mental health services. Recent court rulings across the nation, most notably the Olmstead case, have supported the rights of individuals to receive timely services in the least restrictive and most appropriate setting. Oregon settled a lawsuit related to Olmstead, *Miranda v. Kitzhaber*. As part of the settlement, DHS agreed to discharge 31 clients of the OSH who were ready to enter the community and to develop 75 additional community-based placements. Funding for this effort was generated from within the Department's budget.

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

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

Oregon State Hospital has gone from a peak population of over 5,000 persons in the 1950s to its current projected population during the 2005-07 biennium of about 750 residents. In the process, the role of the hospital has changed from a focus on custody and care to providing active specialized psychiatric treatment.
The state is required to serve persons who are civilly or criminally committed for treatment or are assigned by the court for evaluation of fitness to stand trial. Over the course of the 2003-05 biennium, the caseload for those who have been criminally committed increased dramatically. During the prior biennium, the forensics caseload grew at about 1.5 net cases each month. During the 12 months ending September 30, 2004, this rate had increased to about 6.2 cases a month. Analysts speculate that the causes for this increase may be related to the discontinuation of the Medically Needy program—a Medicaid "spend-down" program that assisted numerous persons with mental illness with the costs of their prescription drugs; the downsizing of the Oregon Health Plan Standard program; budget reductions to community mental health programs; and aggressive compliance with the federal court's decision in *OAC v. Mink*. This decision requires the Oregon State 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, OSH would admit individuals for evaluations if there was room at the hospital. The court's decision was finalized in 2003. After that, the OSH forensics caseload growth rate began to rise. The Department's response to this has been the development of more forensic community-based placements. This trend may continue into the 2005-07 biennium and beyond.

Legislatively Adopted Budget

The legislatively adopted budget reflects numerous changes made to the Governor's budget. Overall, the budget was increased by $10.3 million Total Funds. The Legislative Assembly was able to restore a variety of program reductions that had been made in the Governor's proposed budget. The list below highlights a number of the larger changes that the Legislature made to the Governor's budget, including several that were proposed by DHS in the "reshoot."

- The budget adds $1.2 million Lottery Funds for the Gambling Addiction Treatment and Prevention programs within the Office of Mental Health and Addiction Services (OMHAS).

- Within its reshoot of the Governor's budget, DHS reversed a proposal to close an Oregon State Hospital gero-psychiatric ward (adding $3 million General Fund and $1.7 million Federal Funds) and instead, to make two other reductions: $1.5 million decrease in the intermediate care payment fund and a $1.5 million reduction in adult outpatient services for 1,750 non-Medicaid eligible persons. The latter of these two reductions was subsequently restored by the Legislature.
- The reshoot included the addition of $2.8 million General Fund and $2.3 million Federal Funds to accommodate a higher forensics caseload. The funding will be used to develop more community-based placement options. The adopted budget assumes that a total of 128 new community placements will be developed over the course of the 2005-07 biennium.
- Part of the forensic caseload increase is offset with a lower civilly committed caseload forecast. This reshoot adjustment lowered the budget by $1.2 million General Fund and $1.6 million Federal Funds.
- The reshoot and the adopted budget reflects the May 2005 closure of the adolescent ward at the Oregon State Hospital (saving $3.1 million General Fund and $2.4 million Federal Funds), and the opening of more community-based placements for adolescents, which adds $3.1 million General Fund and $5 million Federal Funds.
- The budget includes the restoration of four reductions to the OMHAS budget that had been made in the Governor's recommended budget. First, it adds $0.8 million to community mental health funding; second, the budget is increased by $0.5 million to restore mental health crisis funding; third, the budget reflects the addition of $1.7 million to restore mental health services to non-Medicaid eligible seniors; and fourth, the budget includes $1.1 million General Fund to maintain full funding at the Eastern Oregon Psychiatric Center (EOPC). The Governor's budget had proposed closing one ward at EOPC.
- The budget removed nearly $3 million General Fund that had been included in the Governor's budget for OSH investments that were ultimately not approved by the Emergency Board at its November 2004 meeting.
- The adopted budget includes funding of $300,000 (HB 5023) to restore several alcohol and drug abuse prevention programs aimed at small businesses and $75,000 (HB 5177) to fight methamphetamine use in Marion County.
- Finally, the budget reflects a three month delay in cost of living increases for mental health providers. Cost of living adjustments will occur on April 1, 2006.

HS – Program Support and Central Administration

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	50,751,524	35,579,652	42,630,304	39,953,348
Lottery Funds	171,186	185,139	24,099	293,900
Other Funds	48,490,718	44,218,253	49,888,985	50,342,000
Federal Funds	129,386,029	124,580,565	144,473,575	141,525,714
Total Funds	**$228,799,457**	**$204,563,609**	**$237,016,963**	**$232,114,961**
Positions	842	868	860	889
FTE	790.20	828.67	840.82	864.30

Program Description

This budget unit includes staffing to manage and administer the programs included in the health cluster: public health, the Oregon health plan, and mental health and addiction services. The public health program area includes staff (587 positions) who serve in the offices of the public health officer, public health systems, family health, the public health laboratory, disease prevention and epidemiology, and multi-cultural health. This staff responds to disasters, diagnose and investigate health problems, inform, educate, and enforce laws and regulations that protect health and ensure safety. Staff within the office of mental health and addiction services (97 positions) develop policy and oversee mental health organization programs throughout the state. The Office of Medical Assistance Program staff (171 positions) manage the areas of Program and Policy, Health Financing Operations, and Administration. The program and policy section is responsible for the day-to-day operation of the medical assistance plans. The section ensures that programs operate within state and federal laws, monitors program utilization, and writes and distributes all rules and provider guide materials. The health financing operations section maintains the integrity of the Medicaid Management Information System (MMIS) and the automated claims payment and reporting system for the Medicaid program. This budget area also has funding for 23 positions to support the work of the Office of Investigations and Training. This Office ensures that all investigations of abuse and neglect, protective services, technical assistance, and training are conducted with integrity, fairness, and quality. Finally, the budget includes 8 positions for the upper management of the Health Services Cluster.

Revenue Sources and Relationships

Other Funds constitute 21% of the program support and central administration budget for the health services cluster. Significant Other Funds revenue sources include numerous public health fees—health statistics fees, food services licensing fees, newborn screening fees, tobacco taxes, and public health systems fees.

Federal Funds, which comprise 60% of the budget, come from a wide variety of sources—many associated with smaller public health-related grants. In addition, Federal Funds revenue includes AIDS prevention, Alcohol and Drug and Mental Health Block Grant, Center for Disease Control grant, the Environmental Protection Agency state revolving fund, the Maternal and Child Health Block Grant, Medicaid (generally matched at 50% for administrative functions), and Women, Infants, and Children program funding.

Legislatively Adopted Budget

The legislatively adopted budget is $4.9 million Total Funds less than the Governor's proposed budget. The decrease is primarily the result of eliminating $1.2 million of unnecessary Federal Funds expenditure limitation from the public health laboratory budget, as well as Public Employee Retirement System (PERS) rate reductions and a 3% reduction in services and supplies. Although the budget was reduced, total positions and FTE increased. The increase was mostly the result of the five adjustments that are listed below.

- Restoration of 3 positions and 2.00 FTE to the Public Health drinking water program that had been reduced in the Governor's budget.
- Addition of 4 positions and 2.50 FTE reflecting the transfer of the Housing Opportunities for People living with AIDS grant program from the Department of Housing and Community Development to DHS.
- Addition of 4 positions and 3.21 FTE to enhance the Office of Investigations and Training to implement recommendations of the Governor's panel on abuse at the Oregon State Hospital.
- Addition of 10 limited duration positions and 9.50 FTE to carry out public health federal grant activities.
- Addition of 3 positions and 2.00 FTE to enhance the Gambling Addiction prevention and treatment program, funded as a result of a higher Lottery Funds revenue forecast than that assumed in the Governor's budget.

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

	2001-03 Actual	2003-05 Legislatively Approved *	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	704,411,406	758,705,429	728,684,569	856,376,737
Other Funds	357,719,389	140,771,797	152,703,988	160,107,730
Federal Funds	1,265,262,167	1,341,760,960	1,334,842,128	1,464,194,668
Total Funds	**$2,327,392,962**	**$2,241,238,186**	**$2,216,230,685**	**2,480,679,135**
Positions	1,580	2,136	1,968	2,070
FTE	1,531.06	2,023.74	1,921.71	1,939.58

** 2003-05 Legislatively Approved is adjusted for the November 2004 rebalance plan.*

Note: The FTE and position count does not include the DHS-funded non-state staff in the Area Agencies on Aging (AAA) or regional brokerages which arrange services for persons with developmental disabilities. The Legislatively Adopted budget supports approximately 873 FTE of these non-state employees.

Summary Description

The Seniors and Persons with Disabilities (SPD) cluster includes Medicaid long-term care services for seniors and persons with all types of disabilities including developmental disabilities. Long-term care services range from those provided in nursing facilities and medically intensive group homes to supportive in-home care. The long-term care program is managed under various Medicaid waivers and administrative rules. The program also includes General Fund for Oregon Project Independence (OPI) and a program that pays spouses to be caregivers.

In addition to long-term care funding, the SPD cluster includes Older Americans Act funding which is distributed to the state's Area Agencies on Aging (AAA), state required payments to Supplemental Security Income (SSI) recipients, and several smaller programs to enhance the employment opportunities for persons with disabilities. The cluster's budget also contains funding for AAA, county, and state Medicaid field staff, and Federal Funds for the disability determination services unit—case workers who determine eligibility for SSI and Social Security Disability Insurance (SSDI) benefits.

Revenue Sources and Relationships

Aside from General Fund, the most significant revenue source is federal Medicaid funds. Oregon matches Medicaid program revenue at about 40% state funds and 60% Federal Funds. This match rate changes each federal fiscal year and depends on Oregon's income relative to other states. A small percentage change in this match rate can generate large budgetary variations. Most Medicaid administrative functions are matched on a 50/50 basis. Other Funds revenue comes primarily from client contributions, estate recoveries, and nursing facility Medicaid provider taxes. In addition, the 2001-03 Other Funds expenditures reflect the use of the Medicaid Upper Payment Limit (MUPL) mechanism. This mechanism was, with one exception, no longer used after the 2001-03 biennium. The Department of Human Services (DHS) made one final MUPL payment in 2005 following approval by the Centers for Medicare and Medicaid Services (CMS).

Budget Environment

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

Another significant budget driver for the senior Medicaid caseload is growth in the elderly population (primarily over 85 years of age). The state's population over 85 years of age is expected to grow about 7% from the 2003-05 biennium to the 2005-07 biennium. This growth rate is faster than that of the general population of Oregon, which is expected to grow about 2.4% during the same time period. This growth is expected to moderate somewhat because depression-era birthrates declined from prior decades. Because Oregon's population overall is aging as baby-boomers grow older, the prevalence of disabled persons is increasing.

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

Population growth and legal rulings concerning services are other factors that significantly affect this budget. Resources have not been tied directly to Oregon's growing population, although population growth means more persons are likely to need developmental disability (DD) services. DD services in Oregon have historically not been provided on an entitlement basis. However, recent court decisions in other states have supported individuals who are seeking access to state and federal services "in the most integrated setting appropriate to the needs of qualified individuals with disabilities." (e.g., *Olmstead v. L.C.*, 1999 U.S. Supreme Court decision) In keeping with the U.S. Supreme Court's decision in *Olmstead*, Oregon's settlement of the *Staley v. Kitzhaber* case phases in universal access to developmental disability services—particularly community-based services known as support services. The initial cost estimate was $350 million total funds (General Fund and federal Medicaid funds) for the six-year plan, beginning in the 2001-03 biennium. During the 2001-03 biennium, the incremental cost to implement the settlement agreement was about $42 million General Fund. In light of the state budget situation, the settlement agreement was renegotiated in the spring of 2003 and phased-in services at a somewhat slower rate than the original agreement. The original settlement agreement ended on June 30, 2007 at which time all eligible persons with developmental disabilities would have been entitled to appropriate services. The renegotiated agreement extends the settlement until June 30, 2011.

In response to the state's budget problems over the last several years, the Legislature made several reductions to the SPD budget. The Assembly eliminated Medicaid long-term care services to persons who had been categorized by level of impairment in levels 14-17 (the least impaired), reduced (but did not eliminate) the General Assistance and Oregon Project Independence programs, and, as noted above, funded Staley settlement services at a lower, renegotiated level. At the same time, however, the 2003 Legislature adopted a nursing facility provider tax which provided a significant increase to Medicaid nursing facility reimbursement. The 2003 Assembly also funded a wage increase, medical insurance, and worker's compensation insurance for home care workers who provide in-home care to persons eligible for Medicaid long-term care. The additional funding in the 2003-05 budget for these compensation enhancements was $25 million General Fund ($63.9 million Total Funds).

Legislatively Adopted Budget

The Legislature added nearly $128 million General Fund ($265 million Total Funds) to the Governor's budget, undoing most of the significant cuts that had made in the Governor's original budget. Most of the increase ($91.7 million General Fund) was the result of approving the changes requested in the "reshoot" or re-pricing of the Governor's budget during the legislative session. The higher cost of the Governor's budget, incorporated in numerous reshoot adjustments, was driven by a higher caseload forecast, additional staffing costs associated with implementing the Medicare Modernization Act (MMA), and correcting several errors in the Governor's original budget. The reshoot, for example, acknowledged the correct Medicaid match rate, which required additional General Fund and it eliminated Other Funds expenditure limitation that had wrongly been assumed to be supported by actual revenue. The discovery of less Other Funds revenue required the use of $18.1 million General Fund to support ongoing program expenditures.

Along with the General Fund added for reshoot purposes, the Legislature appropriated an additional $36 million General Fund to restore several programs that the Governor's budget had either scaled back or eliminated altogether. The adopted budget, for example, restores adult foster care provided by relatives, eliminates a proposed home and community-based care waiver cap on long-term care, restores Oregon Project Independence (OPI) which had been eliminated in the Governor's budget, and reverses a reimbursement reduction to Assisted Living Facilities as well as a rate increase for Adult Foster Homes.

SPD – Long-Term Care

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	629,064,106	661,994,215	588,614,700	705,473,361
Other Funds	219,372,128	118,793,991	129,551,534	135,802,877
Federal Funds	1,079,096,311	1,154,995,559	1,092,815,431	1,213,150,307
Total Funds	**$1,927,532,545**	**$1,935,783,765**	**$1,810,981,665**	**2,054,426,545**
Positions	828	866	865	861
FTE	823.35	851.96	851.34	850.36

Program Description

This program area includes payments to a variety of long-term care facilities and service providers for seniors and persons with disabilities. These facilities and providers include nursing facilities, assisted living facilities, residential care facilities, adult foster homes, in-home providers including those funded through OPI, group homes (both state and private) for persons with developmental disabilities, the Eastern Oregon Training Center (EOTC), and support service brokerages for persons with developmental disabilities. Until the reorganization of DHS during the 2001-03 biennium, long-term care services for seniors and persons with non-developmental disabilities were funded separately from long-term care services for persons with developmental disabilities. The Department of Human Services' reorganization brought these two service systems together in the SPD cluster. The FTE included in the Long-Term Care program are state employees who work at the Eastern Oregon Training Center and 31 state-operated group homes for persons with developmental disabilities.

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

Oregon's current system of long-term care for seniors and persons with non-developmental disabilities is significantly different than it was twenty-five years ago. Like many other states, Oregon had numerous nursing facilities, but relatively few community-based care options. This was in keeping with Medicaid law which required states, at a minimum, to provide nursing facility care. Medicaid statutes today continue this requirement. Oregon policymakers, however, believed that other less-expensive service options besides nursing facility care could be developed for persons in need of nursing facility care. Oregon applied for, and was granted a Home and Community-Based Care waiver by the Health Care Financing Administration (now called the Centers for Medicare and Medicaid Service or CMS). This waiver allowed individuals who "would otherwise require the level of care furnished in an [sic] Nursing Facility" to instead, opt for a home and community-based care option. (42 CFR 435.217) Oregon Project Independence, a General Fund only long-term care program began in 1975. Its early success in providing alternatives to nursing care was a significant factor leading to the decision to apply for the Home and Community-Based Care waiver under Medicaid.

By the mid-1980s, Medicaid long-term caseloads were about evenly divided between community-based care and nursing facilities. Today, community-based care comprises better than 80% of the long-term care caseload. Medicaid nursing facility caseloads have declined from 8,400 in 1981 to an anticipated 4,650 average cases during the 2005-07 biennium. During the same time, substitute home as well as in-home care caseloads increased from 3,000 cases to about 30,000 – 35,000 average cases during the upcoming biennium. The average cost per case in home and community-based care is much less than the average nursing facility case. For example, SPD estimates an average nursing facility cost per case of more than $4,300/month during the 2005-07 biennium. In contrast, an assisted living case is expected to cost less than half of that per month. The nursing facility Medicaid rate, however, includes the cost of room and board, but the community-based facility rates such as those for assisted living facilities do not. The community-based Medicaid rates cover only Medicaid services. Clients use their own resources (e.g., Supplemental Security Income) to pay for room and board in community-based facilities such as assisted living facilities or adult foster homes.

Eligibility for Medicaid long-term care is based upon the ability to perform activities of daily living, as well as income and asset levels. Applicants for Medicaid long-term care are first evaluated on their ability to perform activities of daily living such as eating, toileting, mobility, bathing, and dressing. This evaluation, in turn, is used to rank the applicant within 17 categories known as "survival priority levels." Priority Level 1 clients are those most unable to perform activities of daily living and, typically, more likely to need services offered in nursing facilities. Those at Priority Level 17, in contrast, are less impaired and more likely to receive in-home assistance. Many clients have chronic health conditions such as arthritis, diabetes, cancer, stroke, hypertension, or heart disease. Because of revenue shortfalls and subsequent budget cuts, services to those in levels 12-17 were eliminated in the spring of 2003. The 2003-05 legislatively adopted budget restored services to persons in levels 12 and 13. All eligible clients are entitled to nursing facility care, but may, under Oregon's waiver, opt for community-based care options such as in-home, adult foster home, or assisted living facility care instead.

Eligibility is also based upon income and assets. Clients, for example, can retain ownership of their homes and receive in-home care. There are provisions under Medicaid to prevent spousal impoverishment and to enable spouses to remain in their homes if a client needs the care provided in a nursing home or substitute home. Clients may have incomes up to 300% of the Supplemental Security Income (SSI) grant or about $1,692/month, or about 218% of the Federal Poverty Level for a household of one. However, federal law also allows persons in states which allow an income eligibility level to exceed 100% of the SSI grant to establish income cap trusts. By simply establishing an income cap trust, an individual is deemed eligible for Medicaid long-term care, assuming they also have the functional limitations described above. Effectively, this means that virtually anyone in Oregon could qualify for Medicaid long-term care—assuming they are impaired and willing to establish an income cap trust. This also means that attempts to limit budgetary growth by lowering income eligibility standards are of minimal use.

The rates DHS pays nursing facilities for services are based on audited financial cost data submitted during the fall prior to a legislative session. During the second year of the biennium, rates are increased using a specific nursing home cost index. This practice of basing nursing facility rates upon costs is known as "rebasing." Additionally, the 2003 Legislative Assembly passed a long-term care provider tax that is being imposed upon most nursing facilities, including some exclusively private pay facilities. This tax can be matched with federal Medicaid funds and used to pay higher Medicaid nursing facility reimbursement rates. Assisted living rates were initially set in 1990 at 80% of the nursing home rate and adjusted over the years using cost indexes. Community-based provider rates such as those for assisted living facilities, adult foster homes, and residential care facilities are tiered (based upon client impairment) and have been adjusted over time using cost indexes.

Services for Persons with Developmental Disabilities

DHS offers an extensive array of services for persons with developmental disabilities. Most (but not all) of these services are administered under several Medicaid waivers. Generally, the structure of these waivers is similar to the Home and Community-Based Care waivers for seniors and persons with physical disabilities. That is, clients must meet Medicaid financial eligibility requirements (e.g., household income levels up to 300% of the SSI grant) and they must have developmental disabilities that impede their ability to function independently. Developmental disabilities (DD) include mental retardation, cerebral palsy, Down's syndrome, autism, and other impairments of the brain that occur during childhood. Some persons with developmental disabilities also have significant medical or mental health needs. Like seniors or persons with physical disabilities, clients with developmental disabilities may use income cap trusts to meet financial eligibility requirements. County staff determine eligibility for most DD services.

For the purposes of this discussion, it's useful to organize services for persons with developmental disabilities into four different categories. In reality, however, clients may receive services from more than one category and require services from different categories at different points of their lives depending upon their somatic conditions, age, and ability to function. These four categories are support services, institutional services, comprehensive services, and the state operated community program.

Support services are for adults and children who are living at home. The services are typically provided by individuals hired by the client, with the assistance of a personal agent, who gives them the assistance they need to remain in their own homes. The primary support services available are those provided under the Staley Settlement Agreement. They include services to assist clients to function appropriately within their communities, respite care for primary caregivers such as parents, and non-medical transportation. In addition to Staley support services, children living at home and receiving intensive in-home treatment under the Children's Intensive In-home Support program are considered support services. Nine regional non-profit brokerages work with clients and their families to arrange appropriate support services.

Institutional services are provided at the Eastern Oregon Training Center (EOTC) and nursing facilities that specialize in the care of persons with developmental disabilities. EOTC is budgeted to provide intermediate care facility services for 45 adults with developmental disabilities. It also provides a short-term crisis stabilization unit for individuals who live in the community. The intermediate care facility offers a wide range of treatment services including health and medical care, personal care, recreation, occupational and physical therapy, skills training, education and vocational training, social services, psychological services, and community support. EOTC has about 194 positions which are staffed by state employees.

Comprehensive services are those for adults and children who are both living at home and receiving 24-hour support, or living in residential facilities or group homes. Community residential programs are defined as 24-hour group home care for persons 18 and over with a developmental disability. In most cases, people live in homes that are designed for five or fewer persons living in a home, with staff that come into the home and work on a shift schedule. Children's residential care includes foster care, proctor care, and community residential care. Eligible children must require an out-of-home placement due to a crisis that places the child or others in imminent risk. The child may be committed to the state for care and custody through the child welfare system. Clients receiving comprehensive services may also receive diversion services (to prevent a crisis), self-directed support, supported living, transportation, vocational services, children's room and board, or family support services.

The state operated community program is a 24-hour community residential care program for about 140 persons who have intensive support needs because of medical or behavioral conditions. There are 31 group homes operated by state employees. The positions and FTE are included in this long-term care budget. These state-operated homes serve, in some respects, as a backstop for persons with developmental disabilities who may not be able to live in non-profit 24-hour care residential facilities.

Revenue Sources and Relationships

Most of the Federal Funds are Medicaid (Title XIX). Federal Medicaid funds require state match that varies depending upon relative state per capita income. Oregon's match requirement fluctuates around 40% state funds to 60% Federal Funds. In addition, the budget includes Other Funds revenue from client contributions for in-home care and estate recoveries. As noted above, the actual amounts for the 2001-03 biennium include returned General Fund that has been used in the Medicaid Upper Payment Limit (MUPL) mechanism that is spent as Other Funds.

Budget Environment

There are several factors relevant to the long-term care program budget. First, as the population grows older, the number of seniors needing services grows. In addition, as the baby-boomers age, the number of persons with disabilities also increases. Second, recruiters of care workers are having difficulty finding enough qualified persons to fill available jobs. Third, the electorate passed Ballot Measure 99 (November 2000), which created a commission to establish standards for in-home caregivers, provide training, and give them a structure to form a union. During the 2003 legislative session, the Department of Administrative Services, representing the Home Care Commission, negotiated wage and benefit enhancements with the union. These enhancements began in April 2004 and the 2003-05 budget contained $25 million General Fund ($63.9 million total funds) to fund these enhancements. Higher wages and benefits for in-home caregivers could lead to higher wages in other long-term care settings.

Fourth, recent court rulings across the nation have confirmed that Medicaid is an entitlement and that persons must be served in the least restrictive environment possible. In Oregon, the *Staley v. Kitzhaber* lawsuit settlement phases in universal access to developmental disability services. The initial cost estimate was $350 million total funds for the six-year plan. The settlement called for elimination of a waiting list for services and the reduction of the number of situations requiring a crisis response. More specifically, during the 2001-03 biennium, 1,895 more persons were to receive DD support services and 100 more persons were to receive non-crisis comprehensive (24 hour/day) care. To deliver support services, a "brokerage" system of nine regional brokerages was established statewide to assist persons with developmental disabilities and their families to access available support services.

Legislatively Adopted Budget

The Legislature increased the long-term care budget by $116.9 million General Fund ($243.4 million Total Funds) above the Governor's recommended budget. Much of the increase ($82.9 million) was the result of approving most of the proposed "reshoot" of the Governor's budget that was submitted by DHS in May 2005. The reshoot of the long-term care budget included 35 adjustments—many of them correcting errors that had been made in the preparation of the Governor's budget. In addition, the reshoot used updated forecasts of SPD caseloads based upon more recent actual data than had been available when the Governor's budget was being developed. The Legislature added $34 million General Fund (along with associated federal Medicaid match) to reverse all of the significant reductions that had been included in the Governor's budget.

Reshoot adjustments included the following:

- Funding for higher (than assumed in the Governor's budget) projected nursing facility caseload - $10.4 million General Fund ($27 million Total Funds).
- Higher costs for community-based care facilities (assisted living, adult foster homes, and residential care facilities) - $6.9 million General Fund ($18 million Total Funds).
- Increase in projected caseload for in-home care - $9.3 million General Fund ($24.6 million Total Funds).
- The reshoot of the Governor's budget included a $2.2 million General Fund addition within the long-term care program to account for a higher caseload forecast of persons with developmental disabilities in need of mandated services. The original budget had inadvertently omitted the 2005-07 roll-up effect that had been included as part of the November 2004 departmental rebalance of 2003-05 expenditures.
- The reshoot added $2.5 million General Fund; $6.9 million Other Funds (provider tax revenue), and $15.2 million Federal Funds to implement higher than anticipated nursing facility rates. The Governor's budget was based upon preliminary cost data submitted by nursing facilities; the reshoot used data that had been audited and more thoroughly reviewed.
- In reviewing the Governor's budget, DHS discovered that its analysts had mistaken $19.1 million of Other Funds expenditure limitation for actual revenue. In fact, this limitation was not supported with any revenue. In its reshoot proposal, DHS requested (and received) $16.9 million General Fund within the long-term care program to fill this revenue gap. The Other Funds expenditure limitation was apparently associated with the MUPL mechanism, and had never been removed from the budget once this mechanism was discontinued. A similar problem occurred in the spring 2005 rebalance of the Department's 2003-05 budget and a budget note was adopted which directs DHS to report on its SPD revenue tracking activities at the time of the first rebalance of the 2005-07 expenditures.
- The Governor's budget proposed to outsource the management of the in-home care workers' program and assumed savings of $6.6 million General Fund ($8.8 million Total Funds) within the long-term care budget. After researching this proposal, however, DHS and the Attorney General concluded that this proposal was not feasible for current home care workers. As such, the savings assumed in the Governor's budget would not be realized. Funding was added back by the Legislature to acknowledge this reality.

Other Legislative adjustments included the following:

- Oregon Project Independence, eliminated in the Governor's budget, was restored with funding of $12 million General Fund. SB 870 requires that this General Fund be paid into a newly created OPI Fund. Monies in the Fund are then continuously appropriated to DHS where they are spent as Other Funds for the purpose of providing OPI services. To facilitate the expenditure, the Legislature added $12 million of Other Funds expenditure limitation to the SPD budget.
- Funding ($1 million General Fund; $2.5 million Total Funds) to increase the wages for providers of services to persons with developmental disabilities by six cents/hour.

- A restoration of adult foster care provided by relatives of clients that had been proposed to be eliminated in the Governor's budget. The restoration added $22.1 million General Fund ($56.7 million Total Funds). Some of this restoration was included as a correction to the Governor's budget in the reshoot.
- The Governor's budget proposed a restructuring of assisted living facility and adult foster home reimbursement to the make rates for the two types of services identical. This would have decreased ALF rates significantly from 2003-05 levels, but increased adult foster home rates by about 8%. The Legislature reversed this net reduction by adding $16.9 million General Fund ($43.5 million Total Funds).
- The Legislature added $6.8 million General Fund ($17.5 million Total Funds) to eliminate a proposed cap in the Governor's budget to home and community-based care services offered under one of the state's Medicaid waivers. Some of this funding was included as a correction to the Governor's budget in the reshoot.
- The Legislature delayed a provider cost of living adjustment by three more months than the Governor's budget (until April 1, 2006), thereby saving about $0.8 million General Fund ($2.2 million Total Funds).

The Legislature also established a $10 million special purpose appropriation for home care worker benefits in the Emergency Fund. The Governor's budget had included $20 million for this special purpose appropriation.

SPD – Older Americans Act

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Federal Funds	24,071,847	26,169,351	26,671,484	26,600,111
Total Funds	**$24,071,847**	**$26,169,351**	**$26,671,484**	**$26,600,111**

Program Description

SPD is the state administrator of the Older Americans Act (OAA), a federal program targeted to persons 60 years old and older. SPD distributes the funds to local Area Agencies on Aging (AAA), which deliver a variety of services including information and referral, transportation, congregate meals and "meals on wheels," senior employment programs, legal services, and insurance counseling. Some of the services are required by the OAA; local advisory committees develop other optional programs. The Long-Term Care Ombudsman expects to receive about $472,000 of Older Americans Act funds during the 2005-07 biennium to implement its programs.

Revenue Sources and Relationships

The program is supported entirely with Federal Funds. Match rates for these funds vary depending on the specific OAA program and range from 10% state funds to 15%. Administrative funding requires a 25% state match rate. Oregon uses Oregon Project Independent General Fund as well as AAA local resources as its required match and to meet OAA maintenance of effort requirements for state funding.

Budget Environment

The Older Americans Act of 1965 was re-authorized by Congress in 2000 after more than five years of negotiation. This action included a new appropriation of $125 million for Federal Fiscal Year 2001 for a National Family Caregiver Support Program. The program includes services to provide information to help families in their caregiver roles; caregiver counseling, training, and peer supports; respite care; and competitive grants to develop new approaches to care-giving. Because Older Americans Act revenue is exclusively federal, no reductions were made to this program during the 2002 special sessions.

Legislatively Adopted Budget

The Legislature reduced the Governor's proposed budget by $71,373 to account for a delayed cost of living adjustment (COLA). A cost of living adjustment for providers will take place on April 1, 2006 instead of January 1, 2006.

SPD – Direct Financial Support

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	5,909,538	7,135,175	6,407,314	9,886,830
Other Funds	57,648,697	2,596,129	0	542,592
Total Funds	**$63,558,235**	**$9,731,304**	**$6,407,314**	**10,429,422**

Program Description

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

- General Assistance provides a cash grant of about $320 for adults who are severely disabled, have extremely limited resources and income, and are expected to qualify for federal Supplemental Security Income (SSI). Clients must immediately file an application for federal benefits. An applicant is not eligible for General Assistance if drug addiction or alcoholism is material to his or her disability. The client must engage in medical treatment (at no cost to the client) and cooperate with the Vocational Rehabilitation program to develop an employment plan, when advisable. The Governor's budget eliminated this program.
- The Oregon Supplemental Income Program (OSIP) provides a small monthly cash payment for disabled, aged, or blind individuals receiving federal SSI benefits though the Social Security Administration. The maximum federal SSI benefit for individuals is $564 per month in 2004. For couples, the maximum federal SSI benefit is $846 per month. Increases in the federal grant throughout the 2003-05 biennium are likely, but unknown at this time. OSIP 2005-07 base payments to the elderly and disabled are about $1.70 per month. Payments to the blind are about $26.70 per month. In some cases, special needs payments are also made for food, guide dogs, special shelter needs, telephone, minor home adaptation, and laundry. Although the OSIP monthly grants are small relative to the SSI grant, federal law requires that these state payments be made in order for the state's residents to qualify for SSI benefits. The minimum payment required by federal law is $1.70 per month.
- Employment Initiative – the goal of the program is to serve severely disabled clients who need assistance with health care, transportation, housing, or long-term care before they can consider employment. The bulk of the funding for this program is staffing—in program support within SPD as well as staffing in the Vocational Rehabilitation program within CAF. The Governor's budget eliminated funding for this program, about $200,000 General Fund within SPD Direct Financial Services and $3.2 million Total Funds (20 positions) within SPD Program Support.
- Employed Persons with Disabilities assists persons with disabilities who are already working to remain at work and retain their eligibility for Medicaid. The goal of this effort dovetailed with the federal Workforce Incentives Improvement Act (WIIA) that was passed in 1999. This act attempted to remove a significant impediment to persons with disabilities seeking employment—the loss of health and other benefits resulting from a higher household income from wages.
- Special Needs Cash Payments – the Department uses these payments to reduce the need for more expensive long-term care payments. For example, these funds could be used to purchase an emergency response system that would allow a client to live alone without an onsite caregiver, or to make home adaptations that allow a client with disabilities to retain mobility in a safe environment.

Revenue Sources and Relationships

Most of the direct financial support programs are funded with General Fund. However, much of the General Fund in these programs was, during the 2001-03 biennium, used to implement the Medicaid Upper Payment Limit (MUPL) program—a mechanism that ultimately returned this General Fund to the Department as Other Funds.

In addition, the General Assistance program received reimbursement from the federal government for General Assistance payments paid to clients who are determined eligible for federal SSI benefits. DHS did not receive reimbursement for clients who are determined eligible for Social Security Disability Insurance (SSDI) benefits. The 2003-05 approved budget contains about $900,000 of Other Funds revenue that is reimbursement from the federal government for those eligible for SSI benefits.

Budget Environment

Because the General Assistance program is eliminated in the Governor's budget, the number of persons receiving Supplemental Security Income is now the main driver of the OSIP budget. DHS expects the average OSIP caseload to be 46,669 during the 2005-07 biennium. As noted above, OSIP payments are a required part of the federal SSI program.

Legislatively Adopted Budget

The legislatively adopted budget is $4 million higher than the Governor's budget. General Fund is $3.5 million higher and the Legislature added $0.5 million of Other Funds expenditure limitation. The final budget includes five significant adjustments to the Governor's original budget. All five modifications were proposed in the DHS reshoot of the Governor's budget. The changes are listed below.

- OSIP cost per case is expected to be lower than in the Governor's budget saving $2.4 million General Fund.
- Additional Social Security recoveries (Other Funds revenue) from the General Assistance program of $0.5 million were used to replace General Fund in the OSIP program, saving $0.5 million of General Fund and requiring $0.5 million of Other Funds expenditure limitation.
- Although the General Assistance program was eliminated in the Governor's budget, and was not restored by the Legislature, $0.7 million General Fund was added to continue the program until September 30, 2005.
- OSIP caseload is expected to be higher than assumed in the Governor's budget and required the addition of $4.6 million General Fund.
- In preparing the reshoot, DHS discovered that it had much less Other Funds revenue than previously anticipated—a shortfall of $1.2 million in the Direct Financial Support program. This revenue hole was filled with General Fund.

SPD – Program Support and Central Administration

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	69,437,762	89,576,039	133,662,555	141,016,546
Other Funds	80,698,564	19,381,677	23,152,454	23,762,261
Federal Funds	162,094,009	160,596,050	215,355,213	224,444,250
Total Funds	**$312,230,335**	**$269,553,766**	**$372,170,222**	**389,223,057**
Positions	752	1,270	1,103	1,209
FTE	707.71	1,171.78	1,070.37	1,089.22

Program Description

This program area includes funding for four different types of staffing. First, it includes expenditures for SPD's central administrative functions ($18.5 million Total Funds, 95 positions and 90.79 FTE). Second, it includes Disability Determination Services (DDS). This program is entirely federally funded and determines eligibility for Social Security Act claims for Disability Insurance (SSDI – Title II of the Social Security Act) and Supplemental Security Income (SSI – Title XVI of the Social Security Act). In Oregon, about 126,000 persons receive SSDI or SSI. Benefits for these persons amount to about $68.4 million each month. DDS includes about 190.00 FTE.

The third type of staffing included in program support and central administration is licensing and regulatory staff. These persons license, monitor, and provide training to improve the quality and safety of services within Oregon's long-term care system. They oversee nursing facility, community-based care facility, and developmental disability services. Fourth, this program area includes funding for field services staff—for those directly employed by the state, but also for those employed by counties, Area Agencies on Aging (AAA), and non-private organizations for persons with developmental disabilities. The number of positions and FTE associated with this budget includes SPD employees but does not include staff who work for Transfer AAAs, brokerages for persons with developmental disabilities, or county staff who determine eligibility for persons with developmental disabilities. The number of FTE for these non-state employees totals about 873.

During the 2003-05 biennium, DHS decided to transfer the state offices field staff (who had been included within the Community Human Services (CHS) budget cluster) to the SPD budget cluster, in order to consolidate all SPD field staff. The Emergency Board concurred with this decision and the Department transferred 467 positions from CHS to SPD. The tables above reflect this transfer as an increase in positions in the legislatively approved budget for the 2003-05 biennium.

Revenue Sources and Relationships

Other Funds revenue comes primarily from licensing fees, local county and other governmental agency matching funds (for Medicaid), and transfer funds from the Long-Term Care Ombudsman and Board of Nursing that are also matched with Medicaid and returned to these two state agencies. Federal Funds revenue includes about $43 million of funding through Titles II and XVI of the Social Security Act for Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) eligibility determination. Other Federal Funds revenue comes predominately from Medicaid which is, for the most part, matched dollar for dollar with

General Fund. In addition a modest amount of federal revenue comes from the Medicare, Food Stamp, and Older Americans Act programs.

Legislatively Adopted Budget

The legislatively adopted budget adds $7.3 million General Fund, $0.6 million Other Funds expenditure limitation, and $9 million Federal Funds expenditure limitation to the Governor's budget. The major adjustments are listed below:

- The reshoot of the Governor's budget included a $2.2 million General Fund addition within Program Support and Central Administration to account for a higher caseload forecast of persons with developmental disabilities in need of mandated services. The original budget had inadvertently omitted the 2005-07 roll-up effect that had been included as part of the November 2004 departmental rebalance of 2003-05 expenditures.
- DHS reports that an increasing number of persons are seeking presumptive Medicaid eligibility on the basis of disability. The reshoot added $0.7 million General Fund ($1.4 million Total Funds) to fund 12 additional positions (12.00 FTE) that will determine their Medicaid eligibility.
- The budget includes an additional $2.2 million General Fund along with federal Medicaid matching funds to meet expected workload increases resulting from the MMA. The Legislature added 29 positions (8.68 FTE) for staff to determine eligibility for MMA low income subsidies and 24 positions (24.00 FTE) to provide caseload services in response to a MMA "woodwork" effect. SPD expects that persons seeking a MMA low income subsidy will also learn about Medicaid long-term care services and seek eligibility for those benefits as well.
- The reshoot added $2.5 million General Fund ($5.4 million Total Funds) and 25 positions to reverse a staffing reduction to the Home Care Worker program in SPD that had been included in the Governor's budget. DHS, along with the Attorney General, determined that the proposed reduction was not feasible.
- Though funding was not reduced, the budget eliminated 78 positions (77.43 FTE) to reflect the completion of a transfer of state employees to an Area Agency on Aging.
- The budget reduced General Fund by $5 million General Fund ($10 million Total Funds) to readjust staffing to new caseloads. Along with this funding reduction, the Legislature eliminated 31 positions (36.30 FTE).
- The Legislature added $1.1 million General Fund and federal Medicaid-funded expenditure limitation associated with long-term care program restorations that added back adult foster care provided by relatives and eliminated a proposed home and community-based care waiver cap.
- The budget includes $2 million General Fund ($4 million Total Funds) to fund higher reimbursement for Area Agencies on Aging.

The budget reflects a number of smaller adjustments including the restoration of the Retired Senior Volunteer Program (RSVP) for $0.3 million as well as reductions to Public Employee Retirement System costs, attorney general charges, and a reduction to the proposed services and supplies budget. In addition, the budget includes modest changes that incorporate the transfer of the Oregon Disabilities Commission to DHS, mandated in HB 3230.

DHS/Department-Wide Support Services – Program Area Totals

	2001-03 Actual	2003-05 Legislatively Approved *	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	67,438,740	103,738,992	118,595,450	121,859,618
Other Funds	54,081,700	21,831,549	60,807,132	51,359,098
Federal Funds	137,663,271	167,086,330	231,084,842	212,004,441
Total Funds	**$259,183,711**	**$292,656,871**	**$410,487,424**	**$385,223,157**
Positions	884	941	930	1,024
FTE	871.13	930.76	920.38	983.63

** 2003-05 Legislatively Approved is adjusted for the May 2005 rebalance plan (HB 5077).*

Summary Description

Department-Wide Support Services (DWSS) supports the Department of Human Services' administrative, information technology, and budgetary functions. Its core functions include the following:

- ***Office of the Director*** houses the Governor's Advocacy Office, internal audits, tribal relations, legislative and intergovernmental affairs, and executive policy analysis and development, as well as the DHS Director and Deputy Director and administrative support staff.
- The ***Administrative Services*** section includes accounting and financial reporting, human resources, forms and document management, contracts and purchasing, facilities, communications, information security, and information systems support for all the DHS programs. This section is also responsible for billing and collection activities for client resources that help cover costs of institutional care, overpayments to clients and providers, reimbursement from clients' health plans or other third party resources, estate collections, and other revenue sources.
- ***Finance and Policy Analysis*** handles fiscal and policy issues related to budget and operations, such as caseload and cost forecasting, budget development and tracking, and provider rate setting.

Revenue Sources and Relationships

The DWSS budget is about 32% General Fund, 13% Other Funds, and 55% Federal Funds. The Other Funds and Federal Funds reflect both revenues generated directly by DWSS activities, such as collection recoveries, and resources which originate in the other program clusters of the Department. DWSS's central administrative costs are allocated to the other program areas. Federal funding is subject to a federally-approved cost allocation plan. The current cost allocation plan was adopted with the Department's 2003 reorganization, and replaced the multiple cost allocation plans in place for the previous divisions and program offices. DWSS has experienced some shortfalls in its projected revenues as it has shifted from the prorate process in place before the 2003-05 biennium to the more direct cost allocation approach, since it did not have a good historical basis to project the results of the new cost allocation system.

Other Funds sources include collection recoveries of Medicaid and other over payments. Financial recovery staff expect to generate over $50 million in collections during the 2003-05 biennium. Most of these revenues are used elsewhere in DHS to offset General Fund expenditures for program services, but the DWSS budget includes the General Fund, Other Funds, and Federal Funds revenue used to pay costs of the collection staff.

Federal Funds in the DWSS budget are primarily Title XIX Medicaid administrative reimbursement. Federal Funds are also received for administrative support for Title IV-A Temporary Assistance to Needy Families, Title XVIII Medicare, Title IV-E Foster Care and Adoption Assistance, and other federal program funding sources.

Budget Environment

During the 1995-97 biennium, many support services positions were transferred from other DHS offices and divisions to the Director's Office in an effort to consolidate administrative services. This initial consolidation included accounting, personnel and payroll, contract administration, budget coordination, building operations, and information systems functions. The agency's major reorganization effort in the 2001-03 biennium moved more than 280 other administrative and support services positions from the program units to DWSS. The Department has continued to consolidate administrative functions in DWSS through the 2003-05 biennium.

During the 2001-03 biennium, funding for DWSS was reduced as part of several DHS rebalance plans, in the 2002 special session actions, and by the 2003 Legislature. The General Fund reductions were made through selected staffing cuts, information systems project savings and reductions, and administrative Services and Suppliesreductions. The 2003 Legislature made additional position reductions, and eliminated $1.6 million General Fund in reorganization reinvestment savings that had been earmarked for hardware and software purchases during the 2003-05 biennium. The 2005-07 budget continues to reduce ongoing operating expenditures, although funding for specific information system projects drives costs for a higher budget overall.

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

The 2003 Legislature directed, by budget note, that the Department undertake a review of its staffing standards in program and administrative support units in the agency. This was intended to be a multi-biennia effort.

The Department presented the initial findings and recommendations for Phase I of the study, which focused on Food Stamps, Medicaid, and adult protective services staffing, to the 2005 Legislature. The initial recommendations included moving from the current caseload standards to workload standards that better reflect expected process times for key transactions in those program areas. The preliminary findings suggest that while the Children, Adults and Families (CAF) staff to supervisor ratios at 14:1 generally are broader (i.e., more line workers per supervisor) than in other states, there were more case managers and fewer eligibility workers than would be needed under new workload standards, and more support staff per line worker than comparable organizations. Staffing for eligibility workers in Seniors and People with Disabilities (SPD) was higher than preliminary workload standards would support, but further work was recommended on the adult protective services staffing standards. Preliminary recommendations for short-term efficiencies, intermediate-term investments, and long-term transformation efforts were presented. The Department revised its Governor's budget to reclassify 160 positions in CAF and eliminate some positions in SPD, in line with the Phase I findings. The Department also reported it would develop an implementation plan for the final Phase I work.

The scope of the Phase II work is now under review. The original plan for Phase II was to look at other self-sufficiency, child welfare, vocational rehabilitation, and Seniors and People with Disabilities programs during the 2005-07 biennium. The Legislature directed the Department to report on any further Phase I savings, the status of the Phase I implementation plan, and the status of Phase II of the study when it comes to the Emergency Board to rebalance its 2005-07 budget.

DHS operates with a multitude of computer information systems. Many of these are decades-old mainframe systems, others use technology that is obsolete and unsupportable. The existing Medicaid Management Information System (MMIS), for example, is outdated and cannot meet all requirements for processing and reporting Medicaid program activity. Work on a replacement system began in the 1999-2001 biennium, and project development and implementation will continue during the 2005-07 biennium. In 2003, federal reviewers reported the Statewide Automated Child Welfare Information System (SACWIS) did not fully meet federal requirements, although Oregon has been working on the system since 1994. Oregon may incur financial penalties if it does not complete mandated modifications. DHS is also facing continued work to meet mandates for the federal Health Insurance Portability and Accountability Act (HIPAA). HIPAA implemented new federal mandates for computer systems and staff management of health care information, adding significant workload to DWSS's ongoing systems management and application development responsibilities. The workload is on-going as new federal regulations are published to address specific issues in the comprehensive law.

The state is in the process of consolidating the data centers of 12 state agencies. DHS is one of the 12 agencies affected by this Computer Networking and Infrastructure Consolidation (CNIC) initiative. The legislatively adopted budget for DHS and other affected agencies was adjusted to reflect expected cost shifts for the 2005-07 start-up biennium. Further adjustments are expected in the 2007-09 budget.

Legislatively Adopted Budget

The adopted budget is 17.5% General Fund and 31.6% Total Funds higher than the 2003-05 legislatively approved budget. The major elements of the increase are higher State Government Service Charges, information system project costs, and further consolidation of administrative functions previously in the program area clusters. The budget also reflects enhancements in DWSS's caseload forecasting and overpayment collection functions, and cost increases related to program changes in other areas of the DHS budget.

The Governor's budget reflected a $5.9 million General Fund and $9.7 million Total Funds increase in State Government Service Charges paid by DWSS for this agency. The Legislature reduced the DWSS budget by $0.3 million General Fund and $0.8 million Total Funds based on lower Public Employee Retirement System (PERS) rates, and by $18,555 General Fund and $0.1 million Total Funds for lower Attorney General hourly rates.

DHS will continue work on the MMIS replacement project during the 2005-07 biennium, with a budget of $4 million General Fund, $53.8 million Total Funds, and 30 new positions (29.50 FTE). General Fund pays for debt service on the Certificates of Participation (COPs) that are being used to fund the state's share of the project. The Other Funds from the COPs are used to match Federal Funds to pay for project costs. The 2003-05 budget added 14 permanent full-time staff and 44 limited duration positions for work on the system. The 2005-07 budget adds nine more permanent full-time staff (9.00 FTE) to the existing 14 positions, and continues 21 limited duration positions (20.50 FTE). DHS anticipates that it will outsource the system support and maintenance work for the new MMIS in 2007-09, resulting in an overall reduction of information system positions.

COPs are also being used to help finance the SACWIS replacement project. The budget includes $0.9 million General Fund for debt service costs during the 2005-07 biennium, and $14 million Other Funds and $13.7 million Federal Funds for project costs. The bulk of the expenditures are for contracted professional services, and for data processing software and hardware. DWSS will add eight positions (8.00 FTE) for the project.

To meet federal HIPAA Security Rule requirements, the budget adds $0.5 million General Fund, $0.6 million Federal Funds, and six positions (6.00 FTE) for additional resources in the Office of Information Security.

The legislatively adopted budget enhances two other areas of DWSS operations: overpayment collections and caseload forecasting. In April 2004, the Emergency Board approved a pilot project to increase Food Stamp overpayment recoveries with three limited duration revenue agents in DWSS and seven limited duration overpayment writers in CAF. The adopted budget replaces the three limited duration DWSS positions with permanent positions, and adds three more permanent positions for day care overpayments, client asset reviews, and general office support for the collection positions ($0.4 million General Fund and $0.9 million Total Funds, six positions and 6.00 FTE). The additional staffing in DWSS and CAF is expected to save a net $2.9 million General Fund for the 2005-07 biennium.

The Legislature also approved the transfer of 94 positions (93.42 FTE) from other program clusters to DWSS ($4.5 million General Fund, $8.9 million Total Funds). Of the total, 80 were collection and payment recovery positions moved to DWSS from CAF to consolidate collections and payment recovery efforts in the Department.

The adopted budget includes funding to improve the Department's program caseload forecasting function, based on centralizing the function within the Finance and Policy Analysis unit, changing forecast methodologies, and increasing review by program staff as well as forecasting experts. The $0.4 million General Fund, $1.1 million Total Funds, and seven positions (7.00 FTE) in the budget provides the resources needed to support these improvements.

Additional funding is provided in DWSS for costs related to activities in other program areas. These include:

- Medicare Modernization Act implementation. The DWSS budget is increased by $0.7 million General Fund and $1.4 million Total Funds for data processing, facilities, and equipment costs for staff added in SPD to manage the 2003 federal law.
- Medicaid quality control process restructuring. Federal requirements for Medicaid program reviews have changed. Additional staffing in CAF will develop and implement the quality control program. DWSS staff will need to review medical necessity and coding accuracy. The budget adds $0.5 million General Fund, $0.9 million Total Funds, and five positions (5.00 FTE) in DWSS for this function.
- Public Health Laboratory rent increase. The new Public Health Lab is expected to be done in Spring 2007. The estimated rent increase for the rest of this biennium is $163,015 General Fund and $533,950 Total Funds.

The Legislature did not approve additional DWSS funding related to the Oregon Health Plan Standard benefit package restoration, since DWSS funding had not been adjusted downward in the 2003-05 biennium when General Fund support for the Standard program was eliminated. Nor was funding approved for DWSS costs related to increased Attorney General representation for child welfare in court hearings, because the requested program funding was not included in the CAF budget.

The Governor's budget reduced DWSS's funding by $10.2 million General Fund, $21.9 million Total Funds, and 17 positions (17.00 FTE) for selected staffing and Services and Supplies expenditures. The Legislature accepted these reductions, which will affect information systems, facilities, financial services, human resources, contracts and procurements, and forms and document management. The most significant adjustments are in information systems expenditures, including staffing and equipment replacement ($4.7 million General Fund, $13.8 million Total Funds, 11 positions [11.00 FTE]); closure of 8 field office buildings ($1.4 million General Fund, $2 million Total Funds); lower Attorney General costs for contracts and purchasing ($788,275 General Fund, $1.1 million Total Funds); and delayed cost-of-living adjustments ($700,000 General Fund, $1.3 million Total Funds). The Legislature made further budget reductions based on a 3% cut in Services and Supplies and Capital Outlay expenditures ($1.9 million General Fund), and further delayed the cost-of-living adjustments ($350,000 General Fund, $0.7 million Total Funds).

The Legislature appropriated a total of $9.6 million General Fund to replace $1.3 million Other Funds and $8.3 million Federal Funds that had been anticipated in the Governor's budget for DWSS. The fund shift reflected lower Other and Federal Funds revenue projections, based on more recent information about Other Funds collections and the impact of the federal cost allocation plan that was adopted with the Department's reorganization. The projected Other Funds shortfall was about 2% of the total DWSS Other Funds anticipated in the Governor's budget, and the Federal Funds shortfall was about 3.6% of the DWSS Federal Funds in the Governor's budget.

Other adjustments were made for the impact on DWSS of the transfer of the Office of Juvenile Compact Administrator to the Oregon Youth Authority ($-22,596 General Fund, $-23,384 Total Funds) in HB 2561, and for information systems staff to be transferred to the CNIC project during the biennium (-30.17 FTE).

Insurance Pool Governing Board (IPGB) – Agency Totals
[Office of Private Health Partnerships]

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	423,222	14,979,067	26,906,352	22,061,644
Other Funds	21,067,016	32,818,293	54,560,858	57,419,279
Total Funds	**$21,490,238**	**$47,797,360**	**$81,467,210**	**$79,480,923**
Positions	76	52	52	52
FTE	40.79	51.50	51.50	51.50

Agency Overview

The Insurance Pool Governing Board (IPGB) was created in 1987 as a private insurance component of the Oregon Medicaid program. The 2005 Legislature adopted SB 303 which abolished the seven-member Board and established the Office of Private Health Partnerships to assume the management of the agency's two programs – the Family Health Insurance Assistance Program (FHIAP) and the Information, Education, and Outreach (IEO) program. Both programs are designed to increase access to private health insurance. The Office of Private Health Partnerships will be managed by an administrator appointed by the Governor. Advisory committees may be established to "aid and advise" the administrator in his or her management of the Office.

The IEO program serves as a central source for employers and individuals concerning information about health care resources and health insurance. In addition, the 2001 Legislative Assembly (HB 3126) restored the program's responsibility for developing health benefit packages for small employers. The FHIAP provides health insurance premium subsidies to previously uninsured, low-income families and individuals.

IPGB – Information, Education, and Outreach

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	423,222	479,520	520,348	435,425
Other Funds	0	77,984	125,000	125,000
Total Funds	**$423,222**	**$557,504**	**$645,348**	**$560,425**
Positions	2	2	2	2
FTE	2.00	2.00	2.00	2.00

Program Description

Originally, the IPGB was created to increase access to health insurance for small businesses and the self-employed. The Board certified specially designed health benefit packages for businesses with 25 or fewer employees. In the mid-1990s, health insurance reforms significantly increased insurance options for small businesses and the self-employed. The 1999 Legislative Assembly passed legislation (SB 414) to phase out the certification program. The phase-out was completed in July 2000, leaving the program to focus entirely on serving as a central source of information about health benefits plans for individuals, employers, and the self-employed. The 2001 Legislative Assembly restored IPGB's responsibility for offering health insurance plans for small employers (HB 3126). The 2003 Legislative Assembly directed the IPGB to increase access to health insurance and health care by providing affordable health benefit plans for small employers with at least two, but no more than 50 employees (HB 2537). In response to this directive, the IPGB worked with insurance carriers and developed two proposed "certified" plans. The first, called an Alternative Group plan, would exclude some insurance mandated benefits as well as some standard benefits that are typically covered under a small group insurance market. The target premium for this proposed product is 30 to 50% lower than a typical small group health insurance plan. The second proposed plan is a Children's Group Plan and is designed to cover the children (only) of employees who may or may not be covered themselves under an employer's group insurance plan. Both of these plans would be eligible for FHIAP premium subsidies.

The Board (now Office) also conducts continuing education training for insurance agents, markets generic health insurance to small employers, and provides referrals to specially trained health insurance agents. The agency has two full-time marketing positions, but otherwise shares staff and administrative resources with the Oregon Medical Insurance Pool Board (OMIP) in the Department of Consumer and Business Services.

Revenue Sources and Relationships

General Fund supports 78% of program expenditures in the legislatively adopted budget. In the past, Other Funds revenue was generated from charges for agent training and reimbursements from OMIP and FHIAP for the cost of shared staff. However, the agency no longer charges insurance agents for training and new accounting procedures will show reimbursements from OMIP and FHIAP as direct expenditure reductions as distinguished from additional Other Funds program revenue. The $125,000 of Other Funds included in both the Governor's budget and the legislatively adopted budget represents a new revenue source—an insurance carrier charge for every certified plan they are able to sell. The certified plans are those two mentioned above, the Alternative Group and Children's Group plans. To allow the agency to implement the carrier charges, the 2005 Legislature passed HB 2062.

Budget Environment

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

During the last half of the 1990s, Oregon experienced an increase in employer-based health insurance coverage. In 1994, 56% of employers offered health insurance for their employees. The number increased to 72% by 1998, but decreased to 61% by 2002. The Office of Health Planning Policy and Research estimated that, in 2000, there were approximately 422,000 people in Oregon (12% of the population) who did not have health insurance. In 2002, that number had climbed to 472,000 persons, or 14% of Oregon's population. Of the uninsured, approximately 50% live in households with incomes below 200% of the federal poverty level (FPL). Dramatically increasing health care costs and a decreasing percentage of employer based health insurance coverage may make it more difficult for IPGB to facilitate access to private health insurance.

The IEO program has a direct link to Benchmark 54, (Percentage of Oregonians without health insurance). The program affects the benchmark by encouraging small employers to offer health insurance benefits and by educating insurers concerning ways to improve access for the uninsured.

Legislatively Adopted Budget

The legislatively adopted budget is the result of three changes to the Governor's recommended budget. First, the Legislature reduced services and supplies' expenditures by $81,889 General Fund. Despite this reduction which will limit marketing capabilities, agency staff stated that the Certified Plans (mentioned above) will be available and that enrollment targets for FHIAP will still be met. Second, the budget was reduced by $1,618 to account for lower Attorney General hourly rates and Public Employee Retirement System (PERS) costs. Third, the legislature reduced the budget by $1,426 resulting from lower state government service charges.

IPGB – Family Health Insurance Assistance Program

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	0	14,499,547	26,386,004	21,626,219
Other Funds	21,067,016	32,740,309	54,435,858	57,294,279
Total Funds	**$21,067,016**	**$47,239,856**	**$80,821,862**	**$78,920,498**
Positions	74	50	50	50
FTE	38.79	49.50	49.50	49.50

Program Description

The Family Health Insurance Assistance Program (FHIAP) was created in 1997 as an expansion of the Oregon Health Plan (OHP). It provides direct premium subsidies to low-income individuals who may earn too much to qualify for Medicaid, but not enough to completely afford their employer's health benefit coverage or an individual health insurance policy. Until November 2002, the program provided subsidies of 95, 90, or 70% of the beneficiaries' premium cost, depending on income level, for persons earning less than 170% of the FPL. Beginning in November 2002, persons with incomes ranging between 171% and 185% of FPL could also receive a 50% subsidy on their premium costs. This change was part of a new Oregon Health Plan waiver, known as OHP 2. OHP 2 also allowed state funds budgeted within FHIAP to be matched with federal Medicaid and Children's Health Insurance Program (CHIP) revenue. The 2003 Legislative Assembly adopted legislation that allows persons in households of incomes up to 200% of the FPL to receive FHIAP premium assistance. However, the current program only subsidizes premiums for households earning up to 185% of the FPL.

To qualify for the subsidy, persons must have been uninsured for six months except for those enrolled in Medicaid. Participants must accept employer-based coverage in cases where there is an employer contribution. Those without access to employer-based coverage, or in cases where the employer does not make a contribution, choose from plans certified by the agency. Adults may receive the subsidy only if all children in the family are covered by a health insurance program. Enrollees are responsible for any co-payments, co-insurance, and deductibles of the plans they select, as well as the unsubsidized portion of the premium. The program is not an entitlement, and enrollment is on a first-come, first-served basis.

Revenue Sources and Relationships

Prior to the 2001-03 biennium, FHIAP had been funded with tobacco tax revenue. The legislatively adopted budget for 2001-03 shifted funding for FHIAP from tobacco taxes to proceeds from the settlement reached with tobacco products manufacturers in the Master Settlement Agreement of 1998. Because the 2003 Legislature committed most of the revenue stream from tobacco master settlement payments to make debt service payments on $200 million of OHSU Oregon Opportunity Bonds and $450 million in Oregon Appropriation Bonds, this revenue source was not used for FHIAP expenditures in 2003-05.

The OHP 2 waiver allowed Oregon to receive both federal CHIP and Medicaid match on FHIAP state expenditures. The waiver was implemented beginning in November 2002. The 2005-07 legislatively adopted budget assumes federal revenue of $55.6 million – $41.9 million of CHIP revenue and $13.8 million of Medicaid funding. CHIP revenue requires match of approximately 28% state funds to 72% federal funds and Medicaid funds are matched 40% state funds to 60% federal funds. Because these federal funds are initially received by the Department of Human Services (DHS) and subsequently transferred to FHIAP, they are spent as Other Funds in the FHIAP budget.

Budget Environment

Three significant factors are influencing the FHIAP budget for the 2005-07 biennium. First, as noted above, health insurance premiums have risen significantly over the last several years. Higher premium costs require higher FHIAP subsidies and higher subsidies reduce the number of persons who can be served.

Second, the OHP 2 waiver, approved by the Centers for Medicare and Medicaid Services (CMS) in October 2002, allows FHIAP state funds to be used as match for federal CHIP and Medicaid revenue. The OHP 2 waiver agreement with CMS also requires Oregon to meet a maintenance of effort (MOE) standard with respect to FHIAP. The waiver agreement states that Oregon "must demonstrate that total state expenditures on FHIAP over the five years of the demonstration are equal to or exceed the total amount the state would have spent had the state made payments at the State Fiscal Year 2002 expenditure level annually in absence of the demonstration."

While the waiver agreement contains no further discussion of the MOE requirement, leaving many of the details open to interpretation, both the Governor's budget and the legislatively adopted budget assume that expenditures to administer the program are not part of the MOE requirement. Consequently, Oregon must spend $40.9 million of state funds over the five years from November 1, 2002 (when the OHP 2 waiver terms became applicable to FHIAP) through October 2007 on premium subsidies. The agency expects to have spent about $13 million of state funds on premium subsidies from November 2002 through June 2005. If the state fails to meet its MOE requirement, it may face penalties imposed by CMS. Whether Oregon could re-negotiate its FHIAP MOE requirement under the OHP 2 waiver with CMS to gain greater budgetary flexibility is uncertain. Nonetheless, the 2005 Legislative Assembly directed the executive branch to open discussions with CMS about the possibility of using additional General Fund expenditures in either the OHP Standard program or Children's Health Insurance Program (CHIP) to meet the FHIAP MOE requirements in the OHP 2 waiver.

The third factor having an impact upon budgeted expenditures is the market for the FHIAP program. FHIAP managers were not able to spend all the funds that were budgeted for the 2003-05 biennium. The 2003-05 legislatively approved budget for FHIAP was $47.2 million Total Funds. Estimated expenditures are $41.2 million for both subsidies and staffing costs. This is not caused, in the opinion of the Legislative Fiscal Office, because the program was poorly marketed or because there were delays in processing applications. Rather, it is because the program focus has shifted from primarily offering subsidies for individual health insurance policies to group insurance policies in response to legislative directives which sought to equalize funding between individual and group (through employers) coverage. Group health insurance is generally less costly than individual coverage and employers contribute to the cost of group coverage. Thus, FHIAP would be able to cover more persons for the same amount of funding. This shift from individual to group policies, however, has taken time to implement. Moreover, FHIAP staff report that some employers who might offer health insurance under a FHIAP arrangement are reluctant to do so given the uncertainties of the FHIAP budget. In other words, these employers are concerned that if they did offer their employees health insurance and the program were reduced or eliminated, they would then either be forced to fund a health insurance benefit themselves or eliminate the benefit for their employees—both responses employers want to avoid.

To be sure, FHIAP managers have made progress toward funding more group coverage. In June 2003, 1,800 or about 34% of the total 5,300 person caseload was enrolled in group coverage. By June 2004, this percentage had risen to 55% or 3,537 persons of the total caseload of 6,431. By the end of the 2003-05 biennium, the total caseload had risen to about 12,111 persons and 4,355 or 36% were covered by group health insurance policies. In the second year of the biennium then, total caseload grew 88%. Group coverage grew 23% and individual coverage grew 168%. While these growth patterns will probably enable Oregon to meet its MOE requirement, these statistics also point the challenge of reaching and sustaining an even higher enrollment in group coverage.

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

In the existing state government fiscal situation, a serious deliberation about the role of FHIAP as a model for accessible health care is warranted during a time of service reductions to the OHP Standard program—notwithstanding the MOE requirement. Is it appropriate, for example, to subsidize health care costs for working persons who are at 170% of FPL through FHIAP, while closing OHP Standard enrollment? Over the longer term, could the FHIAP model be used to "privatize" some significant portion of Oregon's Medicaid program and possibly lower the state's health care budget? Should a future FHIAP focus only on subsidies for employer-purchased health care? These policy questions continue to be relevant.

Legislatively Adopted Budget

In addition to adjustments to PERS and Attorney General costs as well as state government service charges totaling $38,536 General Fund ($77,074 Total Funds), the 2005-07 legislatively adopted budget for FHIAP reflects six changes that were made to the Governor's budget:

- The legislature reduced General Fund by $200,000 and replaced this appropriation with available Other Funds that was part of the agency's expected 2003-05 ending balance.
- Other Funds expenditure limitation was increased by $1.4 million. This increase was supported by Tobacco Settlement revenue that has been carried over from the time it was first allocated for the 2001-03 biennium. Because of state budget constraints, however, marketing efforts were curtailed and enrollment in the FHIAP was slowed and funds were not expended.
- Other Funds expenditure limitation for federal revenue from DHS was increased by $1 million. This revenue represents federal matching reimbursement that was earned during the 2003-05 biennium but is expected to be received early in the 2005-07 biennium.
- The Governor's budget for FHIAP subsidy payments was cut by $0.5 million General Fund and $1.2 million Other Funds (matching federal funds from DHS) to acquire General Fund for other budget priorities. This reduction to the 2005-07 budget means that Oregon will need to spend approximately $4.6 million of state resources during the first four months of the 2007-09 biennium to reach the MOE level required under the OHP 2 waiver agreement.
- The legislature added $11 million Other Funds (federal funds from DHS) expenditure limitation to recognize all available federal matching funds at a match rate that anticipates an increase in the number of enrollees eligible for CHIP and is higher than the rate used in the Governor's proposed budget.

- Finally, the legislative assembly's budget for FHIAP included a $4 million General Fund reduction ($13.6 million Total Funds). The General Fund was, instead, used to establish a special purpose appropriation to the Emergency Board. Some or all of the special purpose appropriation can be allocated to either DHS or to IPGB, depending upon the results of discussions with CMS about the FHIAP MOE requirement. The budget report for SB 5576, the principal budget bill for the IPGB, directs the executive branch "to approach CMS and explore the possibility of meeting the MOE requirement with additional expenditures in the CHIP or the OHP Standard program."

The legislative budget committees that reviewed the agency's budget had considerable discussion about the policy issues mentioned above—especially, the role of FHIAP as a model for accessible health care at a time when Oregon has had to close enrollment in the OHP Standard program. On the one hand, members were cognizant of the need to comply with the FHIAP MOE requirements under the OHP 2 waiver. On the other hand, some doubted the efficacy of continuing to allocate state resources to FHIAP when those resources might be used to provide medical care to children through the CHIP program or to modestly expand the Standard program. In the end, the legislature established the special purpose appropriation and directed the executive branch to explore changes to the MOE requirement with CMS. If CMS responds positively to Oregon's request to modify the terms of the waiver agreement, some or all of the appropriation could be allocated to DHS. Any funds not allocated by June 30, 2006, will be allocated to IPGB for FHIAP.

Long-Term Care Ombudsman – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	593,600	580,101	545,205	545,205
Other Funds	1,226,298	1,432,753	1,475,316	1,445,936
Total Funds	**$1,819,898**	**$2,012,854**	**$2,020,521**	**$1,991,141**
Positions	8	8	8	8
FTE	8.00	8.00	8.00	8.00

Agency Overview

The mission of the Office of the Long-Term Care Ombudsman is to enhance the quality of life, improve the level of care, protect the individual's rights, and promote the dignity of each Oregon citizen residing in a long-term care facility. Long-term care facilities include nursing, residential care, and assisted living facilities, as well as adult foster homes.

The agency relies on a network of certified volunteers to investigate and resolve complaints made by or on behalf of residents and their families concerning long-term care facilities, mediate and resolve disagreements between residents and facility operators, and advocate for changes that enhance resident quality of life and quality of care. The agency also uses volunteers to manage its Residential Associate/Community Hospitality and Talk (RAP/CHAT) program. RAP/CHAT is designed to encourage informal citizen interaction with long-term care facility residents and is an important part of the ombudsman continuum of services. There are currently 173 certified long-term care ombudsman and 65 RAP/CHAT volunteers serving in the state.

The agency staff provide on going training, support, and technical assistance to volunteers, and deal directly with difficult complaint handling and complex resident problems. If an investigation reveals reasonable cause to suspect abuse, the Office of the Long-Term Care Ombudsman reports the finding to the Department of Human Services (DHS). DHS then refers those allegations to local adult protective services agencies for investigation.

Revenue Sources and Relationships

The agency's General Fund is used exclusively to match federal funds – Medicaid and Older Americans Act (OAA) funds. Medicaid requires 50% match and OAA requires 25% match. The amount of Medicaid funds available depends on the amount of time spent working on complaints from Medicaid clients. As a proxy for keeping track of services to individual Medicaid clients, the agency assumes a Medicaid eligibility rate of 57.39% – which is the percentage of long-term care abuse complaints received by DHS that are found to be Medicaid eligible. OAA funds, estimated to be approximately $472,000 for 2005-07, are capped.

Since DHS is the state agency that receives the Federal Funds for both the Medicaid and Older Americans Act programs, the Office of the Long-Term Care Ombudsman (LTCO) pays its General Fund to DHS as match. DHS adds the appropriate Federal Funds to the General Fund and returns it to LTCO as Other Funds to fund the agency's operations. As a result, the federal match amount is "double-budgeted" since the agency's budget includes expenditure limitation for both the payment to DHS as well as agency operations.

Budget Environment

The demand for ombudsmen services is directly related to the number of long-term care facilities and clients. As of August 2004, there were approximately 42,000 beds in Oregon's long-term care system. Residents live in 143 nursing facilities, 234 residential care facilities, 192 assisted living facilities, and 1,767 non-relative adult foster homes. While the number of nursing facilities and non-relative adult foster homes has declined, the numbers of residential care and assisted living facilities have increased – 6% and 7%, respectively. As the population ages, this trend is expected to continue. Complaint response time and workload is a function of the number of certified volunteers. The number of certified volunteers is constrained by the number of staff available to provide training and technical assistance. Without a staffing increase, the agency may not be able to keep up with the demand for services.

Legislatively Adopted Budget

The Legislature approved a budget of $1,991,141 Total Funds, a 1.5% reduction from the Governor's budget, and 8.00 FTE. The budget was adjusted to reflect the following rate and assessment reductions: Public

Employees Retirement System ($6,316), Department of Administrative Services ($22,876), Oregon State Library ($127), and Secretary of State Audits Division ($61).

The Legislature approved a one-time fund shift, using the majority of the agency's Other Funds ending balance, generating $35,000 in General Fund savings.

Psychiatric Security Review Board – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	673,540	735,777	873,182	847,464
Other Funds	0	2,000	2,000	2,000
Total Funds	**$673,540**	**$737,777**	**$875,182**	**$849,464**
Positions	4	4	5	5
FTE	4.00	4.00	5.00	4.75

Agency Overview

The Psychiatric Security Review Board was created by the Legislature in 1978 to assume jurisdiction over persons in Oregon found to be "guilty except for insanity" of a crime. The Board's jurisdiction is equal to the maximum sentence provided by statute for the crime for which the person was found "guilty except for insanity." The Board's primary purpose is to protect the public through the on-going review of the progress of those placed under its jurisdiction and a determination of their appropriate placement. The Board has authority to: commit a person to a state hospital designated by the Department of Human Services; conditionally release a person from a state hospital to a community-based program with close monitoring and supervision; discharge a person from its jurisdiction; and, when appropriate, revoke the conditional release of a person under its jurisdiction and order the person's return to the state hospital pending a full hearing before the Board. The five-member board is appointed by the Governor and composed of one public member, one psychiatrist and one psychologist experienced in the criminal justice system, one parole and probation officer, and one attorney with criminal trial experience.

Revenue Sources and Relationships

The agency depends on General Fund for its operations. The Other Funds beginning and ending balance is the result of a $10,000 award from the American Psychiatric Association in 1994. The funds are dedicated for staff and Board member training. The unspent balance will carry forward until the funds are exhausted.

The costs for mental health treatment and supervision of the Board's clients, at the Oregon State Hospital (OSH) and in the community, are budgeted in the Department of Human Services.

Budget Environment

The Board's caseload continues to grow. As of December 2004 there were 712 individuals under the Board's jurisdiction compared to 595 in 2003, a 20% increase. As Oregon's population grows, there is more demand on limited community mental health services, regional acute care services, and longer-term treatment at OSH. Without treatment, more mentally ill persons come into the criminal justice system. In addition, more criminal defendants are opting for the insanity defense as an alternative to Measure 11's (1994) longer mandatory sentences. From 1999 through 2002, the Board averaged 25 net new cases a year (new cases less discharged cases). In 2003, there were 60 net new cases and in 2004 there were 69 net new cases. Unless mental health resources are expanded, or criminal sentencing laws changed, the Board's caseload growth is expected to continue.

Legislatively Adopted Budget

The Legislature approved a budget of $849,464 Total Funds, a 2.9% decrease from the Governor's budget, and 4.75 FTE. The budget was adjusted to reflect the following adjustments: Public Employees Retirement System rate decrease ($2,946), Attorney General rate decrease ($2,154), Department of Administrative Services assessment increase ($1,108), Oregon State Library assessment decrease ($38), and Secretary of State Audits Division assessment decrease ($27). The budget also includes several line-item shifts to align the budget more closely with actual spending patterns and a 3% General Fund services and supplies reduction ($5,658).

The Legislature approved the establishment of one new position, effective January 2006, to ensure the Board has adequate resources to closely and proactively monitor the growing number of individuals under its jurisdiction ($76,370 and 0.75 FTE). The Legislature also approved Senate Bill 232 creating a juvenile panel effective January 1, 2007 and appropriating $15,000 to the Board to cover the costs of the new panel.

PUBLIC SAFETY

Department of Corrections (DOC) – Agency Totals *

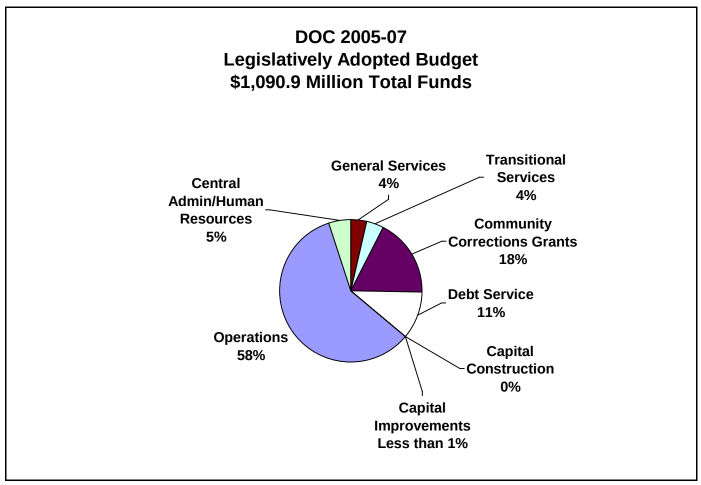
	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	784,092,076	806,474,509	1,072,350,875	1,037,460,522
Other Funds	180,670,931	27,887,655	177,567,420	49,071,585
Federal Funds	10,187,930	121,829,812	4,339,146	4,404,146
Total Funds	**$974,950,937**	**$956,191,976**	**$1,254,257,441**	**$1,090,936,253**
Positions	3,950	3,970	4,535	4,287
FTE	3,772.81	3,898.03	4,318.22	4,181.91

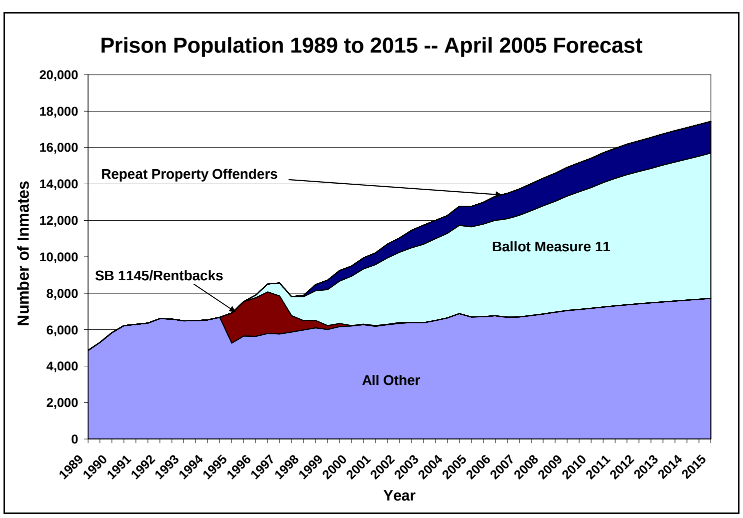
** The amount for 2001-03 does not include $250.3 million in Nonlimited Other Funds from refinancing existing debt. The 2003-05 legislatively approved amounts have been adjusted for Emergency Board actions.*

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 13 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 a prison population that is projected to grow by 1,032 inmates (7.9%) from 12,990 in July 2005 to 14,022 in July 2007 (April 2005 forecast) requiring further capacity. A more recent forecast (October 2005) shows 6% growth during the same period requiring less capacity at the end of the biennium. 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 effective January 1, 1997. The Department provides funds to counties to offset the costs of supervising these offenders.

The legislatively adopted budget for 2005-07 is $1,090.9 million total funds, with 58% accounting for the operation, housing, health care, and security in the 13 prisons in the system; 4% for transitional services like substance abuse treatment and education services; 18% for community corrections payments to counties; 11% for the debt service on prison and local jail construction; and 9% for general support services and administration. There is only $1.3 million total funds (less than 1%) in the budget for capital improvements for all DOC facilities across the state. There is no new capital construction limitation in the 2005-07 budget; ongoing construction is using limitation approved in prior biennia.





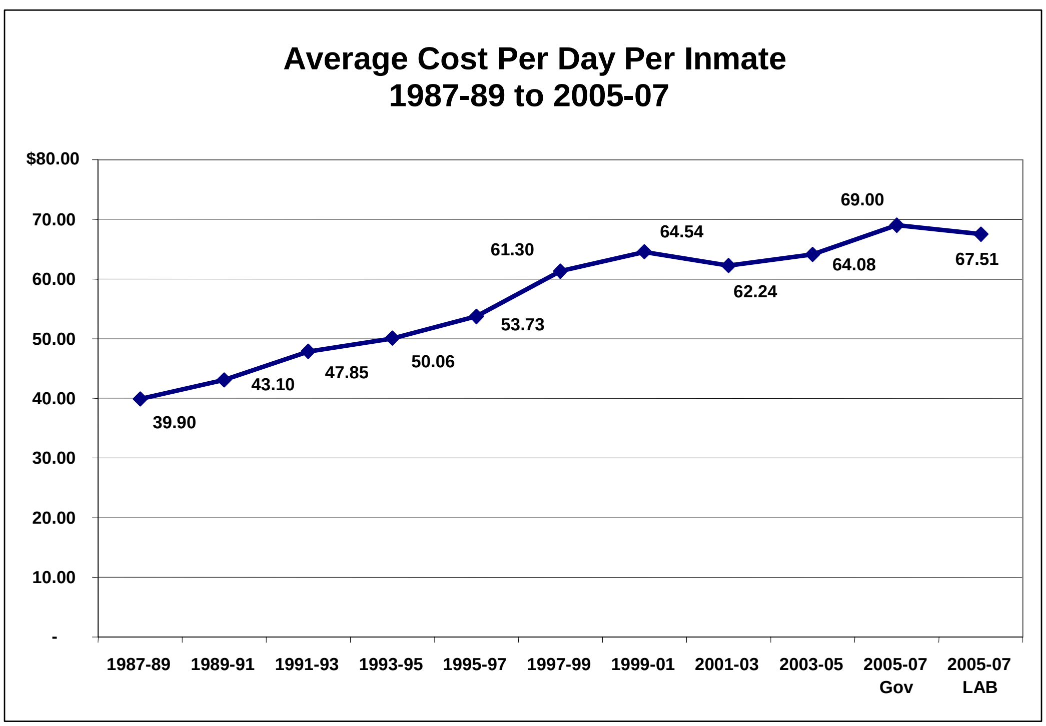
The most significant cost driver for the DOC budget is the number of incarcerated offenders in the prison system. The accompanying graph shows the growth in the actual and projected prison population increasing from roughly 5,000 in 1989, to the present 12,000 in 2005, to almost 17,500 in 2015. This expected 250% increase over the period has resulted in a large construction program to expand the number of beds in the system, a growing number of staff to supervise the inmate population, and an increased community corrections system to supervise this population in lieu of imprisonment after release from a state prison. During 2003-05, DOC started renting beds from counties who had available space in their jails. This is expected to continue through the 2005-07 biennium, until sufficient DOC-operated capacity can be built.

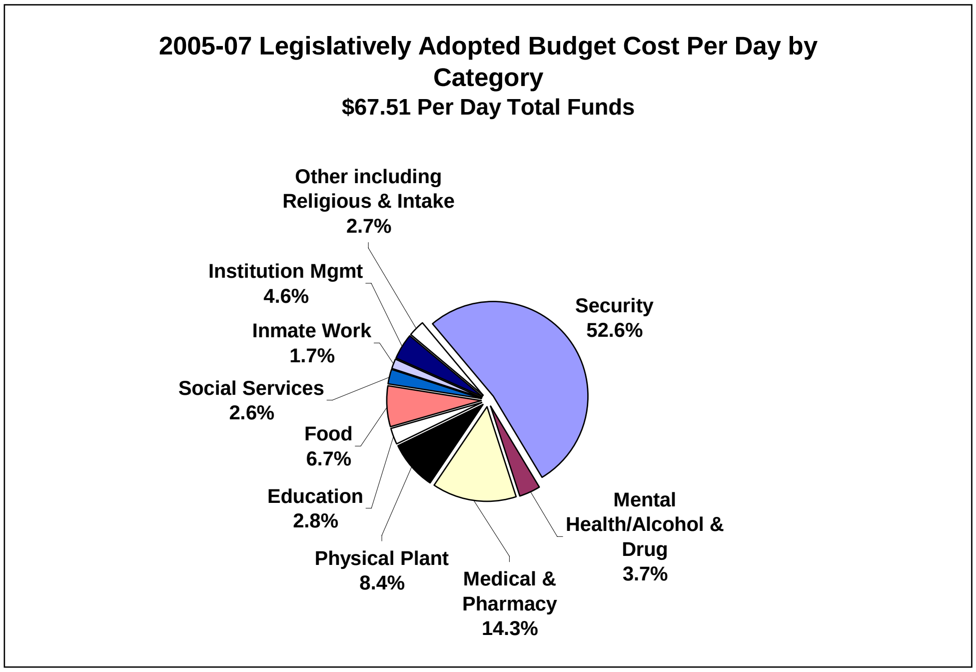
The passage of Ballot Measure 11 (BM 11) created the need to significantly change the corrections systems in Oregon and the need to increase the building program. The increases in the number of inmates due to BM 11 was not so much due to the growth in the number of offenders entering the system as much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

The ability of state policy makers to control the prison population growth is constrained by ballot measures passed by Oregon voters including Measure 11 (1994), which established mandatory minimum sentences for specific major crimes; Measure 4 (1988), which eliminated probation for repeat offenders of specific crimes and eliminated the use of earned time; and Measure 74 (1999), which was part of the crime victims' package and requires that an offender must return to 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 change.

Ballot Measures and Time Frames	Number in Prison as of 10/05	Steps to Change Release Date
Non Measures 11 and 4 inmates whose crimes were committed prior to 12/99	1,176	Simple majority of Legislature
Measures 11 and 4 inmates whose crimes were committed before 12/99	1,879	Two thirds majority of Legislature
Measure 74 offenders whose crimes were committed after 12/99. Includes Measure 11 and 4 inmates after 12/99	9,056	Requires constitutional change

The average cost-per-day for an inmate in 2001-03 was $62.24, increasing to $64.08 for 2003-05, and to $67.51 for the 2005-07 legislatively adopted budget. Cost-per-day in 2005-07 for individual institutions ranged from a low of $49.50 at South Fork to over $76 at Shutter Creek. Cost per institution for 2005-07 is not available at this time. Facility-by-facility variance is due to a number of factors including age of facility, seniority of staff, programming at each facility, and the security level





This chart shows the breakdown by spending category for the cost-per-day in the 2005-07 legislatively adopted budget ($67.51 per day). Debt service, department-wide administration, business services, and capital construction are not included in these costs.

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

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

Legislatively Adopted Budget

The Legislature adopted a 2005-07 budget for the Department of Corrections of $1.037 billion General Fund and $1.091 billion total funds. This represents a 28.7% growth in the General Fund from the 2003-05 legislatively approved budget and an increase of 14% growth in total funds. The $231 million increase in General Fund is in large part due to the need to backfill $116 million of one-time federal funds used in the 2003-05 budget. Without this need to backfill, the General Fund increase would be roughly half of this rate.

The 2005-07 budget assumes the April 2005 prison population forecast which estimates a 7.9% or 1,032 increase in the prison population during the biennium growing from 12,990 in July 2005 to 14,022 in July 2007. The Department will use a combination of new capacity and rental beds to meet this expected growth with the opening of the Warner Creek facility in Lakeview (400 beds), 100 new beds at the Shutter Creek facility, and 215 new beds for women at Coffee Creek (Wilsonville). The Legislature delayed the opening of the new Madras men's facility until September 2007, saving $10.6 million in start-up and operating costs. As a result the Department would need to rely on over 500 rental or other temporary beds at the end of the biennium based on the April 2005 forecast. The more recent October 2005 forecast appears to be slightly down so fewer rental beds may be needed. The construction of the Madras facility will continue and the $11.8 million required for the

2005-07 debt service was capitalized so General Fund debt service will not be required for new debt issued during 2005-07.

Other General Fund issues in the DOC budget include:
- funding of over $190 million for community corrections which reflects the April 2005 forecast and is sufficient to prevent any further counties from opting out of the program;
- reduction of $1 million in funding for capital improvements;
- undesignated reductions of $10 million which will likely be taken as vacancy savings; and
- restoration of $2 million of the $2.8 million in reductions included in the Governor's budget for alcohol and drug treatment programs and the Women in Community Services program.

DOC – Operations Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	473,547,066	416,965,883	651,871,983	624,202,674
Other Funds	9,058,300	10,624,191	12,764,539	12,556,685
Federal Funds	9,700,558	119,968,320	4,339,146	4,339,146
Total Funds	**$492,305,924**	**$547,558,394**	**$668,975,668**	**$641,098,505**
Positions	3,440	3,501	3,971	3,748
FTE	3,278.72	3,445.04	3,778.38	3,663.73

Program Description

The Operations Division is responsible for the security, and operation of the 12 existing correctional institutions and two new facilities listed below. Functions of this division include institution operations, security, food service, health care, mental health services, administration of rental beds, inmate work, inmate intake, release counselors, and inmate transportation.

Operations Division Budget
2001-03 to 2005-07 Total Funds

Budget Area	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Legislatively Adopted
Institution Operations (13)	$ 391,241,095	$ 429,390,959	$ 499,968,337
Health Services	49,476,611	56,780,187	75,224,354
Pharmacy Services	10,229,147	15,541,533	20,788,086
Mental Health	10,229,147	15,541,533	17,358,788
All Other Divisional Costs	31,129,924	30,304,182	27,758,940
Total	$ 492,305,924	$ 547,558,394	$ 641,098,505

Revenue Sources and Relationships

The Other Funds revenues originate from a variety of sources including: services provided by inmate work crews, sale of medical prosthetics, meal tickets, witness fees, and canteen sales, ($10.6 million); sale of items produced by inmate work and training programs ($286,350); Inmate Welfare Fund revenues received from inmates or inmate-related sources such as coin operated telephones, canteen profits, vending machines, and copiers ($1.6 million); and miscellaneous grants and donations ($206,854). Revenues from inmate work crews are used to fund the costs associated with the work crews, while much of the remaining Other Funds revenue is used to offset General Fund resources.

The 2003-05 budget included $116 million of one-time Federal Funds from the 2002 federal Jobs and Growth Tax Relief Reconciliation Act, which offset General Fund in this Division. The 2005-07 budget includes $115.7 million General Fund to backfill for the one-time federal funding.

The 2005-07 legislatively adopted budget assumes $4.3 million in Federal Funds will be available through the federal State Criminal Alien Assistance Program (SCAAP) to offset General Fund expenditures for incarceration of illegal aliens. This is significantly down from previous budget periods – for example, the 1999-2001 budget included $9.7 million. General Fund resources have had to backfill for the federal revenue loss. Even the $4.3 million amount is in question, as proposals in Washington, D.C., may further reduce this federal program.

Budget Environment

The budget for Operations is driven by the prison population forecast; sentencing laws; custody level requirements; local arrest, prosecution, and sentencing practices; and Ballot Measure 17 (1994) inmate work related requirements. The Department of Administrative Services' Office of Economic Analysis prepares the Prison Population Forecast approximately every six months. The October 2005 forecast, which was released after the adoption of the 2005-07 budget by the Legislature, shows an anticipated increase of the total prison population of 777 inmates from 12,880 in July 2005 to 13,657 in July 2007 (6% increase). The budget is based on the April 2005 forecast which showed anticipated growth of 7.9% during the 2005-07 biennium ending the biennium with an estimated prison population of 14,022. If the difference (365) continues in future forecasts, DOC will then have to rent fewer beds at the end of biennium. Between legislative sessions, DOC rebalances within its budget if forecasts estimate additional changes in the prison population.

The availability of minimum security beds remains the greatest capacity need. Minimum security inmates are often placed into more expensive medium security beds. The Department plans to construct and/or open one new minimum security correctional facilities – Warner Creek (400 beds) – and expand capacity at Shutter Creek (100 beds) and Coffee Creek (216 women's beds) during 2005-07. The new facility at Madras (864 beds minimum and approximately 1,200 medium security beds) was expected to open later in 2005-07, but the Legislature decided to delay the opening until the beginning of the 2007-09 biennium.

Department of Corrections Facilities

Existing Facilities	Location	Primary Security Level	Budgeted Capacity
Coffee Creek Correctional Facility	Wilsonville	Women's/Intake	1,360
Columbia River Correctional Institution	Portland	Men's Minimum	546
Eastern Oregon Correctional Institution	Pendleton	Men's Medium	1,598
Mill Creek Correctional Facility	Salem	Men's Minimum	310
Powder River Correctional Facility	Baker	Men's Minimum	286
Oregon State Correctional Institution	Salem	Men's Medium	983
Oregon State Penitentiary	Salem	Men's Maximum/Minimum	2,416
Santiam Correctional Institution	Salem	Men's Minimum	380
Shutter Creek Correctional Institution	North Bend	Men's/Women's Minimum	250
Snake River Correctional Institution	Ontario	Men's Medium	3,000
South Fork Forest Camp	Tillamook	Men's Minimum	200
Two Rivers Correctional Institution	Umatilla	Men's Medium	1,784
New Facilities or Expansions			
Coffee Creek	Wilsonville	Women's Minimum	216
Shutter Creek	North Bend	Men's Minimum	100
Warner Creek	Lakeview	Men's Minimum	400

DOC has depended on the use of what the agency calls temporary or emergency beds to meet their capacity needs for many years. These beds are generally additional beds in dormitory-like settings in minimum security facilities or additional beds in what had been single bed cells. In a few cases, a new unit has been added in space that had been originally designed for another purpose. DOC states that it has generally reached the limit both on dormitory style beds and on double occupancy cells in their system. There still remains the special unit beds where double occupancy cells are not feasible. All facilities, except the Oregon State Penitentiary (OSP), will have almost all available cells at double occupancy. Structural load issues prevent the double occupancy use of the remaining single occupancy cells at OSP. As of June 2005, DOC had 977 men's and 63 women's temporary or emergency beds in the system. DOC plans to add a few more beds at Coffee Creek for women in the near future. Work camp beds may also be added as work becomes available. This is generally done during the summer and fall months.

DOC has started to rent beds from counties that have space in their jails. The current population management plan and the 2005-07 budget, based on the April 2005 forecast, anticipates the use of over 500 rental beds by the end of the 2005-07 biennium. The more recent October 2005 forecast shows less demand for system capacity and the need for rental beds could fall significantly below 500. Currently, DOC has entered into agreements or discussions with Douglas, Linn, Columbia, Marion, and Grant counties. There have also been discussions with Multnomah County who has hundreds of unfunded beds at the present time. One factor DOC must take into consideration is the cost counties will charge for these beds. The 2005-07 budget assumes a rate of roughly $60 per day, but counties may drive up that rate if DOC requires many rental beds. Counties may need these available beds as their need or financial capacity to house the offenders for which they have responsibility increases.

Prison population is forecast to exceed 16,000 by 2013 under current law. This will require additional capacity through construction, rental beds in local jails or out-of-state, or policy changes to stem the growth of the prison population. DOC's population management plan outlines the expansion plans to meet this growth by further construction or expansion totaling over 700 beds during 2005-07 (as noted in the preceding table). In addition, the plan calls for further expansion of over 1,600 minimum and medium custody beds at Madras during 2007-09, and construction of another facility at Junction City in the 2009-2011 biennium. The agency could also continue to rent beds but is restricted by state law to rent only from facilities operated by public entities.

The federal constitution guarantees that sufficient health, mental health, and pharmacy services be provided under the 8th amendment (Cruel and Unusual Punishment Clause). Failure to do so in other states has led to significant increases in state budgets under federal court orders. Health and Pharmacy costs continue to rise (see table above) since they are under the same pressure that other health care programs are experiencing. DOC has undertaken or plans to undertake a number of actions to reduce, or at least limit, the cost of these programs including:

- Establishing a treatment oversight committee consisting of doctors, nurse practitioners, and others to review non-emergency cases and recommend cost effective treatment on an individual inmate level.
- Moving all inmates requiring dialysis to the Two Rivers Correctional Facility and providing dialysis on-site. This saves security costs by not having to guard a single inmate at an off-site location.
- Implementing a pharmaceutical formulary based on a set of guidelines that provide the most appropriate and least cost alternative.
- Contracting with ODS to negotiate provider contracts, review claims, manage utilization, and provide detailed reports to improve management information. DOC is able to use the market power and the expertise of ODS in lowering the medical costs provided off-site.

A recent mental health report prepared by the Department stated that up to 50% of the inmates have some form of mental or emotional problems. Not all inmates receive treatment and their need varies significantly, but as of October 2004, 3,000 received some kind of mental health service, over 1,600 were severely and persistently mentally ill, and almost 300 were developmentally disabled. Many times an inmate who causes a disturbance or is disciplined has a mental health issue. There are insufficient facilities and services available so that inmates may end up in the Disciplinary Segregation Unit instead of a special mental health unit which may be a more appropriate setting. One outcome of this task force report was the decision to move those inmates with significant mental health needs to facilities in the western half of the state, where the availability of mental health professionals and services is greater. DOC has had difficulty in finding sufficient mental health providers in the eastern half of the state. Long term plans include studying the feasibility for identifying or building a facility specifically for those inmates who require higher levels of mental health services.

The Operations budget includes Other Fund expenditure limitation for inmate work crews who work for various public and private entities. A 10-inmate work crew costs roughly $400 per day and the contracting entity is responsible for paying this cost. If there is not work, the crews are not sent out and security and other staff relating to the work crews are not hired. Entities contracting with DOC for work crews in the past include state agencies such as the Departments of Parks and Recreation, Forestry, Administrative Services, and Human Services. Federal agencies contracting for work crews have included the Forest Service, the Post Office, and Bureau of Land Management. Other contracts include a wide range of local governments across the state and a variety of non-profit and for-profit organizations. The use of inmate work crews peaks in the summer when forest related work is available, including assisting to fight forest fires. DOC must balance the use of inmate work crews with the issues of labor organizations and the private section who might perceive the use of inmate labor as displacing the work that might be done by others.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for the Operations Division of $641.1 million total funds is a 17.1% or $93.5 million increase from the 2003-05 legislatively approved budget. The increase is due primarily to increasing staff costs common to all state agencies (e.g., merit increases), growth in staff and other costs due to the growing number of inmates and prison capacity, and increasing medical costs. The larger General Fund increase of 53.7% or $224.1 million is, in large part, due to the $115.7 million backfill of one-time federal Jobs and Growth Tax Relief Reconciliation Act of 2003 funding with General Fund in the 2005-07 budget. Without this backfill, the General Fund increase would be less than half as much, and more in line with the overall increase in total funds.

Much of the increase in this budget is due to the costs associated with the increasing number of inmates. First, the growth in the 2003-05 biennium must be adjusted to reflect a full 24 months in 2005-07. This represented over $10 million General Fund but no additional staff since it is assumed to be in rental bed costs in county facilities. The larger increase is due to the forecasted budgeted growth in the prison population of 1,032 inmates during 2005-07. This growing population is expected to add over $40 million General Fund to the budget and 444 positions (269.65 FTE) in security, health care, and other operations staff. The delay in opening of the Madras facility described below lowered the number of added positions.

Inflation is another major contributor to the increase in this unit's budget, especially medical related insurance. This budget includes over $6 million General Fund in health services for inflation and over $2.5 million for pharmacy related costs. Some costs like utility and food costs may grow faster than the amount allocated for inflation in this budget, especially after the reduction outlined below.

The Legislature delayed the opening of the new Madras facility from December 2006 to September 2007, but allowed the agency to continue the construction of the facility. This decision delayed a number of fixed costs involved in the start-up of the facility and initial operational costs into the 2007-09 biennium. This saved almost $8.1 million General Fund in this division's budget and over $10 million agency-wide for 2005-07. In addition, 203 positions (83.23 FTE) were eliminated from the budget. Since this change does not reduce the growing population requiring incarceration in the DOC system, the agency will need to depend on rental beds to meet the demand for prison beds.

In response to a Secretary of State audit, the Governor's budget proposed adding 27 positions (25.5 FTE) to better utilize staff resources and reduce overtime costs. The added positions will address areas with significant overtime, hospital watches, Eastern Oregon Correctional Institution, and escorts within institutions. These positions will be funded by reductions in overtime costs.

The 2005-07 budget for this Division also includes a number of changes resulting in budget reductions:

- Reduce the Division's budget with a $10 million General Fund undesignated cut. It is expected that vacancy related savings will make up the majority of this reduction.
- Reduce the funding allocated in the Governor's budget for the canteen program and activities program saving $927,208 General Fund and eliminating five positions. The reduction to the Canteen program will need to be taken in other areas since the program is funded with Other Funds but was mistakenly allocated General Fund in a budget document.
- Delay hiring nurses by 90 days and the establish a pool of substitute nurses ($617,294 General Fund). The pool will likely require cooperation with the Department of Administrative Services (DAS) since the use of temporary employees is limited by DAS rules.
- Establish a regional hospital watch program ($430,000 General Fund) to reduce overtime costs that are incurred under current practices. This will take improved coordination between institutions and units within the agency as well as the cooperation of unions in the Salem area since more than one union represents employees in the region.
- Backfill General Fund with Federal Funds ($300,000 General Fund savings) earned through a year round work camp performing work for federal agencies. At this time no contract work with the federal agencies has been identified.
- Eliminate increases for inflation ($2,332,108 General Fund) for direct facility operations (does not include health care and pharmacy related costs) including food costs, utilities, supplies, fuel, and other items.
- Reduce travel costs ($130,000 General Fund) and rely on teleconferences to offset the need for travel.
- Add $1.6 million General Fund for the expected prison population increase as a result of increased sentences included in the Legislature's methamphetamine package. This increase is partially offset by a $120,000 decrease in the county community corrections grants.

One issue not addressed in the budget is funding compensation differentials for Lieutenants and Captains. In some cases, these officers do not earn as much as the security and other staff they supervise. A differential is paid but it is not funded in the 2005-07 budget. DOC had requested $2 million General Fund to fund the differential. Savings elsewhere in the budget will need to be found to cover these costs.

DOC – Community Corrections Grants

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	185,296,806	183,734,652	174,074,047	190,173,778
Other Funds	0	0	0	1,265,280
Total Funds	**185,358,300**	**183,734,652**	**174,074,047**	**191,439,058**
Positions	0	15	48	48
FTE	0.00	6.87	48.00	48.00

Program Description

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

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

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

Revenue Sources and Relationships

This budget unit is mainly supported by the General Fund. The Other Funds revenue is from supervision fees and other revenues collected by the two county programs in Douglas and Linn Counties.

For 2005-07, it was anticipated that 36% of the amount distributed to counties will be used for felony probation, 22% will be used for parole and post-prison supervision, and the remaining 42% will be used for the local control population. This is based on the October 2004 local offender population forecast, but counties may spend it differently based on local decisions. Counties also contribute varying amounts to the community corrections system. Based on information collected by the association representing community corrections directors, 12 counties provide little or no local general fund/special levy contributions for 2003-05. Other counties such as Multnomah and Marion contribute over $40 per capita in county general funds. All counties charge offenders fees for supervision or services which provide an estimated $13.3 million to the system for 2003-05. Statewide, local contributions are estimated to have represented roughly 40% of the total funding in 2003-05 for the community corrections system, while the state grants represented 60% of the spending.

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 parole, probation, and post-prison supervision. The April 2005 forecast was used in the legislatively adopted budget for 2005-07 as shown in the table below. The October 2005 forecast shows slightly higher growth in this caseload during 2005-07 with caseloads falling in future biennia.

Community Corrections Forecast
April 2005 Forecast
Does not include Level 3 Sanctions

	Felony Probation	Parole & Post Prison	Local Control	Total
July 2005	18,030	12,354	1,197	31,581
July 2006	18,256	12,635	1,233	32,124
July 2007	18,472	12,913	1,267	32,652
July 2008	18,724	13,243	1,293	33,260
July 2009	18,992	13,573	1,317	33,882
July 2010	19,247	13,926	1,340	34,513

Funding for Community Corrections Grants has increased from one biennium to another based on inflation and the projected number of offenders supervised or incarcerated at the county level. The exception to this was the 1999-2001 biennium. When faced by considerable concern among several counties as to the adequacy of state funding for management of SB 1145 offenders, the 1999 Legislature re-established the baseline funding at a higher level. Daily rates estimated for 2005-07 are $81.15 for the local control offenders in the jail component and $20.19 for the remaining offenders under supervision. Community corrections grants in future biennia will be increased from these rates according to the current service level provisions in statute. These funds are allocated to individual counties through a capitation model first implemented in 2001-03, based on the number of offenders per county derived from a caseload trend analysis.

State law provides for counties to "opt out" from the community corrections system and return responsibilities to DOC. This may happen 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 one included in the DOC legislatively adopted budget. Counties must give notice to DOC at least 180 days prior to opting out. Two counties (Douglas and Linn) have formally opted-out and transferred responsibility for their community corrections programs to DOC during 2003-05 when funding for the program was reduced by $17.9 million as a result of the failure of Ballot Measure 30. The Emergency Board restored funding for the program in two installments in April 2004 and November 2004. Based on the funding level in the 2005-07 legislatively adopted budget, no more counties may opt-out in 2005-07. Counties may decide to opt out of the program, when given the opportunity, for a variety of reasons including financial pressures facing a county, such as levy compression and the potential for losing federal forest safety-net payments.

DOC collects spending data by counties but is uncertain of the data quality, at least until after a biennium has ended. The agency performs a limited audit of the local programs. Counties submit information on a quarterly basis to DOC on spending, but reporting has not been consistent.

The state has provided funding to build local facilities to incarcerate/treat offenders. Through 2004, 1,669 beds have been built with state funding or transferred from DOC use to local use (Clackamas County). Another 30 beds was in line for construction in Clatsop County. This capacity is equal to or close to the amount required to incarcerate 100% of the local control population which has ranged between 1,200 and 1,975 since 1998. Overall, there is presently excess local jail capacity primarily due to local funding constraints. DOC is currently renting a portion of this capacity to fill its needs over the next few years until additional prison capacity is available.

DOC was directed by the 2001 Legislature to examine the effectiveness of community corrections programs. The agency found the reconviction rate is higher following more expensive jail sanctions than other community-based sanctions. The national studies showed treatment and rehabilitation were more likely to be successful than surveillance and enforcement. County-by-county data demonstrated wide variance between use of jail time and other sanction alternatives. Similar findings were reported by DOC to the Emergency Board in September 2004 when comparing recidivism rates between counties. Unless there are significant differences in the individuals under supervision between counties, there is likely some savings that can be achieved in those counties that have high use of jail time.

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

Legislatively Adopted Budget

The legislatively adopted 2005-07 budget for community corrections grants of $190.2 million General Fund represents a 3.5% increase from the final 2003-05 legislatively approved budget. This increase reflects the restoration of the Ballot Measure 30 related cuts in 2003-05. The funding base was adjusted for inflation ($4.2 million General Fund) and also has been updated to reflect the April 2005 forecast. The amount available to counties in this budget is sufficient to prevent any further counties from opting out of their statutory responsibilities for the program. At this time, there are no plans for the two county programs currently administered by the agency (Linn and Douglas) to return to county responsibility.

The Governor had proposed three major reductions or funding changes which were not accepted by the 2005 Legislature. The two reductions were (1) limiting the terms for revocation without new convictions to a maximum of 60 days ($9.3 million General Fund), and (2) discontinued funding for approximately 6,000 limited risk offenders in the community ($9.2 million General Fund). The combination of these two reductions would have allowed further counties to opt out of their responsibilities and return their programs to the State. The Governor also proposed a more stable funding formula for calculating the amount of funding for distribution as community corrections grants, often referred to as the band formula. While not adopted by the Legislature, it is being further evaluated by the agency and counties in preparation for the 2007-09 budget.

DOC –Transitional Services

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	30,554,710	30,992,704	36,141,086	35,164,406
Other Funds	9,083,048	10,115,785	8,966,832	8,966,355
Federal Funds	0	79,609	0	65,000
Total Funds	**$39,637,758**	**$41,188,098**	**$45,107,918**	**$44,195,761**
Positions	136	116	127	120
FTE	130.15	115.50	121.76	118.50

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

Transitional Services Division
2001-03 to 2005-07 Total Funds

Budget Area	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Legislatively Adopted
Workforce Development	$ 17,573,920	$ 17,883,262	$ 18,405,902
Alcohol & Drug Treatment	6,403,044	7,216,976	6,730,436
Religious Services	3,824,993	4,479,634	5,112,590
Offender Info & Sentence Computation	7,358,235	7,057,170	8,288,059
All Other Divisional Costs	4,477,566	4,551,056	5,658,774
Total	$ 39,637,758	$ 41,188,098	$ 44,195,761

Revenue Sources and Relationships

Transitional Services are expected to receive almost $9 million in Other Funds for 2005-07 from a variety of sources including:

- Revenue from services provided by inmates in educational programs such as automotive and computer repair ($0.5 million). In addition, there is revenue generated by the sale of products made by inmates in educational programs ($35,000).
- Inmate welfare funds for the alcohol and drug programs and the education program is derived from coin operated telephones, canteen profits, vending machines, meal ticket sales, and inmate room and board reimbursements ($5.8 million). Inmate welfare funds are used to pay for transportation, housing, and other costs when an individual is released from prison ($682,505).
- Resources transferred in for alcohol and drug programs ($479,780) from a federal grant.
- Resources transferred in for education programs from the Department of Education and the Department of Community Colleges and Workforce Development ($571,043).
- Federal grant resources from 2003-05 which will be spent in 2005-07 ($65,000).

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. These are often some of the first programs cut during budget shortfalls. The Department is also interested in continuing to expand transitional services; developing standard criteria for participation in programs; and increasing local access to offender assessment, treatment, and release plan information.

The programs included in this 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, 44% have no high school diploma or GED, over 20% function below the literacy level, 53% have never worked in a legitimate job, 20% are mentally ill, and 3% are developmentally disabled. The DOC population generally matches the profile for these issues nationwide.

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 constitutional required provisions, these programs are designed to assist offenders, when released, to have the skills or overcome significant barriers so they are able to function in the general community.

In 2003, the Legislature passed SB 267, which requires that state-funded crime-prevention programs and services be based on scientific research and demonstrate cost-effectiveness. The bill applies to certain programs of the Department of Corrections, the Oregon Youth Authority, the Commission on Children and Families, the Criminal Justice Commission, and parts of the Department of Human Services dealing with mental health and addiction issues. For the 2005-07 biennium, these agencies must spend 25% of the state money they receive for these programs on evidenced-based programs. The requirement increases to 50% in the 2007-09 biennium and 75% beginning in 2009-11. Many of the education, workforce development, and substance abuse treatment programs fall under the services covered by these requirements.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for the Transitional Services Division of $44.2 million total funds increases by 7.3% from the 2003-05 legislatively approved budget. The General Fund budget for the Division grows by a larger amount of 13.5% in part due to less available Other Funds used to offset General Fund. The growth is also due to employee compensation increases common to all state agencies (e.g., merit increases), increases in workforce development and substance abuse treatment contracts due to inflation and mandated caseload growth, staff increases in offender information (5 positions) due to the growing offender population, and growth in the religious services staff (1 positions) for the new facility in Lakeview and increasing prison populations. The Legislature did decide to delay the opening of the proposed Madras facility into the 2007-09 biennium, and as a result six positions (2.26 FTE) and $585,407 were eliminated from the Governor's proposed budget. Some of this savings relate to start-up costs and equipment which will be included in the 2007-09 budget.

The Legislature shifted two reductions proposed by the Governor that had been included in the Operations Division's budget but belonged in the Transitional Services Division's budget – (1) a $2 million reduction in alcohol and drug treatment programs, and (2) a $500,000 reduction in cognitive and life skills programs. The Legislature did restore the majority of the alcohol and drug reduction when it added back $2 million for this and the Women in Community Services program, avoiding a decrease in the number of treatment beds by up to 35%. The cognitive and life skills reduction will mean elimination of 80 out of the 580 program slots that prepare inmates for release and work skills.

As part of the Legislature's methamphetamine package, $900,000 General Fund was added to pay for housing and substance abuse treatment costs of individuals released through the agency's Alternative Incarceration programs. Under this program, inmates are eligible for early release if they successfully complete a treatment program. This enhanced funding is designed to increase their chances of being successful in continuing to be drug or alcohol free and not returning to prison.

One issue not addressed by the budget is funding for supervision of eligible misdemeanants convicted of offenses involving bodily harm, a second or greater DUII offense, or sexual offense who are transferred to Oregon under the interstate compact. While Oregon is legally responsible, there is no funding in the 2005-07 budget for this. DOC had requested $850,000 in the budget process but it was not included in either the Governor's or Legislature's budgets.

DOC – General Services Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	34,107,527	32,371,642	39,706,213	36,876,039
Other Funds	5,154,332	3,067,071	3,761,501	4,774,240
Federal Funds	0	534,863	0	0
Total Funds	**$39,261,859**	**$35,973,576**	**$43,467,714**	**$41,650,279**
Positions	221	207	228	221
FTE	217.42	202.12	220.06	210.06

Program Description

The General Services unit 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 $936,114 Other Funds derived from the sale of COPs for activities related to construction. The Distribution Services unit receives over $3 million Other Funds from charging for services.

Budget Environment

The operations of the Distribution Center in Salem continue to make food and other product distribution more efficient by allowing the Department to take advantage of economies of scale, increasing purchasing power, maximizing volume discounts, providing adequate space for spot purchases, and reducing institutional stockpiling of resources. These activities and the savings generated have been major factors in controlling costs in this area.

Information Systems and Services has responsibility to keep existing automated systems running efficiently for over 5,000 users in prisons and other DOC sites across the state, and in the 36 county parole/probation programs. For larger counties, DOC maintains the connection to the statewide system while in smaller counties DOC provides a greater level of service, including desktop support. In the past four years, there have been reductions in this technical support staff, reducing the level of service to both DOC and county programs. There are no major projects planned for 2005-07.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for the General Services Division is $41.7 million total funds, a 15.8% increase over the 2003-05 legislatively approved budget. General Fund spending is proposed to grow 13.9% to $36.9 million. The increase is, in part, due to employee compensation increases common to all state agencies, inflation increases, and backfill of the loss of the one-time federal funding ($0.1 million General Fund). The budget reflects the April 2005 prison population forecast.

The decision to delay the opening of the Madras facility into the 2007-09 biennium saved $689,468 General Fund in both staff (5 positions; 4.33 FTE) and in start-up costs. Other changes in this budget are from:

- Staff increases in administrative support functions, including financial services (6 positions), information systems (6 positions), facility services (2 positions), and distribution services (4 positions) reflecting the workload increases from a growing number of facilities and inmates.
- A portion of the start-up related costs at the new facilities for the new Madras facility still in the 2005-07 budget were financed with Certificates of Participation (COPs) instead of fully paid with General Fund. This saved $913,088 General Fund for 2005-07 but extended the payment for these items over a longer period of time. This includes telephone and information systems equipment.

This Division's budget also includes reductions totaling $831,738 General Fund including eliminating facilities staff by one position ($162,531 General Fund), reducing travel and training expenses ($254,003 General Fund), and reducing funding for telephone and communications ($415,105 General Fund).

DOC – Central Administration and Human Resources

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	32,643,767	38,715,781	49,639,803	48,323,686
Other Funds	2,877,733	2,224,833	6,207,251	6,060,275
Federal Funds	487,372	1,247,020	0	0
Other Funds (NL)	1,917,970	0	0	0
Total Funds	**$37,926,842**	**$42,187,634**	**$55,847,054**	**$54,383,961**
Positions	153	131	161	150
FTE	146.52	128.50	150.02	142.51

Program Description

Central administration includes the Office of the Director, Public Affairs, Research and Evaluation, Planning and Budget, Project Management, Internal Audits, and the Inspector General functions. This unit provides overall direction and administration, budget and financial accountability, construction management, oversight and investigative support, hearings and rules coordination, and public information. Human Resources staff provides agency wide services including labor management, recruitment, employee development, training, employee safety, risk management, and payroll services.

Revenue Sources and Relationships

Central Administration relies on $6 million from the proceeds of the sale of COPs for funding construction related activities mainly in the Planning and Budget Office. Proceeds also fund the issuance costs of the COPs. A small amount of royalty revenue ($31,737) is received by the Planning and Budget Office from property easements and rental income.

Budget Environment

As inmate population grows, there is an increase in the need for investigations, searches, work site monitoring, drug testing, internal audits, and hearings. Opportunities for contraband in institutions will also increase since more non-DOC staff will have contact with inmates through work crews, prison industries, public/private partnerships, and contract services. To better utilize limited Special Investigations Unit resources, more cases are being referred back to functional units for further investigation. The 2003-05 budget reduced the number of staff in the investigations unit, which slowed the pace in which inspections and investigations could be completed.

During 2003-05, almost 1,500 employees were hired into permanent or temporary positions which continued a trend since 1995 as DOC has opened or expanded facilities. Since some positions in Human Resources were left vacant, hiring delays as background checks and other recruitment steps were completed led to greater overtime in many parts of the agency. The Department of Public Safety Standards and Training provides training for new correctional officers. Existing recruitment resources are being directed toward those positions that have been hard to fill in the past, especially nurses. Long hours and required overtime makes recruitment of these professionals difficult.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for Central Administration and Human Resources of $54.4 million total funds is a 28.9% increase from the 2003-05 legislatively approved budget. The General Fund budget of $48.3 million reflects a 24.8% increase for the same period. Major changes in the budgets of these units beyond the employee compensation increases and general inflation adjustments common to all state agencies include:

- Increases in state government service charges of roughly $6 million with the greatest increases coming in the DAS assessment, liability insurance, and workers' compensation assessment. This represents the increases for the entire agency.
- Increases in staff due to the growth in the number of facilities and inmates including investigations and hearings (4 positions), internal audits (1 position), budget (1 position), and human resources (12 positions).
- Increase of $4.9 million Other Funds for trustee fees, issuance costs for COPs for the new construction included in the budget, and the construction-related staff costs (9 positions) for the Madras and other facilities.
- Reduction of $514,760 General Fund from not having to make further payments for the Small Scale Energy Loan program.
- Reduction in the Federal Funds expenditure limitation of $1.2 million, recognizing the completion of the federal Violent Offender Re-entry grant on June 30, 2005.

DOC – Debt Service

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	24,892,423	101,529,597	118,838,744	101,640,940
Other Funds	62,740,497	1,855,775	0	15,208,750
Total Funds	**$87,632,920**	**$103,385,372**	**$118,838,744**	**$116,849,690**

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

For 2005-07, this budget unit is funded with General Fund for the debt service on existing COPs and Other Funds for the debt service on the COPs to be issued in 2005-07. In 2001-03, construction cost savings (Other Funds) were used to pay a portion of the debt service obligation. For 2003-05, the Other Funds expenditures were capitalized interest payments where a small amount of debt service was paid with COP proceeds.

Budget Environment

The amount of debt service is generally tied to the number of inmates and the decisions on how to "house" them. The use of temporary and rental beds have delayed the construction of further facilities to some degree, but construction of the Madras, and the planned Junction City facilities, as well as the expansions at Shutter Creek and Coffee Creek, will lead to increases in debt service costs in future biennia.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for debt service of $116.8 total funds reflects an increase of 13% over the 2003-05 legislatively approved budget of $103.4 million. The General Fund increase is under 1%, reflecting the decision by the Legislature to "capitalize" interest on COPs issued during 2005-07. Instead of General Fund for this new debt service, it will be funded with Other Funds generated as part of the sale of COPs. The net General Fund savings of this decision for 2005-07 is $11.8 million. The cost of this action over the entire multi-biennia term of the COPs will increase.

The growth in total funds expenditures is due to two primary reasons:

- An increase of $1.3 million General Fund to reflect a full 24 months of payments for the COPs issued during 2003-05 for the Lakeview facility.
- A net increase of $14.0 total funds for estimated debt service costs related to COP sales planned during 2005-07 for the new facility at Madras, the Coffee Creek expansion, and the Shutter Creek expansion. The Governor had proposed a $16 million increase for new debt service resulting from these sales but that amount was adjusted downward by $3 million based on more up to date information on when the sales were to occur. In addition, debt service needs were increased based on the decision to pay for some start-up costs for Madras remaining in the 2005-07 budget with COPs instead of directly with General Fund. Finally, the decision to capitalize interest for new COPs issued in 2005-07 increased the amount of COPs sold to pay for the interest costs.

The amount of debt service may change when the final timing for issuance of the COPs is set and project costs become more certain. The estimated 2007-09 debt service for COPs issued through the end of 2005-07 is $128.2 million General Fund.

DOC – Capital Improvements

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	1,597,777	2,030,272	2,078,999	1,078,999
Other Funds	0	0	240,000	240,000
Total Funds	**$1,597,777**	**$2,030,272**	**$2,318,999**	**$1,318,999**

Program Description

These funds are used for deferred maintenance and asset protection projects. These projects must be less than $500,000 or they are categorized as capital construction.

Revenue Sources and Relationships

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

Budget Environment

The Department owns approximately 300 buildings with over 4.5 million square feet of building space across the state. Much of this space is in newer facilities constructed over the past ten years, but some of the buildings are up to 125 years old. A 1996 consultant's review indicated the facilities at that time had $63 million in known maintenance needs, of which at least $46 million still remain. DOC uses a system of prioritizing needs where priority 1 protects health and safety, the environment, the integrity of the building's structural system, and critical utility services. Priority 2 is for maintaining the roof and walls. Priority 3 is for maintaining mechanical, plumbing, and electrical systems and removing architectural barriers. Priority 4 is for repairing interior finishes and renovation for program changes. The ten year plan for these projects requires $9.2 million per biennium, significantly more than what has been budgeted. The 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.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for capital improvement of $1.3 million total funds reflects a 35% decrease from the 2003-05 legislatively approved budget of $2 million. The General Fund decrease of 46.8% reflects a $1 million cut made by the Legislature as part of its budget balancing decisions. An additional

$240,000 Other Funds is included to pay for the clean-up of a fuel tank at the distribution center in Salem. This clean-up is required to comply with Department of Environmental Quality requirements. To fund this clean-up, DOC will use the proceeds of the sale of a parcel of property adjacent to the Marion County jail.

This amount of resources for capital improvements continues the state's practice of not sufficiently funding the maintenance needs of DOC properties. Older facilities like the State Penitentiary have millions of dollars of maintenance needs, and even some of the facilities built in the past ten years will see significant needs in the near future. Failure to invest now will likely lead to increases in costs in the future.

DOC – Capital Construction

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	1,452,000	0	0	0
Other Funds	91,757,021	0	145,627,297	0
Total Funds	**$93,209,021**	**$0**	**$145,627,297**	**$0**

Program Description

This budget unit includes expenditure authority for acquisition or construction of any structure or group of structures; all land acquisitions; assessments; and improvements or additions to an existing structure, which are to be completed within a six-year period with an aggregate cost of $500,000 or more. The expenditure limitation for each project is in effect for six years.

Budget Environment

The amount of capital construction is based on the Long-Range Construction Plan as modified by the Prison Population Forecasts. For 2003-05, the original plan called for work to begin on a 400 bed men's minimum security facility in Junction City and a 2,100 bed medium security facility in Madras. The 2003-05 budget assumed a delay in construction of any new facilities, however, the Legislature did give approval for the Department to move forward with the Lakeview facility. The expenditure limitation for Lakeview (as well as the first stages of the Madras site) was part of the 2001-03 capital construction budget. The Prison Population Forecast demonstrates further growth for 2005-07 and beyond, reaching to almost 17,000 inmates by 2015.

Legislatively Adopted Budget

There was no 2003-05 budget for capital construction, in part reflecting the decision to delay construction during the fiscal crisis of 2001-03 and 2003-05. With the expanding prison population, DOC's long term construction plan includes expansion of the Coffee Creek and Shutter Creek facilities, and the construction of new facilities in Madras, Junction City, and White City. The capital construction budgets for Shutter Creek had already been approved, so the $145.6 million Other Funds Capital Construction budget proposed by the Governor for 2005-07 included increased funding for Madras ($131.4 million) and the Coffee Creek expansion ($14.2 million). Since these projects were originally approved in prior biennia, the increase in capital construction limitation was made as increases in those years. Therefore no new limitation is credited to the 2005-07 biennium.

Criminal Justice Commission – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	15,803,707	7,339,264	1,224,264	1,126,359
Other Funds	40,266	378,742	31,839	106,541
Federal Funds	2,876,529	4,060,812	100,000	99,437
Total Funds	**$18,720,502**	**$11,778,818**	**$1,356,103**	**$1,332,337**
Positions	13	11	7	6
FTE	12.41	10.91	7.00	6.00

The significant reduction in the budget from 2003-05 to 2005-07 is due to the transfer of the Juvenile Crime Prevention Grants and related functions from this agency to the State Commission on Children and Families.

Agency Overview

The Criminal Justice Commission (CJC) was created in 1995 replacing its predecessor, the Criminal Justice Council. Seven members are appointed by the Governor, subject to confirmation by the Senate, and the other two Commission members (non-voting) are legislators. Historically, the Commission had two major program areas but with the transfer of the Juvenile Crime Prevention grants to the State Commission on Children and Families the Commission's primary focus has returned to developing and maintaining a state criminal justice policy and comprehensive long-range plan for a coordinated state criminal justice system. Specifically, the Commission:

- staffs and supports the Commission in its functions relating to the state criminal justice policy and administering the sentencing guidelines;
- 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;
- provides technical assistance to local public safety coordinating councils;
- staffs the Forfeiture Oversight Advisory Committee;
- administers the Law Enforcement Contacts Policy and Data Review program which reviews demographic data to ensure that law enforcement agencies perform their missions without inequitable or unlawful discrimination based on race, color, or national origin; and
- coordinates calculation of the fiscal impact of crime related legislation/ballot measures among state and local public safety agencies.

The 2005 Legislature passed legislation which created a program to expand the capacity of drug courts in the state and instructed the Commission to take the lead in developing the program and evaluating drug courts.

Revenue Sources and Relationships

The Commission's Other Funds revenue is in part derived from forfeiture proceeds, which fund the Asset Forfeiture Oversight Advisory Committee (AFOAC) activities. The law requires local agencies to contribute 2.5% and state agencies 3% of net forfeiture proceeds to be deposited into the Asset Forfeiture Oversight Account. This revenue stream continues to decrease and will no longer be able to fully support the AFOAC activities without General Fund assistance. The agency estimates only $15,000 will be collected from this source during 2005-07, down from $40,000 in 2001-03. The agency relied on the beginning balance through 2003-05, and the 2005-07 beginning balance is expected to be just over 50,000.

The Commission received $300,000 of federal Byrne grant resources for a review of state public safety agencies and programs during 2003-05, but this was a one-time grant and $75,000 of Other Funds limitation remains in the 2005-07 budget to spend the remainder of these funds. In the past, the majority of the federal funding for this agency was related to the juvenile crime prevention programs, but these were transferred to the Commission on Children and Families starting in 2005-07. The agency still receives a $50,000 annual federal grant, through the federal Bureau of Justice Statistics, for support of its Statistical Analysis Center.

Budget Environment

The primary role of the Commission is to develop and maintain a state-wide coordinated criminal justice policy and long-range plan. The Commission has struggled in meeting this role due to resource constraints and other required functions (e.g., administration of the sentencing guidelines and asset forfeiture oversight). While the Commission has presented criminal justice plans to the Legislature and other groups in the past, they have not been used to a large extent to drive policy. In 2003, the Governor appointed a series of task forces and work groups as part of his public safety review process to study and make recommendations regarding sentencing, methamphetamine manufacturing and use, the adult criminal justice system, elder abuse, and the juvenile criminal justice system. Commission staff took the lead in staffing much of this effort along with a number of other state agency staff. One outcome of these efforts was the adoption of 2005 legislation relating to methamphetamine.

The Commission is required to staff the Asset Forfeiture Oversight Advisory Committee which is to report on the forfeiture activity in the state, and make recommendations on how to improve the process. The passage of Ballot Measure 3 in 2000 significantly reduced the amount of forfeitures, reducing revenues for the Commission. The loss of forfeitures has also reduced the availability of revenues for other public safety agencies. One outcome of this loss has been the limiting of law enforcement resources for drug teams across the state. Ballot Measure 3 has been challenged and the Supreme Court has yet to release its decision. The 2005 Legislature did pass HB 3457 which will allow civil forfeiture to continue if the Ballot Measure 3 is found unconstitutional. One major feature of HB 3457 requires a criminal conviction for civil forfeiture to occur. As a result, funding from civil forfeiture is not expected to return to pre Ballot Measure 3 levels.

Legislatively Adopted Budget

The legislatively adopted budget for 2005-07 for the Commission is $1.3 million total funds ($1.1 million General Fund) and is 88.7% less than the 2003-05 legislatively approved budget (84.7% decrease in General Fund). The primary reason for this substantial reduction is the transfer of the Commission's largest program – Juvenile Crime Prevention Grants – to the Commission on Children and Families. This transfer results in a reduction of $6.3 million General Fund ($9.9 million total funds) and four positions in this agency's budget.

The major new initiative for the Commission was the establishment of a new drug court program to expand drug court capacity in the State. The methamphetamine related package of legislation provided one position and $158,054 General Fund so the Commission may develop, administer, and evaluate this new program. In addition, another $2.5 million General Fund is available through the Emergency Board for the drug court expansion program. The Commission must develop program eligibility, performance measures, and an evaluation methodology prior to requesting these funds from the Emergency Board.

Other features of the 2005-07 budget include:

- Backfill of $57,067 General Fund to replace falling asset forfeiture revenue to fully fund the required functions of the Asset Forfeiture Oversight Advisory Committee.
- Continued funding for the Law Enforcement Contracts Committee ($131,643 General Fund) which the Governor had proposed eliminating.
- Elimination of the Commission's financial position based on the significant reduction in the agency's scope with the transfer of the Juvenile Crime Prevention grants. The net savings of this action was $111,409 General Fund after leaving $40,000 in the budget to contract with the Department of Corrections for the financial services the Commission still requires.

A 2005 budget note instructs the Commission to refocus its efforts during 2005-07 on developing a long-range plan for the criminal justice system. The budget note requires a report to the 2007 Legislature.

District Attorneys and Their Deputies – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	9,272,891	9,275,216	9,609,157	8,857,799
Total Funds	**$9,272,891**	**$9,275,216**	**$9,609,157**	**$8,857,799**
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, 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 three basic programs for this agency:

- ***District attorneys (DAs)*** are state employees who are locally elected. Currently, there are three different pay groups based on the size of the county. The state paid DAs in the three smallest counties are paid $54,060 annually; in the nine largest counties the salary is $92,484; and in the remaining 24 counties the salary is $77,952. 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 340 deputy DAs in the state, ranging from no deputies in some smaller counties to approximately 80 in Multnomah County. The 2005-07 legislatively adopted budget does not include any funding for deputy district attorneys.
- The budget also includes funding for ***administrative costs*** for mandated central services costs (e.g., tort liability) and for the purchase of one copy of Appellate court legal opinions for each DA office. The Department of Justice (DOJ) provides, at no charge, administrative and financial services on behalf of DAs.

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. Counties are statutorily required to pay witnesses $5 per day and mileage (eight cents per mile). State funding was discontinued for witness fees for 2003-05 and there is no funding in the 2005-07 legislatively adopted budget.

Budget by Program Area

	DA Salaries	Deputy Supplements	Witness Fees	Administration	Total
1999-2001 Actual	$ 6,528,458	$ 1,857,311	$ 569,888	$ 581,233	$ 9,536,890
2001-03 Actual	$ 6,874,347	$ 2,003,844	0	$ 394,700	$ 9,272,891
2003-05 Estimate	$ 7,129,826	$ 990,490	0	$ 1,154,900	$ 9,275,216
2005-07 Legislatively Adopted	$ 7,915,097	0	0	$ 942,702	$ 8,857,799

Revenue Sources and Relationships

This is entirely a General Fund budget at the state level. The state's portion of the total DA budget across the state is small. A recent county DA office survey compiled in 2000 showed that state funds covered between 2% (Multnomah) and 70% (Wheeler) of county prosecution budgets. Overall, counties funded 82% of the total prosecution expenses of the offices of district attorneys; the state funded 9%; and other sources provided the remaining 9%.

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. Counties have backfilled the loss in the state's share of funding but their capacity to do so is limited. Factors such as the economy, falling property tax receipts, and growing demands in other county budget areas have led counties to limit the growth in DA resources.

For the most recent year data is available (2004), a majority of counties (25 out of 36) provided an annual monetary supplement to the salary paid by the state ranging from $8,192 to $36,000. In addition, many counties provide 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. In reviewing data from a year 2000 comparison of Oregon DA salaries with those from four neighboring states, excluding Oregon's part-time prosecutors, the low end of Oregon's compensation is higher than every state of comparable size and about the same as California. At the high end, only Idaho pays a lower salary than Oregon. The highest salaries paid by California, Washington, and Nevada all exceed $100,000.

There are a number of measures of workloads for DAs and their offices. Overall, the total number of arrests for person, property, and behavior crimes peaked in 1997 at almost 179,000 statewide and fell to just over 164,0000 in 2003. DA workloads are determined in large part by the number, complexity, and type of criminal arrests that occur. The number of case filings is another measure and is summarized below for felonies and misdemeanors for eight years.

Filings	1997	1998	1999	2000	2001	2002	2003	2004
Misdemeanor	65,332	64,677	62,833	65,486	62,803	65,549	69,055	65,602
Felony	33,719	39,589	37,470	35,749	37,646	37,905	36,508	38,397
Total	**99,051**	**104,266**	**100,303**	**101,265**	**100,449**	**101,265**	**105,563**	**103,999**

While the number of criminal filings and the number of arrests are both indicators of DA workload, they do not capture all of the potential workload. A significant part of the DA workload is not linked to arrests. In the past, DAs estimate that as much as one-third of the regular statewide workload corresponded to pre-arrest case reviews, where DAs and deputies are asked to assess the sufficiency of evidence collected and provide advice on the need for additional investigation, search warrants, or involvement of task force experts. The amount of time spent on cases, the quantity of cases prosecuted, and methods used vary from county to county depending on available resources and local judicial practices. When reported crimes and arrests are higher, DA offices must take a variety of actions to meet the increased demand including: (1) prioritize cases; (2) rely heavier 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.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for District Attorneys and their Deputies decreases 4.5% from the 2003-05 budget to $8.9 million General Fund. The primary reason for this decrease is the elimination of all state support for supplemental payments for deputy District Attorneys in 2005-07. There was $701,874 in the 2003-05 Governor's budget which was roughly one third of the amount paid to counties for this item in 2001-03. The budget is now limited to the compensation for the 36 District Attorneys and the administrative costs (e.g., liability coverage) of the agency. Administrative costs are allocated $942,702 General Fund in the 2005-07 budget, over $200,000 less than the amount expected to be spent in 2003-05. This reduction is primarily due to a reduction in costs for tort liability coverage provided by the Department of Administrative Services (DAS). These costs still are over double what was paid in 2001-03.

The budget does include a change in the compensation structure which results in salary increases for 20 of the 36 District Attorneys. The 2003 Legislature included a budget note directing DAS to review the groupings of counties for the purposes of District Attorney compensation and report the findings to the Emergency Board. Based in part on that report, the Governor proposed and the Legislature agreed to an increase in salaries for 20 of the 36 District Attorneys. Before this action, there were four groupings of counties based on population used in determining an individual District Attorney's salary. The new package moves four counties (Jackson, Deschutes, Linn, and Douglas) with populations of over 100,000 into the top group and collapses the second and third groups into one. The 2005-07 cost of this compensation package change is $489,172 General Fund.

The agency does not have any performance measures so a budget note was included instructing the District Attorneys to work with the Progress Board, the Legislative Fiscal Office, judges, and others in developing measures. The District Attorneys are to report to the Joint Legislative Audit Committee regarding the development of the measures.

Department of Justice (DOJ) – Agency Totals

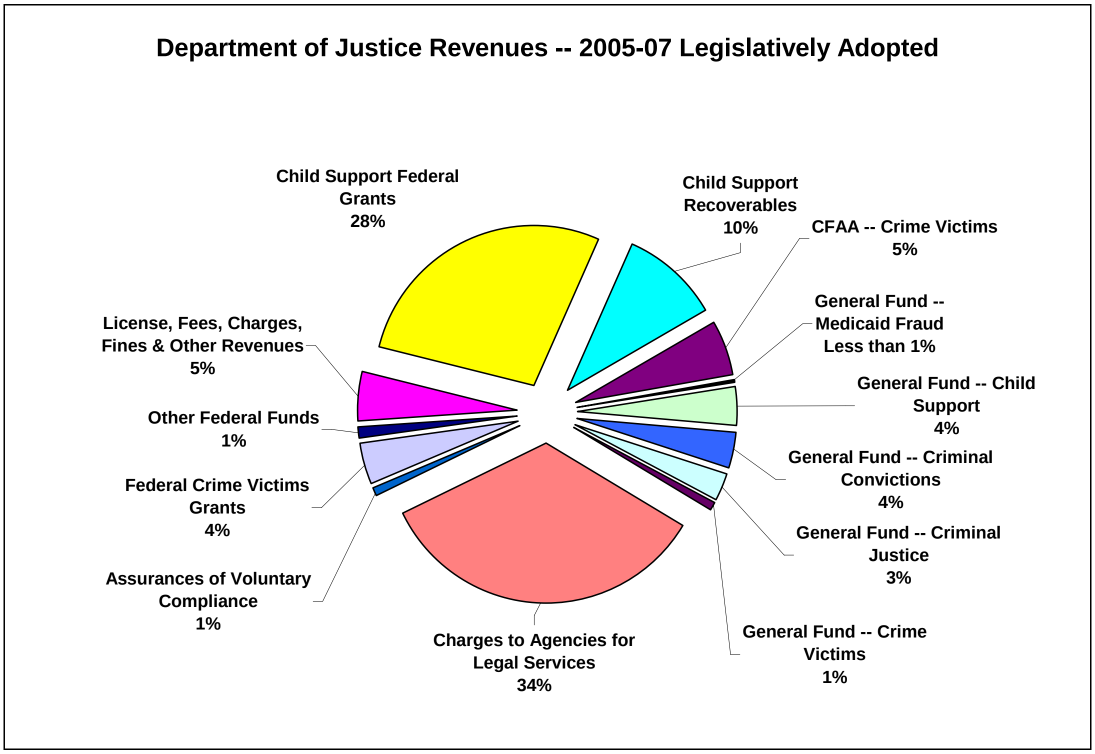
	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	22,862,361	31,486,940	46,964,008	31,804,269
Other Funds	175,927,095	137,972,076	137,679,511	151,469,235
Federal Funds	11,725,704	84,902,391	79,636,352	79,402,506
Other Funds (NL)	10,439,217	10,109,213	7,680,243	7,674,025
Federal Funds (NL)	0	0	12,299,813	12,299,813
Total Funds	**$220,954,377**	**$264,470,620**	**$284,259,927**	**$282,649,849**
Positions	1,188	1,197	1,216	1,208
FTE	1,171.69	1,191.09	1,207.27	1,198.54

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, and consumer protection services. The Department includes the Office of the Attorney General (Administration) and six operational divisions (Appellate, Civil Enforcement, Criminal Justice, General Counsel, Child Support, and Trial).

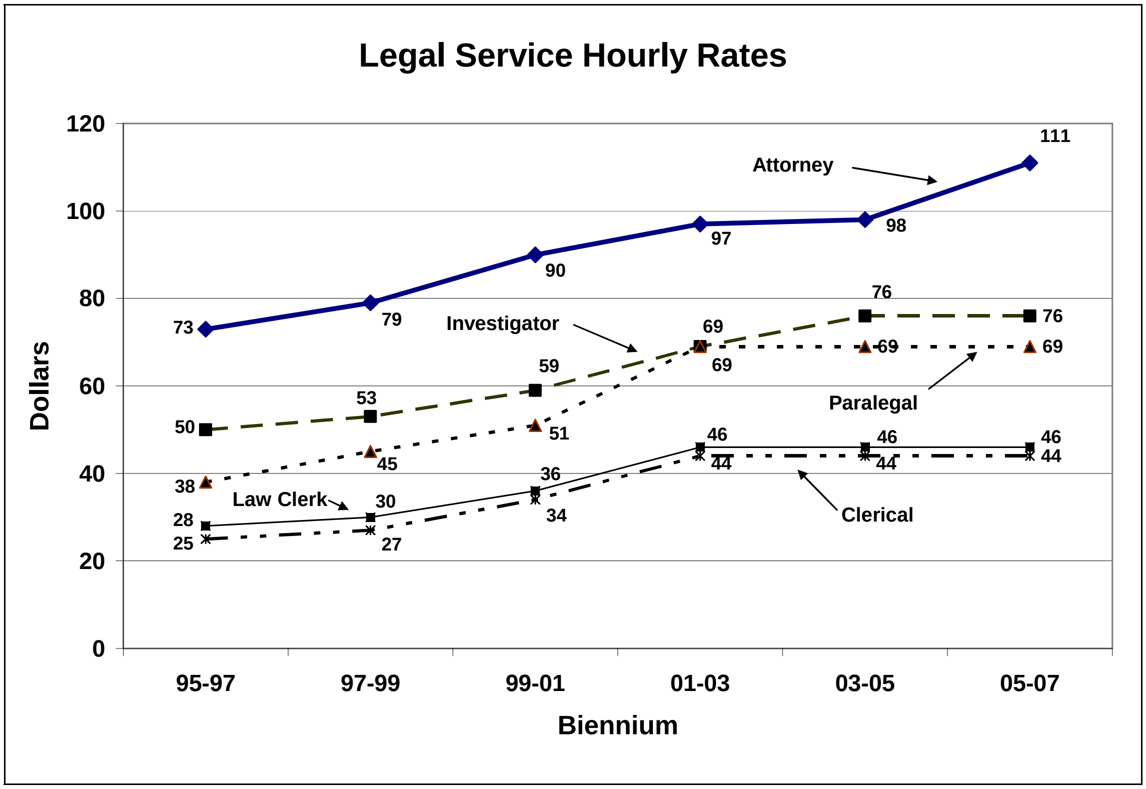
Revenue Sources and Relationships

The Department of Justice relies on a variety of funding sources. For the 2005-07 biennium, the General Fund accounts for 11% of the budget and is used primarily for the Child Support Program, defense of criminal convictions, crime victims' programs, appeals for which no state agency can be billed directly, and the law enforcement activities of the Criminal Justice Division. Other Funds sources of revenue make up 56% of the budget and include charges to agencies for legal services, licenses and other fees, charges, and fines. Federal Funds make up 33% of the budget and include the federal share of the Child Support and Medicaid Fraud programs, and crime victims' grants.



More than a third of the revenue is derived from the hourly charges to state agencies for legal advice, litigation, and other legal services. DOJ operates similar to a law firm in which its legal services are billed not only to state agencies but also internally. For example, the Trial and Appellate Divisions bill the Defense of Criminal

Convictions Fund to cover costs of defending challenges to criminal convictions which are not billable to other state agencies. Although the Attorney General has the statutory authority to determine the hourly rates, they have historically been determined through the legislative process based on the actual cost of providing legal services. The rate covers indirect costs of providing administrative services. The hourly rates for attorneys and other staff are shown in the graph below. The Governor's 2005-07 budget assumed an attorney rate of $119 per hour, but after review based on budget-wide assumptions, the Legislature reduced the rate to $111.



Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for the Department of Justice of $282.6 million total funds represents a 6.8% increase from 2003-05 while the $31.8 million General Fund budget is 1% greater than 2003-05. This budget does not reflect the Governor's proposal to fund victims' compensation programs with General Fund, but continues funding these programs with Criminal Fines and Assessment (CFAA) revenues. The Legislature also restored $1.6 million to victims' compensation programs reduced in the Governor's budget, but did not restore the $1.3 million reduction for defense of criminal convictions that will continue the backlogs and delays in defending these cases.

Other features of the 2005-07 budget include:

- Reductions of 10% from the essential budget level to General Fund for the District Attorney Assistance and Organized Crime ($800,706) program, and the Medicaid Fraud program ($43,853).
- Elimination of three positions (3.00 FTE) and $830,651 Other Funds in the Tobacco Tax Compliance Task Force program. The reduction in the Governor's budget had been five positions, but the Legislature restored two of the positions to continue investigations and prosecution of non-point crimes including violations involving internet sales.
- The Governor proposed an addition of 19 new positions (15.77 FTE) and $3,032,698 Other Funds to assist Department of Human Services (DHS) child welfare staff that are preparing court documents and representing the state in court proceedings without any formal legal background. The Legislature did not approve this proposal but did set aside $2.5 million as a special purpose appropriation to the Emergency Board so a new joint DHS and DOJ proposal could be considered.

Two issues of note which are not completely addressed in this budget are:

- The passage of Ballot Measure 37 will cause a significant amount of work through both potential court challenges to the measure and the legal advice state agencies will need to carry out the measure's requirements.
- The federal government is currently auditing the Child Support Program and has identified cases referred by the Oregon Youth Authority that are not eligible to receive matching federal funds. The fiscal impact has yet to be determined, but it is likely that DOJ will be required to repay federal funds. The impact may also affect the Oregon Youth Authority revenues received from the Child Support Program. The legislatively adopted budget does include some resources for this issue, but it is unclear whether the amount is sufficient.

DOJ – Administration

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	10,618	0	0	0
Other Funds	7,598,167	11,640,731	13,237,294	13,136,988
Federal Funds	0	149,025	152,602	152,332
Total Funds	**$7,608,785**	**$11,789,756**	**$13,389,896**	**$13,289,320**
Positions	85	87	112	114
FTE	81.84	85.88	109.85	111.85

Program Description

Administration includes the Office of the Attorney General and Administrative Services. The Office of the Attorney General, which includes the executive management of the Department, sets direction and policy for the Department. Administrative Services provides centralized operational support services for the entire Department and includes fiscal services, information services, facility operations, and human resources.

Revenue Sources and Relationships

The primary revenue source for Administration is derived from a cost allocation plan that charges the other divisions and programs in the Department for services such as fiscal, personnel, facilities management, and information systems. The distribution of these costs is based on the amount of time or service each section of Administration provides to other divisions or programs. These are Other Fund expenditures for Administration, but are derived from General Fund, Other Fund, or Federal Fund sources in each division.

Budget Environment

The Department, as a whole, has experienced considerable growth increasing the demands for: (1) fiscal services staff to manage legal billings and to collect amounts due the agency in a timely manner; (2) information services staff to provide full technology support to over 1,200 employees; (3) operations staff providing facilities, purchasing, moving, and mail services at 28 locations around the state; and (4) human resource staff that provide recruitment, classification, performance management, and training services. The growth and complexity of revenue to the Crime Victims' Program has required an increased level of fiscal oversight to ensure compliance with federal accounting and reporting requirements.

There are currently 23 technology positions supporting DOJ's legal services units, and a consultant's report completed in the recent past recommended that 32 positions are required to fill identified short- and long-term needs. The budget for 2005-07 proposes moving another 25 Information Systems staff from the Child Support Program to this Unit to provide a department-wide consolidated local area network (LAN) system. DOJ's major information systems needs are for increased imaging capability for child support activities and knowledge management systems for the various legal divisions. The Department will take an incremental approach so imaging work will stay within the budget constraints. Other information systems initiatives underway include E-Government and increased Web interface applications.

A 2001 study performed by the Conference of Western Attorneys General found many of the DOJ attorneys have specialized and very complex "practices," which generally command greater salaries in both the private and public sectors. When compared to other Oregon public sector attorneys in larger jurisdictions, the DOJ attorney salaries are less. The top step in the annual salary for a DOJ assistant attorney general was $84,324, while Deputy District Attorneys were paid up to $114,472 in Multnomah County and up to $101,988 in Lane

County. The State of Washington's Attorney General paid its attorneys up to $114,000. As a result of bargaining with the Oregon Association of Justice Attorneys, DOJ has negotiated a new compensation structure which narrows the gap between Assistant Attorneys General and other public sector attorneys. At the end of the 2005-07 biennium, the new top step will be approximately $100,614. It is doubtful that the salaries in other jurisdictions have decreased since 2001 so DOJ likely continues to be at a competitive disadvantage with respect to recruiting and retaining top legal talent.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for the Administration Unit of $13.3 million total funds is 12.7% greater than the 2003-05 legislatively approved budget. The number of positions in this Unit increases by 27 positions, mainly due to the transfer of 25 information system positions from the Child Support Program to create a department-wide LAN system.

Costs associated with the remodeling of the Justice Building and resulting move of DOJ staff is one of the primary reasons for this Unit's budget growth. The process of repositioning the agency started with the remodeling of the Commerce building in the current biennium. When the project and moves are complete, DOJ will have additional space, requiring $332,317 Other Funds in rent. Other costs in this $1.2 million Other Funds package include moving costs, security costs, wiring for information systems, systems furniture, and $125,000 of expenditures originally planned for 2003-05. The agency plans to use existing resources (but still requires the limitation increase) in its budget for all but the ongoing rent increases.

DOJ – Appellate Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	8,665,691	9,525,556	10,194,908	10,098,631
Total Funds	**$8,665,691**	**$9,525,556**	**$10,194,908**	**$10,098,631**
Positions	49	49	50	50
FTE	49.00	49.00	49.50	49.50

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 growing workload issue in recent years.

Revenue Sources and Relationships

Although the Division's budget is totally supported with Other Funds, the principal source of funds to pay the billings is the General Fund appropriation for Defense of Criminal Convictions (see later section). Revenue for civil or administrative appeals is Other Funds generated from the hourly fees billed to the state agencies involved in the appeals.

Budget Environment

Since the Department is usually responding to appeals filed by others, it has little or no control over its workload. The Division handles roughly 2,800 cases (approximately 800 civil and 2,000 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. During 2002, 2003, and the first half of 2004, over 2,400 criminal cases were briefed and argued. Criminal appeals are expected to continue increasing. The increase in appeals is driven by projected increases in the prison population (longer mandatory sentences imposed under Ballot Measure 11 and repeat property offender convictions) and more challenges to decisions made by the Board of Parole and Post Prison Supervision. Death penalty cases are automatically appealed. The criminal caseload complexity has also increased significantly based on the size of briefs, number of legal cites by all parties, and the number of assignments of error. The increased caseload complexity is requiring attorneys to spend more time per case, which increases costs. While the Department receives few death penalty appeals during each biennium, these cases are very complex and time consuming.

This Division also experiences greater workload demands because the number of ballot measures continues to increase. More ballot initiatives generate more titles the Division must prepare, and more complaints about the ballot titles that the agency must defend. The Division's workload in this area has increased by 80% since 1997.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for the Appellate Division of $10.1 million total funds is 6% greater than the 2003-05 legislatively approved budget. Almost all this increase is attributed to growth common to all state agencies including employee compensation issues, roll-up of pension obligation bond costs, and inflation. One attorney position (0.50 FTE) is established for expedited appeals of those cases where an agency can be billed for the costs. This proposal is, in part, due to the Supreme Court and Appeal Court's new policy for limiting the additional time to prepare briefs.

DOJ – Civil Enforcement Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	2,465,575	401,648	396,627	392,323
Other Funds	22,368,298	22,274,321	24,716,962	24,448,767
Federal Funds	1,380,209	1,753,600	1,830,093	1,812,386
Total Funds	**$26,214,082**	**$24,429,569**	**$26,943,682**	**$26,653,476**
Positions	136	130	133	133
FTE	131.96	129.44	132.44	132.44

Program Description

The Civil Enforcement Division represents the state in civil cases and also enforces certain criminal laws. This Division includes five sections:

- The ***Family Law*** section represents the Division of Child Support (DCS) in judicial proceedings to establish paternity and child support orders. This section also represents the Department of Human Services (DHS) in termination of parental rights cases and mental health commitments.
- The ***Civil Recovery*** section prosecutes plaintiff's civil litigation on behalf of any agency with a tort, contract, statutory, or other claim to recover money or property. It also represents agencies in bankruptcy proceedings and in post-judgment collections.
- The ***Medicaid Fraud*** section investigates and prosecutes billing fraud by Medicaid providers and physical or financial abuse or neglect of residents in Medicaid-funded long-term care facilities. It has historically devoted significant resources to educating providers in order to reduce innocent billing errors. Federal Medicaid law requires each state have a fraud unit separate from its Medicaid designated agency (DHS).
- The ***Financial Fraud/Consumer Protection*** section educates consumers to better protect themselves against marketplace fraud and abuse. It also educates businesses and encourages voluntary compliance with the state's Unlawful Trade Practices Act (Oregon's consumer protection law) and telemarketing laws. It also prosecutes violations of these and antitrust laws, seeking restitution, attorney fees, and penalties for injured consumers and state agencies to deter future wrongdoing.
- The ***Charitable Activities*** section supervises and regulates the activities of charitable, professional fundraisers, and, to some degree, other nonprofit organizations; and enforces laws related to charitable trusts, charitable solicitations, and nonprofit gaming.

Revenue Sources and Relationships

Revenue to support the Family Law and Civil Recovery sections comes from billings to the involved state agencies. Federal Funds provide 75% of the resources for the Medicaid Fraud section, while the state must contribute a 25% match to receive the federal funds. The federal government has allowed DOJ to use Medicaid funds recovered from earlier investigations and prosecutions in lieu of the 25% General Fund match, as long as the Medicaid program and other victims are first made whole. Changes in federal policy, however, may make this more limited in the future. Financial Fraud/Consumer Protection section services are funded by Other Funds, including funds in the Consumer Protection and Education Revolving Account paid by companies and organizations that sign assurances of voluntary compliance for violations of consumer protection laws. The General Fund for the program was eliminated for the 2003-05 biennium and no further General Fund was added for 2005-07. Fees charged to charitable and non-profit organizations for registration and filing financial reports provides funding for the Charitable Activities section. Other Funds also include annual fees paid by gaming registrants or licensees.

Budget Environment

The Family Law section expects to continue experiencing additional workload caused by the federal requirement, which imposes rapid timelines that speed the process for placement of children in permanent homes. The workload growth is expected to continue, despite the reduced level of staffing at DHS.

For the 2001-03 biennium, the Civil Recovery section opened almost 3,600 cases and assisted in collecting just under $19 million on behalf of state agencies. This represents a 33% increase in cases between the 1999-2001 and 2001-03 biennia. For 2003-05, approximately 3,400 cases were opened and $31 million was collected on behalf of state agencies.

Despite its relatively small size when compared to other states, Oregon's Medicaid Fraud unit is recognized as one of the top performers. States like Arkansas, Oklahoma, Nevada, and Washington have comparable Medicaid budgets to Oregon, but have larger Medicaid Fraud units. The increasing number of senior citizens in long-term care facilities, the growing size of the Medicaid budget, the greater number of Medicaid providers, a federal expansion of the section's jurisdiction, and the increasing sophistication seen in health care fraud schemes has substantially increased the workload for this unit. In the past, the section has had to turn away the least severe cases. With the further reductions made for 2005-07, the agency asserts that even more cases will not be pursued or they will be referred to federal prosecutors. The agency is concerned the federal prosecutors may not pursue the Oregon cases and fraudulent activity relating to Medicaid in Oregon may increase.

The Financial Fraud/Consumer Protection section anticipates a changing workloadamount, including consumer complaints and of Internet fraud. Consumer hotline calls increased from an estimated 61,000 in 1999 to over 75,000 calls for 2002. Part of this expansion occurred because the Hotline was operating more hours. Since 2002, the number of calls has fallen to 50,900 for 2004 . In 2005, for the first eight months, calls reached 34,307. Similarly, the number of written complaints in 2002 was 17,477, falling to 10,934 in 2004. For the first eight months of 2005, DOJ received 7,615 written complaints. DOJ states that the lower number of contacts is likely due to less consumer education and outreach as a result of the General Fund elimination in 2003-05, and the elimination of the state No Call enforcement. Restitution ordered in cases opened after January 1, 2003 and closed in 2005 to date total $3.5 million. Enforcement actions have generated payments to the program's operating account in the amount of $2.6 million in 2003 and $2.3 million in 2004. For the first three quarters of 2005 payments have been $2.1 million.

The number of registered charitable organizations has increased from about 3,000 in the early 1990s to 13,546 in 2005. This unit must monitor performance and proposed actions of charitable organizations. Prior to modifying the governing bylaws or terminating a trust, the charitable organization's proposed actions must be reviewed by this unit. Over the past three years, there have been an average of 35 such reviews performed. Nonprofit gaming organizations, numbering 535, are also monitored including screening applicants for licenses and insuring compliance with rules.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for the Civil Enforcement Division of $26.7 million is 9.1% greater than the 2003-05 legislatively approved budget. The General Fund budget of $392,323, which is entirely dedicated to the Medicaid Fraud section in this Division, is a reduction of $46,252 General Fund from the essential budget level. This triggers a Federal Funds decrease of over $130,000 since the General Fund is used to match the federal funding. As a result of this reduction, one investigator position (1.00 FTE) is eliminated. This will decrease the Unit's ability investigate and prosecute Medicaid related fraud in one of the state's largest programs.

Overall, growth is attributed to increases common to all state agencies, including employee compensation, pension obligation bond debt service, and inflation. One other policy-related issue addressed by this budget is the addition of two attorneys and a legal secretary (3.00 FTE) to handle increased probate related requests for the Department of State Lands (DSL) and the DHS. These agencies are expected to be charged for the $558,090 Other Funds cost of this package. Increased DSL workload is due to their responsibility when heirs of estates cannot be identified. Increased DHS workload occurs when the agency is named as a personal representative in client estates in order to collect for the costs of client care.

The 2005-07 legislatively adopted budget does not contribute any General Fund to the Consumer Protection/Financial Fraud program, a practice initiated by the 2003 Legislature. DOJ is concerned that reliance on revenues directly tied to enforcement efforts could lead to case selection based on its ability to collect revenue. If these revenues and the resulting balance of the Consumer Protection Fund are sufficient for the program, the problem will be minimized.

DOJ – Criminal Justice Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	9,434,690	9,472,657	23,464,505	9,727,724
Other Funds	17,091,485	21,242,277	11,930,891	27,800,450
Federal Funds	10,345,495	11,672,658	12,170,240	12,403,476
Other Funds (NL)	10,439,217	10,109,213	3,993,843	3,987,625
Total Funds	**$47,310,887**	**$52,496,805**	**$51,559,479**	**$53,919,275**
Positions	88	88	87	98
FTE	83.58	87.30	86.84	93.88

Program Description

The Division is organized into three sections:

- The ***District Attorney Assistance*** section assists the 36 District Attorney offices in criminal cases and matters relating to prosecution and law enforcement in their respective counties by providing trial and investigative assistance, technical-legal and prosecutorial advice and services, and legal education and training in criminal law and procedures. In isolated cases, DOJ staff may step in and act as the county District Attorney.
- The primary purpose of the ***Organized Crime*** section is to detect and combat organized criminal activities in the state and to investigate allegations of corruption or malfeasance by public officials in Oregon. This section operates the Criminal Intelligence Unit (CIU), which provides analytical services to Oregon law enforcement and also maintains the Oregon State Intelligence Network, the primary intelligence sharing network for Oregon law enforcement. This section also hosts the Western States Information Network for Oregon which shares intelligence information among five western states; participates with the Oregon State Police and Department of Revenue in the Tobacco Tax Compliance Task Force; houses an Internet Crimes Against Children program; participates as part of the Cooperative Disabilities Investigation Unit; operates the Terrorism Intelligence Network; and participates as part of the federal/state/local High Intensity Drug Trafficking Areas (HIDTA) initiative.
- The ***Crime Victims' Assistance*** section is responsible for administering programs on behalf of innocent crime victims. The *Crime Victims' Compensation program* was created to provide assistance to innocent victims who sustain injuries resulting from criminal activity. The F*ederal Victims of Crime Act* is a program that provides funds to states and local organizations for victims' assistance. The *Prosecutor-based Victim/Witness Assistance* program is a grant program to certified prosecutors' offices across the state that want to create a local program. The State *Crime Victim Grant program* makes grants to local public and private agencies that provide services to victims of violent crimes. The *Child Abuse Multidisciplinary Intervention Account (CAMI)* provides state funds for a multidisciplinary approach to assessment, investigation, and prosecution of child abuse cases. The 2001 Legislature created *the Domestic and Sexual Violence Services Fund* with General Fund to advocate, provide safety, promote cooperation among agencies, and stabilize the infrastructure for these victims of assault. 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.

Revenue Sources and Relationships

District Attorneys' Assistance and the Criminal Intelligence sections are funded primarily by the General Fund, federal asset forfeiture ($102,400 Federal Funds), Marijuana Eradication ($689,951 Federal Funds), federal funding for the Internet Crimes Against Children program ($161,347 Federal Funds), and funding from Department of Revenue for the Tobacco Tax Compliance Task Force ($1,223,707 Other Funds). In 2005 the General Fund will also support the new Methamphetamine initiative approved by the Legislature. The program also receives funds from a contract with the California Department of Justice, which administers the federal grant supporting the Western States Information Network ($838,429 Other Funds). The Oregon State Police provide Other Funds ($1.6 million) to support the efforts of the federally designated High Intensity Drug

Trafficking Area program, as well as the Terrorism Intelligence Network. A grant from Department of Transportation ($244,263 Other Funds) supports the DUII program, and funds from the Department of Human Services provide for the operation of the Cooperative Disability Investigations Unit ($647,305 Other Funds). The Crime Victims' Compensation program is supported by the Criminal Fine and Assessment Account (CFAA) ($15.4 million), punitive damages and restitution ($1.8 million), and federal grant funds ($11.4 million). These federal grants are derived from penalty assessments levied against offenders in federal courts. In 2005, Crime Victims' received a $75,000 planning grant from the U.S. Department of Justice.

Budget Environment

The number of applications for crime victim benefits continues to increase, averaging 305 per month in 1999-2001, and 370 in 2001-03. For 2003-05, the monthly claim average rose to 428. The number of agencies and program grants that DOJ must monitor is also increasing. In spite of workload increases, the Crime Victims' Compensation section has been able to reduce a significant backlog of cases.

The Organized Crime section and the Criminal Intelligence Unit have seen an increasing workload due to a significant demand from law enforcement agencies across the state. Analytical case workload doubled between 2001-03 and 2003-05. Similarly, the criminal intelligence research workload quadrupled during the same period.

The number of cases handled and the time devoted by the District Attorney Assistance (DAA) program continues to increase. With the decreases in state financial assistance to district attorney offices the demand for DAA could increase. The number of DAA cases opened roughly doubled between 1999-2001 and 2003-05. The Department has temporarily handled the additional workload with existing staff through overtime and slower response time.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for the Criminal Justice Division of $53.9 million total funds represents a 2.7% increase from the 2003-05 legislatively approved budget. This increase would have been larger without the $6.1 million decrease in Nonlimited Other Funds, reflecting excess limitation in the budget. The amount of General Fund in this Division's budget ($9.7 million) increases by 2.7%. The Legislature did not adopt the Governor's proposal to replace $14.1 million in Criminal Fines and Assessment (CFAA) revenue with General Fund. The Legislature did restore the $1.6 million reduction to the Crime Victims' programs and the Domestic Violence programs included in the Governor's budget.

The General Fund for the DA Assistance and Organized Crime section is reduced by $800,706, or 10%; and further reduced by a 3% reduction in Services and Supplies. This will likely result in a lower level of assistance to local law enforcement agencies related to terrorism and organized crime, as well as less assistance to county District Attorneys. Since these programs often help with complex and specialized cases, many smaller and medium sized agencies will be most adversely affected by these reductions. Two attorney and one investigator positions (2.58 FTE) were added as part of the Legislature's Methamphetamine package to assist local District Attorney offices and law enforcement agencies in prosecuting and investigating methamphetamine related cases.

The staff related to the joint Department of Revenue, Department of State Police, and DOJ Tobacco Tax Compliance Task Force was proposed in the Governor's budget to be reduced by five positions (5.00 FTE) and $830,651. This reflects the Governor's decision to fund the Task Force at the 2001-03 level. The Legislature restored two of these positions ($349,803 Other Funds) as limited duration to continue to prosecute and pursue non-point or internet cigarette related cases. This leaves DOJ's staffing for the Task Force at six positions.

The 2005-07 budget adopted by the Legislature also includes enhancements funded through increased federal funding or billing to state agencies. These enhancements include:

- A research analyst (1.00 FTE) to assist in overseeing the statewide terrorism network funded through federal terrorism grant funds ($169,950 Other Funds).
- Two positions (2.00 FTE) for the Oregon Criminal Intelligence Unit to provide greater investigative assistance and intelligence research to law enforcement ($180,719 Other Funds). This increase is funded with additional HIDTA funds.
- One legal secretary (1.00 FTE) for workload in the DA Assistance unit and the Organized Crime Section funded through increased billings to other state agencies and Criminal Justice Division programs ($115,417 Other Funds).

- One attorney (1.00 FTE, limited duration) for a DUII Prosecution Initiative grant from the Oregon Department of Transportation ($244,263 Other Funds).
- One information systems analyst (1.00 FTE) to provide support to local law enforcement agencies using the Western State Information Network ($118,610 Other Funds).
- Two positions (0.75 FTE) to continue the work on the Oregon Victims' Rights Compliance project funded by a federal grant ($75,000 Federal Funds).
- Two positions (0.50 FTE) to continue the Internet Crimes Against Children grant program ($161,347 Federal Funds).

DOJ – General Counsel Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	28,625,024	33,324,674	38,479,813	35,242,608
Total Funds	**$28,625,024**	**$33,324,674**	**$38,479,813**	**$35,242,608**
Positions	167	166	185	166
FTE	165.36	166.24	180.74	164.97

Program Description

The General Counsel Division provides a broad range of legal services to state officials, agencies, boards, and commissions. Staff provides oral and written legal advice, drafts or reviews contracts and other documents, represents agencies in administrative hearings, and furnishes legal opinions. The Division also handles some litigation and appellate work involving client agencies. State agencies generate varied and diverse legal issues. To deal with this broad range of subject matter, the Division is organized into the following nine sections: Business Activities, Education, Government Services, Human Services, Labor and Employment, Natural Resources, Regulated Utility and Business, Tax and Finance, and Business Transactions. State agencies generally must use the legal services of DOJ, and not contract with outside counsel or hire attorneys on staff for legal services without DOJ approval.

Revenue Sources and Relationships

Funds to support the General Counsel Division come from billings to state agencies.

Budget Environment

This Division's workload shows increases in some areas and decreases in others, but overall workload has stabilized over the past two biennia following a period of substantial growth. Areas where workload is increasing include the growing complexity of contracts or transactions (specifically in the information technology area); PERS-related issues; water quality litigation; energy plan siting; legal work in Forestry, Corrections, and State Lands; and court actions in juvenile services. Also, employment-related matters (such as employee grievances, disciplinary actions, collective bargaining issues, and sexual harassment) comprise a growing percentage of the workload. Areas of decreased workload include Oregon OSHA cases, and Department of Consumer and Business Services legal work. Overall, the total number of pending matters has leveled off. In July 1998, the number of pending actions was 16,538; in July 2002, it was 23,388; and in July 2005, it fell to 20,875.

Actual demand for General Counsel services depend on the needs of state agencies. With the reduction or elimination of some state services, the demand could drop. On the other hand, reduction or elimination of services has led to further legal actions and issues as advocates, clients, and providers of services funded by the state challenge the reductions in the courts. This affects not only this Division but also the Trial Division. The Division has, for example, received numerous requests for legal advice from the Department of Human Services related to budget and program cuts enacted by the 2003 Legislature. In addition, if there are significant layoffs, the workload of the Labor and Employment section could increase.

The Division has initiated a number of cost saving actions including: (1) using more templates and standardized forms for contracts and procurement, reducing the need for legal review of all components of every contract; (2) exploring further class exemptions from legal sufficiency review of contracts; (3) evaluating whether agencies could benefit from the development of lay representatives; (4) working closely with agencies to minimize legal costs and establish procedures to coordinate requests for legal services within agencies; and (5) exploring a bidding process for minimizing outside legal counsel contracts.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for the General Counsel Division of $35.2 million Other Funds represents a 5.8% increase from the 2003-05 legislatively approved budget. The growth is due to increases common to all state agencies such as employee compensation, pension obligation bond debt service, and inflation. The Legislature did not accept the Governor's proposal to add 19 positions (15.77 FTE) and $3 million Other Funds to provide representation for the DHS in child welfare court proceedings. Currently DHS staff receive little consistent legal representation or advice in preparing for court hearings. DHS staff, who do not generally have formal legal training, spend time drafting legal petitions and court orders, interviewing potential witnesses, assembling discovery materials, and, in many cases, presenting the state's case in court. The intent of the proposal was to provide consistent legal assistance to DHS and to free up caseworker resources to spend time in traditional child welfare activities. The Legislature agreed with the concept of the proposal, but was concerned about the future costs. As a result, a $2.5 million Emergency Board special purpose appropriation is available; and DHS and DOJ are expected to propose their revised plans to provide this legal representation to the Emergency Board early in the interim.

DOJ – Trial Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	12,769,993	13,845,293	15,141,525	15,056,105
Total Funds	**$12,769,993**	**$13,845,293**	**$15,141,525**	**$15,056,105**
Positions	77	81	83	83
FTE	76.21	80.37	82.71	82.71

Program Description

The Trial Division defends the state and its agencies, departments, boards, commissions, officers, employees, and agents in all state and federal trial courts. The Division is organized into teams specializing in the following five areas: (1) commercial and environmental litigation; (2) corrections litigation; (3) torts and employment issues; (4) condemnation; and (5) special litigation issues. The cases range from defending a state employee involved in an auto accident while on state business to defending the Legislature from 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 that are filed by or on behalf of incarcerated persons are handled in this Division and charged against the General Fund appropriation for the Defense of Criminal Convictions Fund.

Budget Environment

The largest unit in this Division is the Corrections Litigation Unit. It opened 737 post-conviction and *habeas* cases in 2004 and, as of July 2005, there were 1,024 cases pending. This workload is expected to increase as more prisoners are filing legal actions dealing with issues such as conditions of confinement, as well as efforts to overturn prior convictions and avoid lengthy mandatory sentences for repeat offenses. Case statistics indicate the total number of opened *habeas corpus* and post-conviction cases increased by 13% between 2003 and 2004. Case complexity has also increased. The Department is interested in adding more attorneys to this Division in the future so that Oregon trial attorney caseloads will be more comparable to those used in three neighboring states (e.g., 84 federal *habeas* cases per attorney in Oregon compared to 30 in Washington and 11 in California).

Special litigation issues continue to increase in number and complexity. Many issues place the state at risk of losing a substantial amount of money. Ballot initiatives prompt challenges to the language of the measures, appropriateness for the ballot, the validity of the supporting signatures, the counting of the votes, and the sufficiency of measures, if passed. Significant human service-related cases have added workload to the unit. Civil rights, the American with Disabilities Act (ADA), and entitlement to service are all issues the Division must face. The significant reductions in other areas of state government has increased the workload of this Division as clients, advocates, providers, and others turn to the legal system to offset their loss of service or compensation.

The number of condemnation-related cases continues to fluctuate. The Division opened 31 cases for calendar year 2003, 72 in calendar year 2004, and 58 in the first half of calendar year 2005. In addition, the Division has recently opened ten Measure 37 related cases; and expects this number to increase significantly in light of the nearly 1,000 administrative claims that have been filed with the State under Measure 37.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for the Trial Division of $15.1 million Other Funds reflects a 8.7% increase over the 2003-05 legislatively approved budget. Most of the increase is due to the growth common to all state agencies including employee compensation, pension obligation bond debt service, and inflation. The only increase beyond the essential budget level is the addition of two legal secretaries (2.00 FTE) to keep pace with the workload in the Division. DOJ has relied on double-fills or limited duration positions to this point and now the Legislature added permanent positions and $123,056 in Other Funds expenditure limitation.

DOJ – Child Support Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	0	10,741,042	11,797,945	11,123,462
Other Funds	78,808,437	25,356,420	23,093,265	24,860,119
Federal Funds	0	71,327,108	65,483,417	65,034,312
Other Funds (NL)	0	0	3,686,400	3,686,400
Federal Funds (NL)	0	0	12,299,813	12,299,813
Total Funds	**$78,808,437**	**$107,424,570**	**$116,360,840**	**$117,004,105**
Positions	586	596	566	564
FTE	583.74	592.86	565.19	563.19

Program Description

This Division focuses on enhancing the well being of children rather than focusing solely on the collection of child support. It 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 DHS; if the child is in the care of DHS's child welfare program or the Oregon Youth Authority (OYA); or if the case has been referred by another state. The program also provides these services to other families if they request the service. In addition, the Gilliam, Hood River, Lake, Linn, Sherman, Deschutes, Jefferson, and Wheeler County District Attorneys have chosen not to provide their own programs and contract with DOJ to handle all their child support cases.

Revenue Sources and Relationships

Federal Funds generally support 66% of the program costs; General Fund covers 10%, and local funds and recoverables pay the remaining 24%.

Budget Environment

The program serves roughly 252,000 families per year, with about 19% being handled by local District Attorneys and the remainder by DOJ staff. Approximately half of the DOJ caseload is receiving or has recently received a DHS or OYA payment or service. The other half represents closed public assistance cases and private cases. Caseloads are expected to continue to increase slowly over the next few years, reaching 254,000 by the end of the 2005-07 biennium. Collections continue to grow, in part, due to economic factors like inflation. The total collections to the Division's costs ratio is increasing; for every dollar spent, $5.35 was collected in 2001-03 and an estimated $5.60 is currently being collected. Compared to surrounding states, Oregon's performance in child support is relatively good. In federal fiscal year 2003, the amount of support collected per FTE in Oregon exceeded the amount collected in California and Washington. The average number of cases handled during the same time period per FTE in Oregon is among the highest in the nation at 336, with California averaging 179 and Washington at 210.

Oregon uses recoveries to assist in funding the state share of the program costs. Over time, the amount of recoveries has fallen relative to the costs of the program. This is due to changes in federal policies such as the federal distribution rules to support the National Strategic Plan and to pass more money through to families. Falling Temporary Assistance to Needy Families (TANF) caseloads have also contributed to the decrease in recoveries. If the pending TANF reauthorization increases the amount of support passed through to families, it may decrease the amount retained by the state to support the program. If this happens, the program could require additional state resources to continue the current level of service.

Changes in the federal program requirements continue to have impacts on the program. The pass-through requirement outlined above is a good example of this as are numerous information systems modification requirements. Establishment and enforcement of medical support will be a future performance measure on which incentives will be paid. Because the federal proposal for medical support incentives does not include new funds, the result could be a decrease in the amount of incentives received on other measures. Implementation of a medical support performance measure will require system modification and coordination with the Department of Human Services. One of the indicators will track the Medicaid cost savings attributed to children in the Child Support program who will be covered by private insurance or receiving cash for medical support.

Federal law sets out performance measures for states to meet. If any state fails to meet these standards, the federal government has the authority to penalize that state by reducing the TANF grant, which is a major funding source for assistance payments and child welfare programs in the Department of Human Services. If any state fails to meet the requirements of its state plan for child support (e.g., information systems requirements), the federal government may reduce its share of support for operating the program.

The federal Office of Child Support Enforcement conducted a limited cost audit of Oregon's Child Support program in October of 2004. As of September 2005 no report has been issued. Preliminary information shared by the auditors disclosed that certain types of cases referred by the Oregon Youth Authority are not eligible to receive matching federal funds. While the impact of this disqualification is not yet fully known, the Child Support program will be required to repay the federal funds received on those cases for a yet to be determined period. Because Oregon law requires the cases be worked, funding without federal participation will be a problem.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for the Child Support Division of $117 million total funds reflects a 8.9% increase from the 2003-05 legislatively approved budget. Most of the increase is due to growth common to all state agencies including employee compensation, pension obligation bond debt service, and inflation. The budget reflects a reduction of five positions that were to be funded with resources that did not materialize ($507,602 total funds). The budget also reflects the transfer of 25 positions (24.67 FTE) to the Administrative Services Division to consolidate all local area network staff in the agency.

The General Fund budget of $11.1 million increases 3.6% from the 2003-05 legislatively approved budget and does not include the 10% reduction applied to some of the other General Fund programs within the agency. There was concern that the cut and the resulting loss of staff would reduce revenue collected through the Child Support program that is used to offset the General Fund need in the Oregon Youth Authority and the Department of Human Services. In addition, such reductions may have caused failure to meet federally required performance standards, risking penalties and the loss of incentive payments. The legislatively adopted budget does include a 3% reduction ($117,993 General Fund) in Services and Supplies funding. The Legislature approved a further $526,356 reduction in General Fund due to increased estimates for recoveries and incentive payments ($1.9 million Other Funds). The Legislature did retain $420,000 in the budget in part to deal with a federal audit issue outlined above.

The budget does include enhancements relating to a Parental Access and Visitation grant ($125,000 Federal Funds). This is a grant automatically provided to all states and reflects the amount of necessary limitation for both years of the biennium. The second increase ($300,000 Nonlimited Federal Funds) is a pilot project in Multnomah County where the courts would use matching federal funds through the Child Support program to increase coordination for child support functions the court provides. Funds from the Multnomah County court will match the federal funds. The budget also classifies as nonlimited the payments made by local District Attorneys to match federal funds and used to administer their child support functions. This reclassification will include the estimated $3.7 million local funds and $12 million in federal funds that are matched.

DOJ –Defense of Criminal Convictions

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	10,951,478	10,871,593	11,304,931	10,560,760
Other Funds	0	762,804	884,853	825,568
Total Funds	**$10,951,478**	**$11,634,397**	**$12,189,784**	**$11,386,328**

Program Description

Defense of Criminal Convictions (formally referred to as Criminal Appeals) is a budgetary unit to track the cost to the Department of defending the state in cases in which sentenced offenders challenge their convictions or sentences. Work on ballot measure titles is also billed to this fund. Personnel and resources connected to this work are part of the Trial and Appellate Divisions.

Revenue Sources and Relationships

Criminal and capital appeals work is primarily financed by the General Fund. In 1997-99 and 1999-2001, this program was "subsidized" by adding a "surcharge" to the fee charged to agencies for legal services. In 2001-03, the subsidy was terminated when General Fund was added to this budget unit.

Budget Environment

A number of factors drive the workload and costs of the Trial and Appellate Divisions. These include:

- The number of contested criminal convictions, which is primarily due to the number of offenders in the correctional system. The number of contested convictions will likely increase in the future due to Ballot Measure 11 since offenders are serving longer sentences and they are more likely to pursue all available avenues of appeal including post-conviction and federal *habeas* challenges.
- Resources available to other parts of the criminal justice system have an impact on the demand for these funds. If there are fewer resources available for the Public Defense Services Commission (PDSC) programs, there may be fewer appeals at the state level. Courts still may pressure defense representatives to file in a timely manner even if their resources are constrained and the nature of the cases will change. In the past, resources for the PDSC programs were increased, leading to a growth in the number of appeals. The backlog of cases per attorney has increased by 80% through the end of the 2003-05 biennium and will likely continue to climb.
- If state resources for the PSDC are limited, some offenders may appeal directly through the federal *habeas* 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 U.S. Supreme Court recently made changes in two significant areas of criminal law, often referred to as the *Blakely* and *Crawford* cases. As a result, hundreds of state criminal convictions could be reversed and remanded to the trial courts. In addition, the opinions have left unanswered critical questions about how to implement the decisions. The state has directed significant resources to briefing these issues in the state appellate courts, to working with District Attorneys and the courts to understand and implement the necessary changes, and to informing the Legislature of needed changes.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for the Defense of Criminal Convictions of $11.4 million total funds is a 2.1% decrease from the 2003-05 legislatively approved budget. During the same period, the General Fund budget was reduced by 2.9% to $10.6 million. The budget is reduced for two reasons. First, the Legislature accepted the Governor's proposed 10% reduction of $1.3 million General Fund from the essential budget level. The budget also was adjusted downward based on the legislatively assumed rates charged for DOJ staff, including the attorney rate of $111 per hour that the Governor's budget assumed would be $119 per hour. This was the primary reason for the difference between the Governor's budget and the legislatively adopted budget.

Overall, this budget will mean fewer resources available for DOJ attorneys and other staff to perform their work. Instead of eliminating staff, staff attorneys will be moved to activities that have other funding sources to work down backlogs that have developed. These backlogs include civil cases in the Appellate Division and OYA sex abuse cases in the Trial Division. With the General Fund reductions, the backlog of criminal conviction related cases will continue to grow.

Military Department (OMD) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	13,080,588	14,203,531	16,771,846	17,378,874
Other Funds	9,243,878	13,139,619	7,950,565	8,663,334
Federal Funds	51,895,969	98,682,557	69,831,291	70,037,613
Total Funds	**$74,220,435**	**$126,025,707**	**$94,553,702**	**$96,079,821**
Positions	423	460	466	470
FTE	369.59	411.41	424.41	429.91

Agency Overview

The Oregon Military Department (OMD) is responsible for administration of the Oregon Army National Guard, the Oregon Air National Guard, and the Oregon State Defense Force. The National Guard is a federal-state partnership, which serves on a day-to-day basis under the command of the Governor, but is available to the federal government upon orders from the President. The members are trained to assist should there be human-caused or natural disasters, or a need to back up law enforcement agencies.

Revenue Sources and Relationships

The Department's operating Other Funds revenue sources contribute 8% of the agency's total state budget and include facility rental fees and miscellaneous sales revenue. Rental revenues earned from federally supported facilities are required by the federal government to be used in support of the facility that earned it. Miscellaneous sales revenues are derived from vending machine profit, coin operated telephones, and recycling programs. Excluding Capital Improvement and Major Capital Construction, the General Fund makes up approximately 20% of the agency's total state budget. General Fund is used to pay wages and salaries of state employees, as state matching funds for various facilities management activities, and as matching funds for various Oregon National Guard activities.

The federal government provides approximately 95% ($419 million) of the funding for the Oregon National Guard. However, only a limited portion of these funds ($70 million or 17% of the Federal Funds) is included within the Department's budget. Guard member salaries and wages are paid directly by the federal government and are not included in the OMD budget. Federal Funds support: all troop training costs; Department of Defense programs; base security; fire fighters; Science and Technology Academy Reinforcing Basic Aviation and Space Exploration (STARBASE); 60% of the Youth Challenge Program; 75% of the logistical sites; and between 75% and 85% of the utility, maintenance, and supply expenditures of the Air National Guard.

Budget Environment

In 2005-07, Federal Funds are expected to increase from $52 to $62 million, excluding Major Capital Construction. The major share of the increase is attributed to the amount of funds available for federally funded facilities. The critical issues remain in the recruiting efforts for attracting new members and the agency's ability in retaining current members. The Oregon National Guard has a significant commitment of National Guard assets that provide economic benefits to the state and communities and serve as an important resource in disaster relief and recovery. Oregon faces the loss of units to other states if training levels and facilities' readiness are not maintained. The Air Guard authorized force strength has increased by 8.9% since 1990 and actual strength has averaged 95% of authorized levels. Authorized strengths for the Army Guard declined by 17.8% during this same period; actual force strength declined 27%. Over the past two biennia, the Army Guard has been able to increase its authorized strength levels from 80% in 1998 to 87% in 2002. The Department attributes the increase after 1998 to the Tuition Assistance program initiated in the 1997-99 biennium. The program provided assistance to Guard members with post-secondary education costs. An estimated 1,250 Oregonians have joined the Guard due to the tuition incentive.

Armories that are constructed with significant federal participation but operated and maintained at state expense are in serious decline. Insufficient General Fund and Other Funds have resulted in an inability to fully leverage available federal funding. The amount of additional Federal Funds that could be available to OMD if state match money were available is estimated at over $30.5 million.

Increasing numbers of Guard members are on federal active duty. As a result of international developments and national defense policy, deployment of Oregon National Guard units and members is growing. Over the past two years, over 4,625 Oregon Air and Army Guard members have been mobilized for federal duty in the

United States and abroad. Future federal deployments and mission changes, such as the worldwide deployment of the 1042nd Air Ambulance Company (rescuers at Mount Hood in 2002), and reassignment of the Air Force Reserve search and rescue, may affect the Department's ability to respond to state emergencies.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $96 million and 429.91 FTE is $13 million or 11.9% less than the 2003-05 legislatively approved expenditure level and $1.5 million or 1.6% more than the Governor's recommended budget. The adopted budget continues the Youth Challenge Program that provides structured educational services to at-risk youth who have dropped out of school by redirecting $0.6 million General Fund from the Oregon Youth Authority budget for Multnomah County's Gang Intervention Fund. The adopted budget reflects a $29 million reduction in Major Capital Construction and increases of $17.6 million for policy packages. In addition, the Legislature approved a $1.85 million military appreciation package in recognition of the impact on Oregonians providing service during the Afghanistan and Iraq conflicts. The remaining increases relate to applying the standard inflation rate for services and supplies and state government service charges, and cost adjustments for unemployment assessments, pension bond payments, overtime, temporaries, shift differentials, and merit increases. Specific details are discussed under each program unit.

OMD – Administration

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	3,231,176	3,153,082	4,519,475	5,493,026
Other Funds	814,535	1,088,954	1,148,651	1,729,268
Total Funds	**$4,045,711**	**$4,242,036**	**$5,668,126**	**7,222,294**
Positions	27	23	23	24
FTE	25.01	22.50	22.75	23.75

Program Description

The Administration program consists of the office of the Adjutant General, Command Group Financial Administration, Personnel, and Public Affairs. This program supports approximately 2,704 state and federal full-time employees, commands over 8,000 soldiers and airmen, and provides oversight for approximately $2.8 billion in facilities and equipment.

Budget Environment

Recruiting and retaining Oregon National Guard (ONG) personnel continues to be the primary focus for the 2005-07 biennium.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $7.2 million is $3 million or 70.3% higher than the 2003-05 legislatively approved expenditure level and $1.5 million more than the Governor's recommended budget. The adopted budget eliminates $0.1 million General Fund for special payments to the Student Assistance Commission eliminating the National Guard Tuition Assistance Program.

The adopted budget reflects the addition of $1.85 million to provide $0.35 million General Fund to reimburse active members of the Armed Forces and certain retirees for the cost of hunting and angling licenses; $0.5 million General Fund to provide tuition waivers for surviving family members of Oregon National Guard members killed while on active duty; and $0.5 million General Fund and $0.5 million Other Funds to provide hardship grants and loans to members and the immediate family of Oregon National Guard members on active duty.

The Legislature also approved $90,000 Other Funds to convert a limited duration Office Specialist 2 position in the personnel office to a permanent full time position and the reclassification of a Human Resources Assistant to a Human Resource Analyst 1 and an Accountant 2 to an Accountant 3 position. The remaining increases reflect applying the standard inflation rate of 2.4% for services and supplies and state government service charges of $1 million total funds, and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases of $0.2 million total funds with technical adjustments by the Legislature to reflect reductions in statewide governmental service charges and assessments.

OMD – Operations

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	8,969,081	9,470,078	11,688,822	11,333,282
Other Funds	1,604,272	3,232,454	3,121,721	3,264,668
Federal Funds	44,259,931	49,440,762	57,593,637	57,819,501
Total Funds	**$54,833,284**	**$62,143,294**	**$72,404,180**	**$72,417,451**
Positions	348	389	399	402
FTE	296.58	342.12	357.66	362.16

Program Description

The Operations program is responsible for the operation and management of the Army and Air National Guard programs on a daily basis. The Operations program consists of 13 major areas of responsibility for the National Guard programs. The areas of responsibility include:

- ***Army National Guard Facilities Operations and Maintenance*** (121.81 FTE). This program combines all Army National Guard facilities operations and maintenance activities into one program including real property operations and maintenance, logistical facilities, armories, training facilities, security, and automated target systems. The program provides basic operation, maintenance, repair, and alteration support for Oregon Army National Guard facilities. The program is funded primarily by Federal Funds with a state matching requirement of 0% to 50%, depending on the nature of the program.
- ***Army National Guard Construction Operations*** (4.00 FTE). This program manages construction of Oregon Army National Guard facilities. Construction management includes project oversight, contract administration, and quality assurance to ensure that construction work is completed according to plans, specifications, and terms of the contract. The program is funded primarily with General Fund.
- ***Army National Guard Environmental Program*** (11.00 FTE). This program is responsible for overseeing compliance with federal and state environmental regulations for Oregon Army National Guard facilities. The program is 100% federally funded, except for one position that requires a 25% state match.
- ***Counterdrug Program.*** This program supports local, state, and federal law enforcement efforts to stop the flow of illegal drugs into the state and manufacture of illegal drugs in Oregon. In addition, the program supports the drug abuse prevention education and training efforts of community-based organizations. The program utilizes Oregon National Guard members, equipment, and specialized technology to provide technical, operational, training, and reconnaissance/observation that augments drug abuse prevention programs within Oregon. The program is 100% federally funded.
- ***Air National Guard Administration Program*** (2.00 FTE). This program provides command and administrative support for all Oregon Air National Guard programs. Administrative staff is 100% federally funded, while services and supplies are funded by the General Fund.
- ***Air National Guard Civil Engineering Program*** (49.95 FTE). This program provides facility operations and maintenance, repair, and alteration support for the Portland Air Base, Kingsley Field, and Camp Rilea Air National Guard facilities. The program is funded primarily by Federal Funds, with a state match of 15% to 25%.
- ***Air National Guard Security Program*** (29.00 FTE). This program provides security police protection at the Portland Air Base and Kingsley Field. Security personnel are instrumental in protecting aircraft and facilities against theft, sabotage, vandalism, and trespass. This program is 100% federally funded.
- ***Air National Guard Fire Protection Program*** (43.00 FTE). This program provides fire protection at the Portland Air Base and Kingsley Field. Personnel are trained to contain aircraft fires, perform air crew extraction, and provide structural fire fighting protection. It is the only source for crash/rescue and fire fighting at the Klamath Falls Airport. This program is 100% federally funded.
- ***Air National Guard Environmental Program*** (2.00 FTE). This program monitors and ensures environmental compliance at the Portland Air Base, Kingsley Field, and Camp Rilea Air National Guard facilities. The program is funded through a federal-state cooperative agreement and requires state matching funds of 15% to 20%, depending on the program location.
- ***Kingsley Field Billeting Program*** (2.00 FTE). This program provides lodging to Oregon National Guard members, F-15 fighter pilot students, and flight medicine students receiving training at Kingsley Field. The program is 100% federally funded.
- ***Air National Guard Family Support Services*** (2.00 FTE). This program provides family readiness and support assistance to the Air National Guard members and their families in Klamath Falls and Portland.

Services focus on family and personal readiness, economic viability, and overall satisfaction with life in the Air National Guard by members and their families. The program is 100% federally funded.

- ***Electronic Security System Program*** (2.00 FTE). This program provides electronic security systems for all facilities designed for storage of small arms or ammunition. Electronic security system equipment and replacement components are procured directly through the federal supply system with 100% Federal Funds.
- ***Equipment Refurbishment Program*** (92.00 FTE). This program provides repair for excess unserviceable electronics, power generation, and support equipment that is then redistributed to fill critical equipment shortages in the National Guard. The program is operated at Camp Withycombe in Clackamas, Oregon and is 100% federally funded.
- ***Telecommunications Program***. This program provides procurement, operation, and maintenance of the Oregon Army National Guard telecommunications system and is 100% federally funded.
- ***Distance Learning Program*** (1.40 FTE). 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.

Budget Environment

The Oregon National Guard currently has 567 buildings, including 398 operational armories and 153 training/logistical sites in 25 counties representing approximately 3.5 million square feet. The age of a majority of the Army National Guard facilities makes them inefficient and expensive to operate and maintain. The average age of all Army National Guard facilities is 38 years. A recent analysis indicated 15% are in compliance with Department of Army standards and are in good condition, 21% do not fully meet Department of Army standards and are in fair condition overall, and 47% are dysfunctional or substandard and in poor condition overall. 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. The current backlog of deferred maintenance is estimated at $73 million. Without additional funding, the agency expects the current trend of facility degradation to continue at 5% per year. Currently, 13 armories, 11 vehicle maintenance facilities, and 372 other buildings are being operated without basic custodial and facility maintenance and repair support. The Department projects a significant increase in repair costs, if repairs are delayed to future biennia. Security concerns following September 11th have caused the Department to discontinue using inmate labor for custodial tasks at the Portland Air Base.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $72.4 million total funds is $10.3 million or 16.5% above the 2003-05 legislatively approved budget. The Legislature reduced services and supplies by $0.4 million total funds to address the statewide General Fund shortfall including estimated savings from the Governor's "Smart Buy" initiative. The adopted budget reflects a reduction of $0.3 million total funds to reflect legislative adjustments in statewide governmental service charges and assessments. In addition, the budget reduces $2.9 million total funds to phase-out one-time costs related to facility maintenance, facility rental costs, and the cost of issuing Certificates of Participation in the 2003-05 biennium. The adopted budget includes enhancements totaling $8.7 million total funds as follows:

- $1.4 million General Fund for lease payments to be made to the Department of Administrative Services for the Ochoco facility which was transferred to the Oregon Military Department from the Oregon Youth Authority during the 2003-05 biennium;
- $50,000 General Fund and $0.3 million Federal Funds to support facilities operations and maintenance activities at the Portland Air National Guard Base;
- $60,000 General Fund and $0.3 million Federal Funds to support facilities operations and maintenance activities at Kingsley Field Air National Guard Base;
- $90,000 Other Funds to support operations and maintenance at the Baker City Readiness Center;
- $70,000 Other Funds and $50,000 Federal Funds to support basic facility operations, maintenance, and repair and one permanent custodian (0.83 FTE) for the new Lane County Field Maintenance Shop;
- $80,000 Federal Funds to establish one federally funded Trades and Maintenance Worker 1 position;
- $60,000 General Fund to provide resource for operation and maintenance of the new Central Oregon Readiness Center, formerly the Oregon Youth Authority Ochoco Correctional Facility in Prineville;

- $5 million Federal Funds to support sustainment, rehabilitation, and modernization of facilities and weapon ranges at training sites as well as force protection improvements to Army National Guard facilities;
- $20,000 Federal Funds for services and supplies to support the Air National Guard Family Support programs located at the Portland Air National Guard Base and the Kingsley Field Air National Guard Base;
- $30,000 Federal Funds to reclassify one Office Specialist 1 position to a Property Specialist 2 position and four Natural Resource Specialist 3 positions to Natural Resource Specialist 4 positions;
- $0.5 million Federal Funds to convert five limited-duration positions into permanent positions (one Information Systems Specialist 4, two Trades Maintenance Worker 2s, one Administrative Specialist 2, and one Principal Contributor 2) to address workload increases (total 5.00 FTE);
- $0.5 million Federal Funds to establish two Natural Resource Specialist 4 positions in the Environmental Branch; a Trades Maintenance Supervisor at Camp Withycombe; and the reclassification of three Laborer 1 positions from seasonal to permanent full-time positions at Camp Rilea; and
- $0.2 million Federal Funds to establish a Principal Executive Manager A and a Laborer 2 (2.00 FTE) to meet increased workload of refurbishing and returning to the Army's inventory critically needed power generators.

The remaining changes reflect applying the standard inflation rate for services and supplies, capital outlay, and state government service charges resulting in a net reduction of $0.3 million total funds; net increases for cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases at $4.5 million total funds; and debt service increases of $0.1 million total funds.

OMD – Community Support

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	880,331	630,371	563,549	552,566
Other Funds	6,318,071	1,442,719	1,680,193	1,669,398
Federal Funds	3,930,038	4,325,908	4,487,654	4,468,112
Total Funds	**$11,128,440**	**$6,398,998**	**$6,731,396**	**6,690,076**
Positions	48	48	44	44
FTE	48.00	46.79	44.00	44.00

Program Description

The Community Support program coordinates support for local programs and supports the Governor's initiatives on education, environment, public safety, and productivity. The program contains the agency's Science and Technology Academy Reinforcing Basic Aviation and Space Exploration (STARBASE), Youth Challenge, and Innovative Readiness Training programs. STARBASE is designed to increase at-risk third through eighth grade students' awareness of the importance of math and science. The curriculum demonstrates math and science applications in aerospace operations. National Guard members demonstrate applicability of math and science to flight operations, weather reporting and forecasting, electronics maintenance, and fire fighting facilities. Youth Challenge offers at-risk high school dropouts an opportunity to complete educational credit with a goal of reintegrating into high school to earn a diploma or prepare for the General Education Development (GED) examination. The program consists of a 22-week residential training program followed by a 12-month nonresident program. Innovative Readiness Training provides engineering and construction training for Oregon Army National Guard soldiers through community support projects that will provide military-related training for soldiers. Typical projects include park development and construction, road and bridge construction, and utility projects.

Budget Environment

The STARBASE and Innovative Readiness Training programs are 100% federally funded through the National Guard Bureau. The National Guard Bureau is increasing federal funding to improve and expand the curriculum of the STARBASE program. The Youth Challenge Program is 60% federally funded, requiring 40% state matching funds. A portion of the required state match is received from Average Daily Membership Other Funds revenue through the Bend-LaPine School District and the remainder has historically been received from the General Fund.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $6.7 million is $0.2 million total funds or 3.7% higher than the 2003-05 legislatively approved budget. The adopted budget is reduced by $4,950 total funds to capture estimated savings from the Governor's "Smart Buy" initiative and $10,000 total funds to reflect adjustments made by the Legislature in the Department of Administrative Services assessments, Attorney General hourly rate, State Library assessment and for a 3% reduction in services and supplies. The adopted budget adds $30,000 Other Funds and $50,000 Federal Funds to establish one limited duration Group Life Coordinator 2 position (1.00 FTE) to work with at-risk youth in the Youth Challenge Program. The remaining increases reflect applying the standard inflation rate of 2.4% for services and supplies and state government service charges resulting in a net decrease of $60,000 total funds, and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases of $0.2 million total funds.

OMD – Capital Improvement/Major Construction

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
		950,000		
Other Funds	507,000	7,355,001	2,000,000	2,000,000
Federal Funds	3,706,000	44,885,150	7,750,000	7,750,000
Total Funds	**$4,213,000**	**$53,190,151**	**$9,750,000**	**$9,750,000**

Program Description

This program provides for new construction, remodeling, or improvements to facilities to carry out the agency's mission.

Revenue Sources and Relationships

Other Funds revenue in the Construction Account is from the sale of real property and earned interest. The revenues generated from the sales of properties are used as state matching funds. By emphasizing construction of Armed Forces Reserve Centers wherever possible, the agency can access Federal Funds for approximately 97% of the design and construction costs, requiring 3% state matching funds. Depending on the type of facility constructed, the federal government pays between 67% and 100% of the approved construction cost. Site improvements and multi-purpose accommodations outside the federal guidelines are 100% state obligations. The Department is also partnering with other state departments as well as county and municipal agencies to co-locate, identifying common functions such as assembly halls, parking lots, restrooms, classrooms, cafeteria, and food service areas that may be shared. This reduces the design and construction costs, and reduces the long-term operations and maintenance burden of each agency. Finally, the Department works to identify buildings, facilities, and real property that are excess. These properties and facilities are sold and the funds added to the Major Construction Other Funds Account for future projects. Other funding sources may include Certificates of Participation and interest earnings.

Budget Environment

The Construction Account, mostly acquired from the sale of Camp Withycombe property for highway right-of-way, is nearly depleted and cannot provide the required match on currently approved federal projects. The agency has more than 30 projects identified in the National Guard Bureau Long-Range Construction Plan, with costs estimated at $214 million. Of that amount, the state would be required to pay 10% ($21.4 million). While the agency plans to identify excess buildings, facilities, and real property to generate revenue to offset the state match requirement, the Major Construction Other Funds Account presently does not have sufficient funds to undertake additional projects. The agency plans to pursue all available Federal Funds for new facility design and construction and is looking to partner with other state agencies to share services and reduce operational expenses. In the future, Federal Funds for capital construction are expected to be highly competitive.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $9.8 million total funds is $43.4 million or 81.7% less than the 2003-05 legislatively approved expenditure level. The adopted budget will provide $1.5 million Federal Funds for the Camp Rilea Fire Suppression Infrastructure project; $1.5 million Federal Funds for the Camp Rilea Training Center Campus; $2 million Federal Funds for Camp Rilea Utility Infrastructure Upgrades; $2 million Federal Funds for Camp Withycombe Infrastructure upgrades; $0.75 million Federal Funds to build a new mail distribution center at the Salem Headquarters building; and $2 million Other Funds to construct an auditorium at the Salem Headquarters building using donations through the Heritage Park Foundation.

Board of Parole and Post-Prison Supervision – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	3,000,346	3,237,956	3,422,405	3,344,973
Other Funds	3,424	9,294	9,517	9,517
Total Funds	**$3,003,770**	**$3,247,250**	**$3,431,922**	**$3,354,490**
Positions	16	15	15	15
FTE	15.75	14.75	14.75	15.00

Agency Overview

The three member Board of Parole and Post-Prison Supervision is responsible for setting parole release dates for offenders who committed crimes prior to November 1, 1989; approving release plans and establishing conditions of community supervision for all offenders; setting release dates for dangerous offenders; 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 the General Fund. Other Funds revenue is generated from the sale of documents and hearing tapes to members of the public and to offenders.

Budget Environment

The Board's role has changed as the number of offenders eligible for parole (for crimes committed before November 1989) decreases and the number of post-November 1989 offenders eligible for post prison supervision (PPS) increases. The Board establishes release dates only for the pre-November 1989 offenders but sets the conditions for supervision and responds to violations of those conditions for all offenders. The number of pre-November 1989 offenders has decreased from 5,300 in 1988 to 1,165 in 2005. In contrast, the number of post-1989 offenders has increased to over 11,697 by 2005. The result of this shift is the Board holds fewer formal release date hearings but has a significantly greater administrative workload involving release plans, revocations, warrants, and discharges. Major factors and trends contributing to the workload of the Board include:

- The number of ***offenders under parole and post-prison supervision*** continues to grow. Based on the forecast prepared by the Office of Economic Analysis (April 2005), this number is expected to continue its growth from 11,033 in April 2002, to 11,245 in July 2003, to 12,354 by July 2005, reaching 12,913 by July 2007. Roughly 85% of this population is under the jurisdiction of the Board and the remainder is under the jurisdiction of counties. This growth leads to increases in the number of ***supervision orders and plans*** the Board issues. The most recent forecast also shows continued growth in the prison population meaning a continuing future workload for the Board.
- The number of ***supervision violation hearings*** has decreased over the years. The Board's single hearings officer conducts hearings in 23 counties. The remaining 13 counties conduct their own hearings under an intergovernmental agreement, but the payments made to counties by the Board have not kept pace with the cost. As a result, some counties may decide to return the responsibility to the Board.
- The number of ***supervision revocations*** has fallen from a monthly average of 140 in 1995 to 115 in 2005.
- The Board issues ***arrest warrants*** for those offenders who abscond supervision. The number of warrants has averaged approximately 459 per month in 2005. This is down from the 1997 average of over 600 per month, before the implementation of SB 1145 which transferred responsibilities to the counties. The Board can impose sanctions in excess of 60 days while local parole officers and hearing officers may sanction up to 30 and 60 days respectively.
- The number of ***public and victim contacts and inquiries*** for offenders has increased due in large part to the growth in the number of registered victims – from 300 in 1988 to over 11,024 in 2005. The growth during the current biennium to date has been approximately 4.5%.

Legislatively Adopted Budget

The legislatively adopted budget for 2005-07 of $3,344,973 General Fund is 3.3% greater than the 2003-05 legislatively approved budget. Other Funds expenditures are expected to grow slightly between the two periods from $9,294 to $9,517. The proposed budget generally reflects the level of service funded in the 2003-05 biennium and increases due to growth in personnel and other costs common to all agencies. The budget reflects a reduction in Services and Supplies to fully fund Board member salaries as well as to increase one position to a full FTE to keep pace with workload. There were no significant reductions beyond the standard adjustments for 3% Services and Supplies cuts, PERS, state government assessments, and Attorney General charges, totaling $95,489 General Fund. The agency does face fiscal challenges including potential under-funding in the amount required for Attorney General charges, increasing workloads for administrative staff, and unfunded Law Enforcement Data System (LEDS) costs. The agency may need to reduce expenditures in other areas to meet these needs.

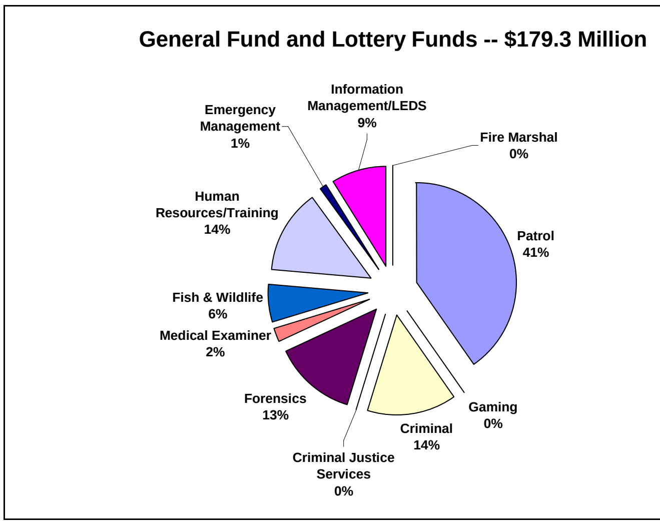
Department of State Police (OSP) – Agency Totals

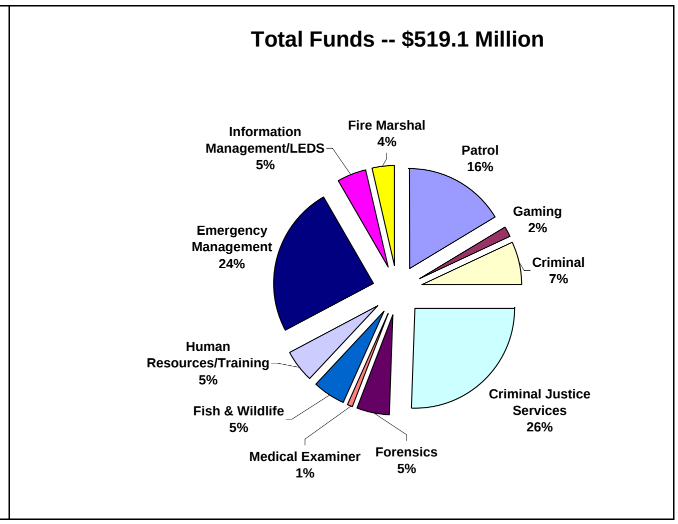
	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	171,408,744	160,992,534	100,343,841	172,907,032
Lottery Funds	4,412,022	5,612,283	76,015,514	6,357,583
Other Funds	109,811,407	135,599,592	134,416,104	142,141,280
Federal Funds	49,020,527	144,603,277	99,522,521	147,912,929
Federal Funds (NL)	22,627,157	42,995,555	49,809,857	45,186,647
Total Funds	**$357,279,857**	**$489,803,241**	**$460,107,837**	**$519,128,681**
Positions	1,506	1,180	1,131	1,142
FTE	1,414.71	1,165.21	1,129.78	1,140.07

Agency Overview

Historic functions of the Department of State Police (OSP) include patrol, criminal investigation, forensic lab services, and fish and wildlife law enforcement. Responsibilities expanded when the 1993 Legislature approved merger of the Boxing and Wrestling Commission, Office of Emergency Management, Law Enforcement Data System (LEDS), and State Fire Marshal. The 1995 Legislature further expanded agency responsibilities by adding two more functions, the Medical Examiner and Criminal Justice Services Division (CJSD). The 2005 Legislature did not agree with the Governor's proposal to transfer the State Fire Marshal, Office of Emergency Management, and the CJSD to the new Office of Homeland Security. The charts below demonstrate the distribution of the budget between the divisions.

2005-07 Legislatively Adopted Budget by Unit





The management of OSP made the policy decision during 2003-05 to maintain full staffing for the Patrol Division at the expense of staffing in other divisions. A large number of retirements of sworn officers left a number of positions open in the Patrol, Criminal, and Fish and Wildlife Divisions. Staff was moved around to insure staffing in Patrol was at the level to maximize public and staff safety given the resources available. By January 2005, with the completion of a recruit school, the vacancy rates for the Criminal and Fish and Wildlife Divisions had been reduced. Early in the 2005-07 biennium, vacancy rates are up again in these two divisions. A budget note instructs the agency to report to the Emergency Board on the number of vacant and double-filled positions. Another budget note instructs the agency to fill any positions in the Fish and Wildlife Division in a timely manner and not to leave any positions vacant to ensure positions in other divisions are filled.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for the Department of State Police of $172.9 million General Fund and $519.1 million total funds represent an increase from 2003-05 of 7.4% and 6%. respectively. The budget does not reflect two major proposals included in the Governor's budget – (1) backfill of almost $70 million of General Fund with Lottery Funds in the Patrol and Fish and Wildlife Divisions, and (2) the creation of a new Homeland

Security agency which would have transferred the Office of Emergency Management, the Office of the State Fire Marshal, and the Criminal Justice Services Division to the new agency.

The Governor's recommended budget did not address under-funding of a number of programs and activities. Since these activities are core functions of the agency or provide vital support for core functions, OSP would have had to identify vacancy savings or other savings to provide sufficient funding. The Legislature addressed many of these issues by new investments in the agency or by redirecting funds within the existing budget.

- Services and Supplies (S&S) funding for vehicle-related costs (e.g., gasoline), information management maintenance, forensics lab, and wireless communications were under-funded. A total of $3.7 million was added to the budget which is partially offset by the 3% S&S reduction ($0.9 million General Fund) common with many agencies. This investment still does not meet all of these needs especially given increasing gasoline prices.
- Ongoing costs of the Identification Services Unit (criminal background checks and fingerprints) were under-funded so $1.4 million General Fund was added as well as increasing fees to generate an estimated $1.8 million in Other Funds revenue.
- Nine positions were added at a cost of $1.1 million to avoid double-filled positions in agency infrastructure including finance, personnel, and facility management.

Other General Fund related budgetary actions include:

- Elimination of 20 patrol positions which provided $3 million General Fund for a portion of the investments listed above. The agency is to evaluate positions across the Department to see if staff may be transferred to backfill these lost positions.
- Continuation of 21 detective positions proposed to be eliminated in the Governor's budget assigned to major crime teams and drug teams ($3.4 million General Fund).
- Establishment of 8 detective and two forensic lab position to investigate methamphetamine-related crimes ($2 million General Fund).

The budget also reflects a reorganization of functions to what the agency feels will better reflect the management structure of the agency. This was not requested in the Governor's budget. These transfers include field command and support staff from the Administrative Services Division to the Patrol Services Division and the Dignitary Protection and Capitol Mall Security units from the Criminal Division to the Patrol Services Division. The table below summarizes positions changes within the agency for the current and past few biennia. For comparison between biennia please refer to the 2005-07 legislatively adopted before reorganization row for the 2005-07 biennium.

Change in Funded Positions for OSP in 2001-03 to 2005-07
(does not include cadets, seasonal and limited duration positions)

	Patrol	Fish & Wildlife	Criminal	Forensics & Medical Examiner	Gaming	Info Mgmt & LEDS	Emerg Mgmt & Fire Marshal	Crim Justice Serv	Admin Services & Training	Total
2001-03 Legislatively Approved	447	120	157	149	42	159	116	10	226	1,426
2003-05 Legislatively Approved	334	120	152	113	42	107	114	12	152	1,146
2005-07 Governor's Budget	329	120	132	115	41	114	108	12	149	1,120
2005-07 Legislatively Adopted Before Reorg	309	120	153	116	42	114	115	12	158	1,139
2003-05 Legislatively Adopted After Reorg	360	120	138	116	42	114	115	12	122	1,139

Three other issues are worth noting for this budget which should be reviewed during this biennium:

- With the shrinking number of Patrol troopers available in the OSP budget (as indicated in the table above), the agency may want to explore prioritizing staffing distribution based on factors relating to regional characteristics and/or capacity of local public safety agencies to ensure the best use of scarce OSP staff.
- While the 2005 Legislature did restore some of the agency support infrastructure that has been significantly reduced in the last two biennia, the agency still may lack sufficient staff in the Administrative Services Division and the Information Management Division to provide the necessary support and training required to operate an agency of this size and complexity.
- The table above shows the number of funded positions for the agency but the agency's practice during part of 2003-05 was to keep sworn positions in the Patrol position filled at the expense of vacant positions in the Fish and Wildlife Division and the Criminal Division.

OSP – Patrol Services

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	70,217,395	66,929,723	0	72,171,966
Lottery Funds	0	0	65,508,219	0
Other Funds	5,155,967	9,067,459	9,995,351	12,233,266
Federal Funds	1,200,696	326,626	321,469	321,373
Total Funds	**$76,574,058**	**$76,323,808**	**$75,825,039**	**$84,726,605**
Positions	509	351	329	360
FTE	469.87	342.67	329.00	360.00

Program Description

The Patrol Services Division provides uniformed police presence and law enforcement services throughout the state with primary responsibility for traffic safety and response to emergency calls on Oregon's highways. Services include enforcement of the Motor Vehicle Code, Motor Carrier Regulations, Public Utility Commission Laws, Criminal Code, and assistance to local public safety agencies and the public. The 2005 Legislature approved transfers of the field command and support staff to this division to better reflect the reporting structure within the agency. In addition, the Capitol Mall Security unit and the Dignitary Protection unit were transferred into this Division.

Revenue Sources and Relationships

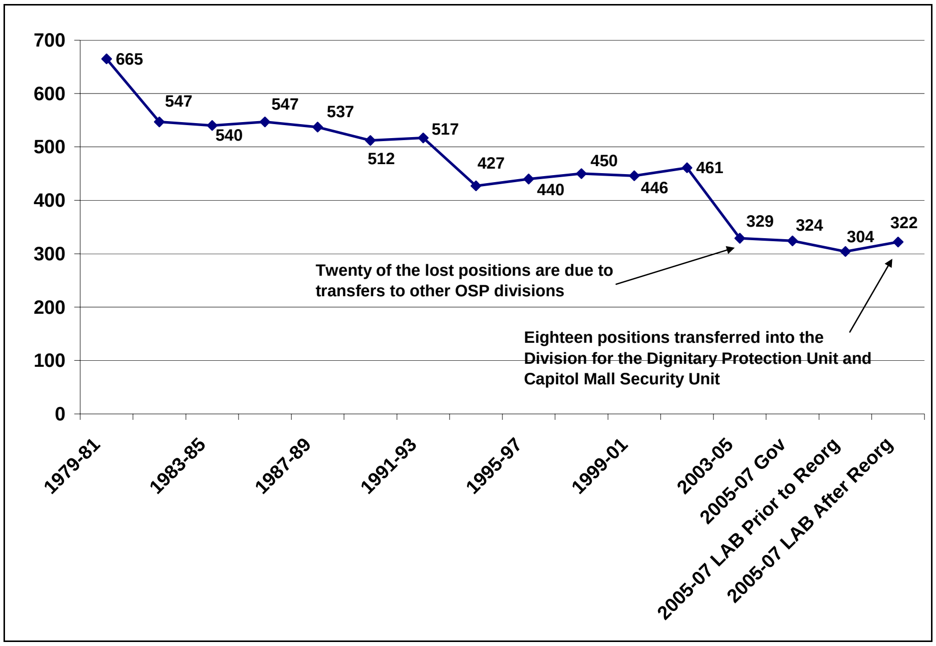
Other Funds revenues are received from the Department of Transportation for a variety of purposes (totaling $6.3 million) including traffic safety patrols in highway construction zones, commercial truck inspections, snow-park enforcement, and DMV vehicle identification (VIN) inspections. Additional Other Funds sources include Oregon State University for campus security ($1.8 million), Parks and Recreation Department ($560,809), and State Fair for security services ($113,586). Beginning in 2005-07 the transfer of the Capitol Mall Security unit results in additional Other Funds revenue from the Legislative Administration Committee ($1.2 million) and the Department of Administrative Services ($1.1 million).

Budget Environment

Since 1980, Oregon has experienced increases in population, licensed drivers, registered vehicles, and vehicle miles driven. However, the State Police presence on roadways as measured by the number of sworn officers in the Patrol Division has decreased from 665 to 304, or over 50% below 1980 levels (see chart below). Prior to 2001-03, this reduction was due, in part, to the need to shift officers to address increases in criminal activity (violent crime, juvenile crime, drug activity, crimes against children) and increased competition for limited General Fund resources. Since 2001-03, the decrease is due to state budget shortfalls and the need to fill other crucial holes in the State Police budget. As a result of sworn staff reductions, almost all of the state is without 24-hour coverage, patrol areas have been expanded, many duties have been eliminated, response time has increased, and officer safety has been compromised.

From 1985 to 1997, when patrol troopers were being reduced, the number of annual traffic accidents remained below the 1985 level (50,284) until 1998 when the number of accidents reached 51,785. Since 1998, the number dropped again to a 2002 level of 48,282, rising to 51,707 in 2003, and dropping to 41,394 in 2004. The number of persons killed in accidents also declined from 1990 to 1999 (from 579 to 413); and then increased to 512 in 2003. For 2004, the number of persons killed in accidents was 455. Whether these recent increases are related to the drop in the number of troopers requires more research. Prior to 2003, the overall reduction in accidents had been largely attributed to tougher drunk driving laws, vehicle/roadway improvements, advances in trauma care, and aggressive public information, which seems to have increased safety awareness and encouraged changes in driving behaviors.

Patrol Division Sworn Full Time Positions



The Department has not updated its Community-Based Resource Gap Analysis since 2000. That analysis identified the need to add over 150 troopers at that time, but since then the number of troopers has instead been significantly reduced. Troopers are generally assigned for patrol only on major highways (e.g., I-5). A major accident or storm can leave even these areas with no coverage. Even with the number of retirements during 2003-05, the agency did keep the number of troopers in this Division at near full strength unlike other divisions such Criminal and Fish and Wildlife.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for the Patrol Division of $84.7 million total funds is 11% greater than the legislatively approved budget for 2005-07 of $76.3 million total funds. Without the transfer of positions and $9.2 million funding of field-related costs to this division, the total funds budget would have decreased by over 1%. The Legislature did not adopt the Governor's proposed substitution of all General Fund for this division with Lottery Funds generated from the expansion to line games. General Fund grew between 2003-05 and 2005-07 by 7.8% driven by the transfer in of positions and funding from other divisions. Without these transfers, the General Fund decreases by 2.5% for the same period.

The 2005-07 budget reflects the continuation of the decrease in the number of sworn full-time staff available for enforcement and safety efforts on the highways. As shown in the chart above, the number of these troopers has fallen from 665 to 304 over 25 years. The 2005 Legislature reduced the number by 20 troopers ($3 million General Fund savings), in part to fill gaps in other areas of the agency's budget including funding for vehicle operation costs, agency infrastructure (e.g., wireless communications and financial-related staff), and the costs of the Identification Services unit (e.g., criminal background checks).

Other major changes adopted by the Legislature for the 2005-07 budget include:

- Addition of $1 million General Fund for vehicle operation costs (e.g., fuel) and other Services and Supplies items which had not been fully funded in the Governor's budget. Even with this investment, the division continues to be under-funded in these areas and will have to rely on vacancy savings and other resources to operate.
- Elimination of 8 cadet positions and transfer of the funding to be used for temporary employees. The agency has almost eliminated its cadet program and will use retired troopers instead for seasonal-related work.

- Elimination of 5 sergeant positions which the agency had originally requested to fund other positions. The Governor's budget eliminated both the positions and the funding.
- Approval of an agency requested transfer of positions and funding into the Patrol Division ($6.9 million General Fund and $9.2 million total funds) relating to the field command and support staff (36 positions) from the Administrative Services Division. There was also a transfer of 15 positions for the Dignitary Protection Unit and the Capitol Mall Security from the Criminal Division.

A budget note instructs the Department of Administrative Services, with the assistance of the Legislative Fiscal Office, to study the benefits, costs, and impact of transferring the responsibilities of the Patrol Division to the county sheriffs.

OSP – Criminal Services

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	21,886,584	18,804,716	21,208,111	25,677,742
Other Funds	4,337,753	6,302,652	6,911,340	4,965,651
Federal Funds	5,271,842	8,456,011	5,905,664	5,904,644
Total Funds	**$31,496,179**	**$33,563,379**	**$34,025,115**	**$36,548,037**
Positions	149	160	135	141
FTE	145.52	157.86	135.00	141.00

Program Description

The Criminal Services Division augments and supports local law enforcement through investigation of major crimes, the pursuit and apprehension of criminal offenders, and the gathering of evidence. Many of the crimes investigated by OSP are intrastate and multi-jurisdictional. Specialized areas or units include arson/explosives, drug investigations, intelligence, missing children clearinghouse, sex offender registration, sexually exploited children, tobacco tax compliance, polygraph examinations, computer crimes, homicide incident tracking system (HITS), and crimes in state correctional institutions. Before the budget reductions made in 2001-03, detectives were participating in 36 county child abuse multi-disciplinary teams; 29 interagency major crime teams; and many other groups including drug investigative teams, arson task forces, and district attorney investigative support teams.

Revenue Sources and Relationships

The Division is expected to receive $10 million in Other Funds or Federal Funds revenue. Major sources of this revenue include:
- Resources for the Tobacco Tax Compliance Task Force of $1.1 million from the Department of Revenue.
- Marijuana eradication funding from the U.S. Forest Service ($26,715 Federal Funds), Bureau of Land Management ($32,466 Federal Funds), and the Oregon Department of Justice ($36,167 Other Funds).
- Sex offender registration fees ($314,057 Other Funds).
- Arson/bomb investigation funding ($2.1 million Other Funds) from the State Fire Marshal.
- Funding for High Intensity Drug Trafficking Areas, or HIDTA ($5.4 million Federal Funds).
- Drug enforcement funding from the U.S. Drug Enforcement Agency ($109,537 Federal Funds) and federal drug seizures ($174,546 Federal Funds).
- Resources transferred from the Department of Human Services ($76,170 Other Funds) to prevent tobacco use by minors.

Funding for Capitol security from the Legislative Administration Committee ($1.2 million Other Funds) and the Department of Administrative Services ($1.1 million Other Funds) for Capitol Mall security was transferred to the Patrol Division starting in 2005-07.

Budget Environment

The major workload driver for this Division beyond the crime rate is the capacity of local law enforcement agencies and their willingness to use OSP resources. State Police detectives are important resources across the state, but the larger local law enforcement agencies have many more resources available. For Eastern Oregon, the Coast, and other more rural areas of the state, OSP sometimes are the primary resource available to assist local jurisdictions with investigation of major crimes. Their participation is often key to solving the crime and beginning the process through the entire public safety system.

The Office of Public Safety and Security was created partially as a response to the events of September 11, 2001. Its purpose is to coordinate efforts of the state, local, and federal partners to protect Oregonians from domestic and international terrorism. Staff participates on formal task forces including the FBI's Joint Terrorism Task Force and DOJ's Threat Assessment Team, the Governor's Security Council, and the Office of Emergency Management's Domestic Preparedness Steering Committee.

The 2001 Legislature created and provided General Fund resources for the Tobacco Tax Compliance Task Force which consists of staff from OSP, DOJ, and the Department of Revenue (DOR). The Task Force is to address noncompliance in the state's cigarette and other tobacco products tax programs since tax revenues had decreased in recent years due, in part, to noncompliance activities such as gray market cigarettes, Internet sales, smuggling, and the use of counterfeit tax stamps. The budget for 2005-07 restores the OSP budget for this function to its 2001-03 level of five positions.

The number of investigators or detectives in this Division has been declining for the past two biennia. While specific funding has increased resources for HIDTA and the tobacco tax compliance, the number of General Fund positions has continued to decline. Since 1999, the drug enforcement section had been reduced by 68%, but with the addition of the 8 new methamphetamine positions and the assumption that all funded positions are filled, the reduction would be 19%. This has led the agency to reduce or eliminate resources supporting local or regional drug teams. As a result, these teams are less effective. For example, the Jackson County Narcotics Enforcement team (JACNET) has seen drug seizures and arrests fall over 70% since 1999. For the same period, the reduction in the number of funded major crime team detectives has not fallen as much. The workload for the remaining detectives has increased, specifically in crimes in state institutions, computer crimes, sex abuse crimes, and public official corruption cases.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for the Criminal Division of $36.5 million total funds represents a 8.9% increase from the 2003-05 legislatively approved budget. There is a 36.6% growth in General Fund for the same period ($18.8 million to $25.7 million) but much of the increase is due to vacancy savings taken in 2003-05 when many positions in the Criminal Division were held vacant. Almost all of these positions are funded in 2005-07.

The Legislature did not eliminate the 21 sworn detective positions ($3.4 million General Fund) as proposed by the Governor; but did eliminate the 6 positions assigned to the Tobacco Tax Compliance Task Force bringing staffing levels back to the 2001-03 levels for this joint effort with the Department of Revenue and Department of Justice. To strengthen the State's efforts relating to fighting the methaphedimine problem, 8 sworn positions were added ($1.7 million General Fund) to provide investigative and intelligence-related assistance to local drug teams.

Other major issues included in this budget:

- Addition of $1.4 million Federal Funds and continuation of three limited duration positions for the High Intensity Drug Trafficking Area (HIDTA) program. The majority of this funding is passed on to local law enforcement agencies.
- Increase of $100,000 Other Funds for arson investigations funded by the Fire Insurance Premium Tax (FIPT).
- Elimination of two sergeant, one trooper, and one cadet positions proposed in the Governor's budget. A major position was also transferred to the Administrative Services Division for overall agency management.
- Transfer of 15 positions in the Dignitary Protection Unit and Capitol Mall Security to the Patrol Division to conform with the management structure of the agency.

OSP – Forensic Services and Medical Examiner's Office

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	21,063,391	21,571,633	27,059,875	27,825,583
Other Funds	776,924	4,138,184	1,784,617	1,898,735
Federal Funds	0	1,340,674	832,114	1,788,523
Total Funds	**$21,840,315**	**$27,050,491**	**$29,676,606**	**$31,512,841**
Positions	125	113	115	116
FTE	122.37	113.00	115.00	115.50

Program Description

The ***Forensics Services Division*** provides scientific, technical, and investigative support to all criminal justice agencies across the state through forensic analysis. Forensic labs are located in Bend, Central Point, Ontario, Pendleton, Clackamas, and Springfield. A DNA Unit is also located in the Portland lab. The Coos Bay lab was closed in the fall of 2002 due to budget reductions. This system is the only "full service" crime lab in the state, and 90% of the work is done for law enforcement agencies other than OSP including local police, sheriffs, and district attorneys. The Implied Consent Unit is responsible for approval, certification, and servicing of portable breath testing instruments, and also trains and certifies over 5,000 law enforcement officers in the use of breath testing instruments. This unit also provides expert testimony regarding the use of these devices.

The ***Medical Examiner's Office*** is located in Clackamas and provides technical assistance and supervision to 36 county offices, directs investigations, provides direct professional services (autopsies, court testimony, case review, and consultation), and certifies the cause and manner of all investigated deaths. The State Medical Examiner appoints all 36 county examiners. The Office maintains records and provides training on death investigations to medical school physicians and students, law students, police officers, and emergency medical technicians. The Office has also provided proportional payments (up to 50% of the costs) for autopsies required in counties with population less than 200,000. This practice was discontinued as part of the budget reductions in 2002.

2005-07 Legislatively Adopted Budget

Program Area	General Fund	Other Funds	Federal Funds	Total	FTE
Forensic Services	$24,093,941	$1,702,557	$1,788,523	$27,585,021	108.50
Medical Examiner's Office	$3,731,642	$196,178	$0	$3,927,820	7.00

Revenue Sources and Relationships

Generally, the forensics labs do not charge for services and are 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. During 2003-05, the larger Other Funds amount was Certificates of Participation (COPs) proceeds used to purchase furnishings and equipment for the new lab. For 2005-07, $1.6 million Other Funds revenues represent COP proceeds to purchase new intoxilizers to replace an aging and out-of-date existing stock. Federal Funds are grants from the National Institute of Justice, generally for the purchase of equipment, supplies, and DNA test kits.

Budget Environment

A new lab facility opened in late 2004 near I-205 in Clackamas, replacing the former facility in downtown Portland. The new facility includes space for the Medical Examiner, who had been in a former Portland area funeral home, and the implied consent and latent print units formerly located in Salem.

The State Police crime lab system is the only comprehensive lab in the state and the entire public safety system depends on it for timely investigation of evidence. Forensics backlogs or turnaround times have increased from about 23 days in October of 2001 to a peak of over 50 days in July 2005. Because there have been delays, up to 33% of potential casework is not even received by the Division so it is not part of the backlog numbers. There has been a hiring and retention problem in this Division since the lay-offs in 2003 due to the continuing uncertainty of funding due to the failure of Ballot Measure 30 and the state's general financial picture. There has been a loss of trained staff to other labs, including those in surrounding states, during the last few years.

The current decrease in the number of requests for forensic services is due to a strict triage and prioritization guideline that was adopted to manage the evidence flow. Several environmental factors were contributing to the growth in requests for forensic services before the reductions in 2001-03 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. Examples of these increases included:

- The number of overall requests for services has increased 17.7% between 1997 and 2003.
- The requests for DNA testing have increased and continue to grow. Currently there are 442 DNA cases waiting to be analyzed.
- The number of pending requests at any one time grew from roughly 2,000 in January 1999 to 3,314 in September 2003, to over 4,300 in July 2005.

The majority of crime scenes are not processed for forensics evidence. Based on a 1996 report, less than 10% of the crime scenes were processed.

The workload for the Medical Examiner's Office continues to increase due to continuing growth in Oregon's population. Medical Examiner cases remain a consistent 12% of all deaths that occur. The Medical Examiner contracts with Oregon Health and Science University for toxicology testing and the costs for this contract have increased over the last several biennia.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for the combined Forensics and Medical Examiner's Divisions of $31.5 million total funds is an increase of 16.5% from the 2003-05 legislatively approved budget. General Fund resources increase by just under 29% for the same period to $27.8 million. Beyond the increased employee compensation items common to all state agencies, the primary factors driving the General Fund increase in these budgets are:

- The Legislature invested $1.1 million General Fund to provide sufficient resources for fixed costs, lab supplies, and maintenance agreements on lab equipment. Without this investment, positions would have likely remained vacant to fund these costs. This was partially offset by a decrease in funding for Services and Supplies of a combined $265,829 General Fund, a reduction common to many state agencies.
- Almost $1.9 million General Fund was added in the base budget for the 24 month roll-up of rent payments necessary for the new lab facility in Clackamas.

Other issues addressed in this budget include:

- Increase of $1.6 million Other Funds to purchase replacements for 171 intoxilizers for testing suspected DUII drivers. These will be funded by the sale of Certificates of Participation (COPs). The budget does not include any specific funding for training users of these new intoxilizers.
- Addition of two positions (1.5 FTE) and $307,628 General Fund for increased methamphetamine-related activities. The positions will be used to analyze evidence resulting from the increase of eight new detective positions in the Criminal Division and three new investigative and prosecution-related positions in the Department of Justice.
- Establishment of one morgue attendant position ($171,993 Other Funds) to provide the means to release and receive remains after business hours.

OSP – Fish and Wildlife Enforcement Services

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	4,015,672	3,540,406	0	4,710,290
Lottery Funds	4,412,022	5,612,283	10,507,295	6,357,583
Other Funds	13,509,185	14,538,591	15,889,866	15,820,323
Federal Funds	294,718	521,507	564,684	1,222,257
Total Funds	**$22,231,597**	**$24,212,787**	**$26,961,845**	**$28,110,453**
Positions	142	127	120	120
FTE	126.75	125.07	120.00	120.00

Program Description

The primary mission of Fish and Wildlife Enforcement Division is to assure compliance with laws that protect and enhance the long term health and equitable utilization of fish and wildlife resources. The officers assigned to this Division also routinely enforce traffic, criminal, boating, livestock, and environmental laws. OSP staff work closely with the Department of Fish and Wildlife (ODFW), the Water Resources Department, and the Marine Board in the enforcement of their rules. This Division also plays a crucial role in enforcing the requirements under the Oregon Plan in protecting fish habitat and stream bed enhancement. Lottery Funds (Measure 66) are specifically dedicated for this purpose.

Revenue Sources and Relationships

This Division receives its primary funding from the Oregon Department of Fish and Wildlife ($12.7 million Other Funds) based on fish and game license fees. Historically, 28.4% of these revenues have been provided to the State Police for enforcement but its share has fallen to 17.3% in 2001-03. Overall, Other and Federal Funds revenue are expected to grow slightly above the amount available for 2003-05. Major funding sources include:

- Ballot Measure 66 Lottery Funds for enforcement of activities relating to the Oregon Plan ($6.7 million Other Funds).
- Marine Board resources ($1.5 million Other Funds) for enforcement of boating laws and charters enforcement.
- Parks and Recreation Department funds for activities on the Deschutes River ($206,208 Other Funds).
- Department of Environmental Quality ($209,000 Other Funds) for environmental investigations.
- Revenue from a fee for shellfish-related enforcement ($270,000 Other Funds).

Budget Environment

The increasing population is creating greater demands for fish and wildlife enforcement and protection services at a time when there is reduced growth in license and tag revenues being transferred from ODFW. The Division's budget was 75% funded from ODFW transfers in 1981-83, falling to roughly 45% in 2005-07. In the meantime, the amount of biennial ODFW license and tag revenue has increased by roughly 100%. This decreased share has been offset by other funding sources such as Lottery Funds, but this has also changed the focus of enforcement. The increasing population will also create greater demands for recreational use of parks, waterways, wilderness areas, and public lands. This will require further regulation and restriction on the usage of these resources with accompanying demands for law enforcement to ensure compliance.

The Fish and Wildlife Division staff 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 Measure 66 Lottery funds. If this funding is reduced, the availability of this staff to perform these other functions would be reduced.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for the Fish and Wildlife Enforcement Division of $28.1 million total funds represents a 16.1% increase over the 2003-05 legislatively approved budget. General Fund resources for this Division grows by over 33% for the same period to $4.7 million primarily driven by transfers from other divisions for rent and field-related costs. The Legislature did not approve the Governor's proposal to replace the General Fund for this Division with an equal amount of Lottery Funds expected to come from the introduction of line games. The budget does eliminate seven cadet or limited duration positions overall but much of the funding from those positions were transferred to pay for temporary employees (e.g., retired troopers) to perform similar seasonal activities. The budget does reflect and increase of over $600,000 in new federal National Marine Fishery Services funding.

A budget note instructs the Department of Administrative Services, with the assistance of the Legislative Fiscal Office, to study the benefits, costs, and impact of transferring enforcement and other responsibilities of this Division to the Department of Fish and Wildlife or some other state agency.

OSP – Administrative Services Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	35,019,143	33,491,413	35,849,053	24,378,920
Other Funds	2,367,985	5,068,567	363,324	3,369,126
Federal Funds	338,709	127,918	139,934	139,180
Total Funds	**$37,725,837**	**$38,687,898**	**$36,352,311**	**$27,887,226**
Positions	140	154	149	122
FTE	131.41	152.83	149.00	122.00

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

Program Description

The Administrative Services Division (formally the Human Resource Services Division) includes the Office of the Superintendent, financial services, fleet management, labor relations, dispatch, and other agency-wide support and staff. In the past, this Division has included the leadership staff and support staff for the three regions, but the 2005-07 legislatively adopted budget transfers these resources to the Patrol Division. The Training Unit recruits, selects, and retains the sworn workforce.

Revenue Sources and Relationships

The General Fund supports the majority of the Administrative Services Division costs. Resources for training are funded from the allocation of Criminal Fines and Assessment Account (CFAA) resources ($1.1 million Other Funds). Other Funds revenues also include Certificates of Participation proceeds that cover financing costs, and revenues from limited charges for services. Federal funding is from the High Intensity Drug Trafficking Area (HIDTA) grant program.

Budget Environment

Training resources were substantially reduced during 2001-03 and 2003-05. The training budget at the beginning of the 2001-03 biennium was $4.4 million total funds and 17 positions. The 2005-07 budget has four positions funded for training and it must rely on other agency staff to augment these training resources. Without sufficient training resources, staff is challenged to keep pace with changes in the law as well as advances in the technology and science related to law enforcement. The Department of Public Safety Standards and Training (DPSST) requires completion of specified training hours for sworn staff to retain their certification. Since training positions have not been funded, OSP's ability to deliver and oversee this training has been curtailed. One solution has been for OSP to use other staff to assist in the training but this takes resources away from direct law enforcement activities.

A recruit school was started in September 2005 and recruits will graduate in January 2006. With the staff reductions in training, other staff from within the agency has to assist in the application processing, screening, and background checks taking them away from their normal assigned duties. A second recruit school has been tentatively scheduled to start in the spring of 2006. The process for selection of the these recruits starts in the fall of 2005.

Starting in 2007, OSP will use the 16-week DPSST basic law enforcement training instead of its current recruit school. It may augment the 16-week course with an "advance" academy to provide additional training unique to OSP. In addition, the new DPSST facility will include space for this advanced academy as well as other OSP training needs. OSP will contribute resources to assist with DPSST curriculum development. A number of issues are still under discussion or need to be addressed in the future including: (1) availability of space at the new DPSST facility; (2) future OSP needs for space at Camp Rilea; (3) ability of DPSST staff to meet OSP in-service training needs; and (4) how often OSP recruits will be part of the 16-week class.

Over the past two years, OSP has faced significant reductions beyond troopers on the road and criminal detectives. The support functions of the agency have also been reduced, often at a rate greater than the core functions of the agency. These support functions include the financial services, payroll, personnel-related functions, fleet management, support staff in the field, training, and dispatch in this Division. They also include the communications support staff, information management system-related staff, and others in the Information Management Division. The 2005 Legislature did add back nine positions to fill some of this gap but not to the levels of before 2001-03.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for the Administrative Services Division of $27.9 million total funds is almost 28% less than the 2003-05 legislatively adopted budget, and the General Fund budget of $24.4 million is 27.2% less than in 2003-05. The primary factor in this decline is the transfer of $10.6 million General Fund and 36 positions to other divisions for allocation of rent costs, field command and support staff, and other field-related costs. This transfer reflects the agency's move to allocate field administrative costs to the appropriate Division. Most of these resources were transferred to the Patrol Division.

Other budget-related issues for this Division include:

- Reduction in training resources of $416,727 General Fund, a portion of which was reduced to recognize the assumption that recruit school costs should decrease significantly as OSP starts to use the Department of Public Safety Standards and Training (DPPST) basic law enforcement training course. The Legislature did not approve the Governor's proposal to replace all Criminal Fines and Assessment (CFAA) revenues for training with General Fund.

- Increase of $288,509 General Fund for 2005-07 debt service needs associated with purchase of 171 intoxilizers for the Implied Consent unit in the Forensics Division. Another $64,000 Other Funds is included for the issuance costs of the Certificates of Participation (COPs) used to finance the purchase of the intoxilizers.
- Reduction of almost $600,000 General Fund for services and supplies, and elimination of five positions originally proposed by the Governor.
- Increase of $250,464 General Fund for rent of the Salem building where dispatch staff is located.
- Restoration of nine department-wide support positions ($1 million General Fund) that had been eliminated in previous biennia or in the Governor's budget. The agency would have had to continue these functions by double-filling positions.

OSP – Office of Information Management and Law Enforcement Data System

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	16,602,981	13,521,889	12,830,657	16,166,310
Other Funds	9,644,855	8,464,150	6,552,003	8,325,880
Federal Funds	107,414	0	0	311,882
Total Funds	**$26,355,250**	**$21,986,039**	**$19,382,660**	**$24,804,072**
Positions	272	107	114	114
FTE	253.04	106.78	113.78	113.65

Program Description

The Office of Information Management includes the data processing and telecommunications staff responsible for the design, acquisition, installation, maintenance, and repair of the statewide telecommunications and information management systems. This includes the wireless communication section and the information systems section. This Office also maintains the Law Enforcement Data System (LEDS), which connects law enforcement, criminal justice agencies, and other authorized users to central files. These files include data relating to wanted and missing persons, sex offenders, drug manufacturers, stolen vehicles, concealed handgun licenses, criminal records, restraining orders, and offenders under parole or probation supervision. LEDS also operates the Oregon Uniform Crime Reporting Program, which collects, processes, and distributes Oregon crime and arrest statistics and provides Oregon data to the FBI for the national crime statistics program. The Identification Services Section is located in Salem and is comprised of the Criminal History, Regulatory Compliance, Automated Fingerprint Identification System, and Firearms programs.

Revenue Sources and Relationships

This Office is mainly supported by the General Fund but uses Other Funds revenue from the sale of surplus equipment. The General Fund supports LEDS; however, it receives Other Funds from charges to user agencies. LEDS terminal fees charged to agencies using the system generated approximately $1.9 million in earlier biennia, but these fees are being phased out. In 2005-07, these fees are expected to generate approximately $300,000. The largest source of Other Funds revenue is from fees for Identification Services including: open records checks of criminal histories and firearms checks ($4 million); fingerprints checks of educators ($1.4 million); and concealed gun license checks ($200,000). The fees for open records checks of criminal histories has fallen significantly in the past two years contributing to a funding issue described below.

Budget Environment

The budget reductions during 2001-03 included substantial cuts in capital outlay. The 2001-03 General Fund budget for capital outlay at the end of the 2001 regular session was $3.3 million. During the 2002 special sessions and HB 5100 reductions, $2.4 million, or almost 75%, was eliminated from the budget. The total amount of General Fund in the 2003-05 budget was $432,000 and the amount in the Governor's budget for 2005-07 was essentially the same amount. The 2005 Legislature did add funding back for services and supplies and capital outlay which will help the agency meet some its need.

A major national issue facing OSP and other law enforcement agencies in the state, especially after the September 2001 attacks, is the lack of wireless communications interoperability – the inability of different law enforcement agencies to communicate with each other quickly. OSP must resort to carrying more than one radio in a car, which is only an option in some areas of the state. Without a statewide policy, local jurisdictions are moving forward to replace systems that meet their local needs but not the needs of other federal, state, and local agencies. There may be federal resources available in the future but may require a statewide plan based on federal guidelines. The 2005 Legislature passed HB 2101 which addresses two major issues in this area. It creates the State Interoperability Executive Council to coordinate communications issues across all levels of government in the state and to develop a plan to address this issue in six years including standards for coordinated development. The bill also requires the development of the Wireless Infrastructure Replacement Plan to address the out-of-date wireless systems used by the state agencies including OSP.

Dating back to the reductions during 2001-03, the Identification Services unit has faced revenue shortfalls. When General Fund was reduced during the 2001-03 biennium, ten employees who had been in positions financed with General Fund were placed in Other Funds financed positions. This action reduced the number of staff laid off, and allowed the agency to keep up with the demand for fingerprint and criminal records checks. At the time, it was hoped that the combination of Other Funds revenue and the amount in the program's ending balance would be sufficient to fund all of the Other Funds positions. That proved not to be and the unit was faced with insufficient resources to fund the program for the remainder of the 2003-05 biennium. Action by the Emergency Board addressed the shortfall in 2003-05 but a significant problem was not addressed in the Governor's budget for 2005-07. The 2005 Legislature authorized increases in certain fees and invested more General Fund into the program so funding should be sufficient to operate the program. The fee increases affect other state agencies and non-profit employers, but firearms-related background checks did not see a fee increase.

Legislatively Adopted Budget

The 2005-07 legislatively adopted total funds budget for the Information Management Division grows by 12.8% from the 2003-05 legislatively approved budget ($22 million to $24.8 million). General Fund growth for the same period is 19.6% to $16.2 million. This growth is in large part due to two primary reasons.

- The Services and Supplies budget for this Division in the Governor's budget was insufficient to make required payments for rent, state government service charges, and other fixed costs. In addition, the capital outlay budget was far less than it should be to keep communications and information systems equipment up to date. Actions in the Governor's budget contributed to this problem where seven positions were added representing transfers of the four Oregon Emergency Response System (OERS) staff from the Office of Emergency Management and the restoration of three wireless radio-related positions cut during 2001-03. Most of the funding for these seven positions, as proposed by the Governor, was from reductions to services and supplies within this Division. The combination of this action and the reductions during 2001-03 biennium left this Division without sufficient services and supplies resources and capital outlay. As a result, the Legislature added $1.6 million General Fund to partially address this under-funding. The 3% reduction ($162,746) to services and supplies common to many state agencies partially offsets this investment.
- The other major investment made by the Legislature was to provide additional resources for the Identification Services unit which provides criminal records and background checks for a variety of employers and others. The combination of an additional $1.4 million General Fund and $1.8 million in Other Funds new fee revenue will almost fully fund this unit. The budget assumes the agency will continue the significant fee increases made in March 2005 affecting state agencies, non-profit employers, and individuals. There are no fee increases for firearms-related activities which are one of the largest programs within this unit.

OSP – Gaming Enforcement

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	208,406	73,716	0	0
Other Funds	7,233,021	7,260,177	8,565,933	8,697,922
Federal Funds	162	0	0	0
Total Funds	**$7,441,589**	**$7,333,893**	**$8,565,933**	**$8,697,922**
Positions	42	42	41	42
FTE	42.00	42.00	41.00	42.00

Program Description

The Gaming Division ensures fairness, honesty, integrity, and security of the Oregon State Lottery and tribal gaming centers operating in Oregon. The State Lottery was established in 1985, and tribal casinos were first authorized in 1993. Since 1993, the Boxing and Wrestling Commission has operated from within the Department to ensure the integrity and honesty of boxing and wrestling events.

Revenue Sources and Relationships

The Lottery Commission fully funds Lottery security services ($5.1 million) and the Native American Tribes fully fund Indian Gaming Enforcement activities ($3.4 million). License fees fund the Boxing and Wrestling Commission regulatory activities ($168,000). Seventy-five percent of any ending balance for the Boxing and Wrestling Commission are sent to the Children's Trust Fund.

Budget Environment

The demand for Department investigative services continues to grow due to new contracts and new lottery games. The Lottery Commission began with one game and now offers approximately 80 scratch-it games and 38 break-open ticket games per year. Currently, the Department monitors 2,400 Lottery retailers and over 11,500 video lottery terminals located at over 1,500 retail video poker locations; conducts background checks on retail contractors, retail employees, and major vendors; and provides weekly oversight of megabucks, keno, power ball, and sports action games. The number of background checks varies from year to year. For example, in 2000, OSP conducted 475 background checks on retailers and in 2002 there were 428 checks performed.

Currently, there are nine tribal casinos operating 6,770 slot machines, including the new gaming center in Florence. This is an increase from only 2,600 machines in 1995. Some of the existing casinos are also considering expansions in their gaming centers. Another tribal government is in the process of getting approval to move their current casino in Central Oregon to a site closer to the Portland metro area in the Columbia Gorge.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for the Gaming Enforcement Division of $8.7 million total funds increases by 18.6% over the 2003-05 legislatively approved budget. This increase is primarily due to employee compensation, pension obligation bond debt service increases, and inflation which are common to all state agencies. The Governor proposed eliminating the Boxing and Wrestling Commission's director position from the 2005-07 budget, but more up-to-date information indicated more revenue would be available so the position was not eliminated.

A budget note instructs the agency to evaluate the level and type of staffing used by the Division to enforce laws involving tribal gaming. A report to the Emergency Board is required in Spring 2006.

OSP – Office of Emergency Management

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	1,087,138	1,608,763	3,396,145	1,881,611
Other Funds	53,666,191	63,892,575	66,710,582	68,835,141
Federal Funds	5,920,679	7,692,575	7,172,694	5,849,602
Other Funds (NL)				4,623,210
Federal Funds (NL)	22,627,157	42,995,555	49,809,857	45,186,647
Total Funds	**$83,301,165**	**$116,189,531**	**$127,089,278**	**$126,376,211**
Positions	35	37	35	34
FTE	33.00	37.00	35.00	33.96

Program Description

The Oregon Emergency Management Division (OEM) is the lead unit in responding to emergencies across the state and coordinates a statewide emergency services system. This system incorporates the separate local and state emergency service elements into a comprehensive capability to prepare for, respond to, and recover from disaster conditions. Activities include preparedness planning as well as the development and implementation of mitigation strategies. Functions include:

- Maintaining the 24/7 Oregon Emergency Response System (OERS), along with OSP, as a single point for reporting and coordinating emergencies that might require state and/or federal assistance.
- Administering grants used to respond to emergencies, hazard mitigation planning, and project implementation throughout the state.

- Administrating the statewide 9-1-1 system. This program provides funding to local systems and the lead in developing and implementing new technology in the system.
- Administering the Chemical Stockpile Emergency Preparedness Program (CSEPP) in Eastern Oregon. CSEPP is the offsite preparedness program that prepares communities to insure that local and state plans are in place to respond to issues surrounding the demilitarization of chemicals at the Umatilla Army Depot.
- Working closely with sheriffs in relation to the ground, marine, and air search rescue program.
- Providing the central point of planning, training, and exercising for the state's Domestic Preparedness program. The Office provides guidance to local governments that receive grant funds through the agency.

Revenue Sources and Relationships

The major federal funding sources are Other Funds, received through the Criminal Justice Services Division (CJSD). This funding source is 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. These funds require a 50% state or local match. OEM receives funding from CJSD for planning, training, and exercise coordination in the state's Domestic Preparedness/Weapons of Mass Destruction program. This funding has increased recently, as Congress appropriates further funding for homeland security-related training activities.

The 9-1-1 Emergency Telephone Systems program is funded by a dedicated flat monthly rate of $0.75 for all devices (wired telephone, wireless phone, or fax machine) capable of accessing 9-1-1 services ($66 million Other Funds revenue was assumed in 2005-07 budget). These funds are distributed in accordance with a statutory formula, with the majority of the funds being distributed to local government for the operation of local public safety answering points (PSAPs).

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. FEMA funds are also being made available for terrorism-related activities and, at this time, do not require state or local match. There is also funding dedicated for the CSEPP program (no match required) to pay for OEM and for local grants. Umatilla and Morrow counties receive funding through the state for CSEPP-related activities.

Budget Environment

All of Oregon's population is served by Enhanced 9-1-1 services that are provided from 51 Primary PSAPs. Eleven of the 36 counties have multiple PSAPs. Past legislative actions have promoted consolidation of PSAPs where appropriate and have been partially successful. A consultant's report from a few years ago concluded that one PSAP per county achieves the maximum practical benefits of consolidation, while preserving local control.

New technology which places voice phone calls over the Internet is being deployed around the country and in Oregon. This technology results in cheaper rates for long distance for those with broadband connections. There are a number of issues with this new technology and how it interfaces with the 9-1-1 system. Funding issues are also a challenge. The Federal Communication Commission and 9-1-1 associations are working to resolve these issues.

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 $100 million has been provided to Oregon in support of building an "adequate" emergency preparedness program in Morrow and Umatilla counties. Actual chemical incineration has begun and is expected to last for at least the next six to eight years, after which the incinerator will be decommissioned. CSEPP has completed their communications updates and purchases, and an incident response information system for first responders.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for the Office of Emergency Management of $126.4 million reflects a 8.7% increase from the 2003-05 legislatively approved budget. The Legislature did not approved the creation of a new Office of Homeland Security as proposed by the Governor but did establish two positions including a Homeland Security advisor who will administratively coordinate and lead homeland security and other emergency-related activities. These new positions ($109,894) and extraordinary rent payments of $161,333 account for a large share of the 18.7% growth in General Fund to $1.9 million.

Other features of the Office Of Emergency Management's budget include:

- The transfer of four Oregon Emergency Response System (OERS) positions ($141,015 General Fund) to the Information Management Division.
- An increase in Other Funds limitation of $382,000 for a contract to provide work relating the development of the State Interoperability Plan to improve and update the wireless radio systems of state agencies. The source of the funding is from federal Homeland Security grants.

OSP – State Fire Marshal

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	1,296,965	645,259	0	0
Other Funds	13,118,292	16,866,737	17,643,088	17,994,724
Federal Funds	3,185,826	452,916	463,883	463,336
Total Funds	**$17,601,083**	**$17,964,912**	**$18,106,971**	**$18,458,060**
Positions	82	77	81	81
FTE	80.75	76.00	80.00	79.96

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 16 Deputy Fire Marshals who serve Oregon communities that cannot 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 15 Regional Hazmat Response Teams to insure timely and complete mitigation of hazardous materials incidents.

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. In recent years, the level of revenue from the FIPT has fallen and the 2003 Legislature made statutory changes to continue a steady but lower stream of FIPT revenues. The 2005-07 forecasted revenues are $15.4 million Other Funds. A portion of these FIPT funds are transferred to the Department of Public Safety Standards and Training ($3 million) and to the OSP Criminal Investigation Division ($2.1 million), while the remainder will be used for State Fire Marshal programs.

Other Funds revenue supporting the State Fire Marshal programs include non-retail fuel dispensing fees ($534,000) for card lock enforcement, hazardous substance user fees ($2.8 million) for the Community Right to Know program, and petroleum load fees ($1.2 million) for the Hazardous Response Teams. The remaining revenue is generated from licenses and permits (relating to liquefied petroleum gas, explosives, and fireworks) totaling $788,000, and from an interagency agreement with the Department of Human Services for fire and life safety inspections of Medicare and Medicaid funded facilities ($536,000). Federal Fund revenue is from two Hazardous Materials Emergency Preparedness grants.

Costs incurred by local fire agencies after the Governor has invoked the Conflagration Act have been first reimbursed by OSP, who has then had funds allocated from the general purpose Emergency Fund. Local fire agencies are reimbursed for their actual costs, including fuel, wages, and damages that occur during the "call-up." Funds to reimburse local fire agencies are not included in the State Fire Marshal's 2005-07 proposed budget.

Budget Environment

Based on information from 41 of the 50 states and the District of Columbia, funding sources for Fire Marshal programs vary significantly. Only six states, including Oregon, rely on a FIPT or similar source to fund all or almost all of their fire prevention programs. Two states rely totally on fees, while another four states rely on fees for a specific part of their program. Fifteen states, including California, Nevada, and Washington, rely on general funds as their primary funding source. The remaining states included in this information reported a mixture of funding involving an insurance tax like FIPT, fees, or general fund resources.

State Fire Marshal staff assist all but eight of the 327 fire agencies for prevention or inspections. The state has proportionately fewer staff per capita than local prevention programs. Based on 2002 populations, there is one state staff for each 121,000 people in the areas the state covers, while the local agencies range from one to 9,735 in Portland, to one to 23,222 in the Tualatin Valley Fire and Rescue service area. Staff reductions over the past few years have resulted in fewer inspections by state staff – peaking at 6,998 in 2000 and dropping to an estimated 2,700 for 2004. State Fire Marshal deputies have been inspecting only the most critical facilities (schools, day care centers, special residential, corrections, flammable tanks, and community target facilities) and they are not always able to inspect them in a timely manner. The number of statewide fire fatalities continues a downward trend from the peak of 90 per year in the mid 1970s to 40 in 2001. The number does vary from one year to another; for example, the number for 2004 is 41, but the long-term trend continues down.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for the State Fire Marshal of $18.5 million total funds is a 2.7% increase from the 2003-05 legislatively adopted budget. This relatively small increase is due to the inclusion of 2003-05 fire costs under the Conflagration Act and one-time Homeland Security grants in the 2003-05 approved budget. The 2005-07 budget does not include any funding for fire costs since the agency does not generally request funding or limitation for fires until after the fire season. There is no General Fund in the 2005-07 budget; in past biennia the General Fund was used as the state share of fire costs.

Budget increases in this budget include:

- Program enhancements totaling $1.5 million Other Funds. The increases are for: (1) upgrades to the State Fire Net which is the communications network for the State Fire Marshal staff; (2) up-to-date material to improve Fire Code enforcement; (3) additional training for state and local staff in specific technical areas including fire sprinkler system inspections; and (4) replacement of the worn-out and outdated Children's Fire Safety House.
- Two deputy Fire Marshal positions (2.00 FTE) which would be located in Bend and Roseburg. The addition of this staff would free up the supervising deputies to work more with local jurisdictions to ensure consistent application of the Fire Code. Funding for these two positions would be from the Fire Insurance Premium Tax.
- Two new positions, one in the Community Right to Know program and the other in the Liquid Petroleum Gas program.

OSP – Criminal Justice Services

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	11,069	805,016	0	94,610
Other Funds	1,234	500	0	512
Federal Funds	32,700,481	125,684,987	84,122,079	131,912,132
Total Funds	**$32,712,784**	**$126,490,503**	**$84,122,079**	**$132,007,254**
Positions	10	12	12	12
FTE	10.00	12.00	12.00	12.00

Program Description

The Criminal Justice Services Division administers 12 federal grant formula and discretionary grant programs, monitors over 300 sub-grantees through fiscal and progress reports and on-site monitoring visits, provides technical assistance on program implementation, and works with independent contractors to conduct evaluations of grant funded projects. The federal grants include the Edward Bryne Memorial Justice Assistance Grant, STOP Violence Against Women Grant, Residential Substance Abuse Treatment program, Juvenile

Accountability Block Grant, Local Law Enforcement Block Grant, Police Corps, and State Homeland Security Grants. The Division additionally serves as staff to the Governor's Drug and Violent Crime Advisory Board and the Governor's Council on Domestic Violence.

Revenue Sources and Relationships

Federal Funds for the Criminal Justice Services Division programs are derived from a number of U.S. Department of Justice grants including those listed above. Many require some form of state or local match ranging from 10% to 25% of the federal money. Others, including those related to homeland security; do not require a state or local match.

Budget Environment

The Criminal Justice Services Division administered and coordinated twelve programs involving well over $100 million during 2003-05. In 1995-97, when it was first established, it only managed three grants involving about $12 million. The Division's role has also grown from a pass-through agency to a grant management agency that is involved in providing central information to various components of the criminal justice community, as well as coordinating activities related to applications, reporting, monitoring, and program evaluation. Homeland Security-related grants have generated much of the growth in the past few years. The grant funds are passed through to roughly 300 sub-grantees, including state, county, and city government agencies and non-profit organizations.

The federal government is changing the nature of some of these federal grant streams. The Bryne grant (roughly $6 million annually) has been combined with the smaller Local Law Enforcement Block Grant into the new Justice Assistance Grant. The combined funding is expected to decrease to approximately $3.5 million for Federal Fiscal Year (FFY) 2005. This means funding for a number of state and local programs will fall significantly. In the past, the Bryne grants have gone to five major areas: juvenile violence prevention, domestic and family violence prevention, substance abuse treatment for offenders, Multi-jurisdictional narcotics task forces, and improvements to statewide criminal justice records. With the reduction in funding, there is a need to re-evaluate these priorities. The second major change is in the Homeland Security grants. In FFY 2004, the state received $40 million – $32 million for state homeland security grants, Law Enforcement Terrorism Prevention grants, and Citizen Corps, as well as $8 million for urban area homeland security grants. It appears that the FFY 2005 grants, overall, will fall to $32 million, with $10 million dedicated to the urban area homeland security, and the remaining for the other areas. This is the beginning of a trend at the national level to direct more funding to larger urban areas like Portland. There are also separate grant streams that flow directly to ports and other urban needs.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for the Criminal Justice Services Division of $132 million total funds is a 4.4% increase from the 2003-05 legislatively adopted budget. The budget reflects what was known during the legislative session on the amount of federal funds this Division will receive for homeland security and other grants received from federal agencies. The amounts for 2005-07 will be adjusted during the biennium as Congressional funding actions for FFY 2006 and 2007 are completed. The significant reduction in General Fund is due to the one-time $750,000 increase for gang-related funding for East Multnomah County approved by the Emergency Board in January 2005. Gang-related funding for East Multnomah County for 2005-07 is included in the budget for the Oregon Youth Authority.

Department of Public Safety Standards and Training – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	0	0	28,187,052	8,515,784
Other Funds	92,263,788	23,203,488	12,310,023	31,239,585
Federal Funds	204,158	217,350	52,992	52,992
Total Funds	**$92,467,946**	**$23,420,838**	**$40,550,067**	**$39,808,361**
Positions	111	92	148	157
FTE	108.17	91.25	128.66	134.84

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 police, sheriff deputies, correctional officers, parole and probation officers, 9-1-1 tele-communicators and emergency medical dispatchers. Mandated training is set out by statute or rule, and ranges from ten weeks for the basic police course (expected to increase to 16 weeks during 2005-07), five weeks for corrections officers, four weeks for parole and probation officers, two weeks for tele-communicators, and one week for emergency medical dispatchers.
- The ***Fire Training and Certification Program*** provides training across the state for professional and volunteer firefighters. This program also certifies firefighters, and accredits fire departments and local training programs that meet minimum requirements.
- The ***Private Security Program*** provides training, licensing, and certification to private security personnel that meet minimum requirements. There are approximately 500 private security firms and 12,000 licensed private security providers statewide. The functions of the Board of Investigators will be absorbed by this program beginning in 2006.
- 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 existing and new 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.

During the 2005-07 biennium, DPSST will open a new primary training facility in Salem replacing the current site in Monmouth. The agency also has regional offices in four locations – Medford, LaPine, Cornelius, and Pendleton. The agency has professional trainers on staff but also relies on part-time trainers who are practicing professionals in their fields from public safety agencies. A 24-member Board establishes minimum employment and training standards. The Board is supported by subcommittees for each major program/licensure area.

Total Funds by Program Area

	Criminal Justice	Fire	Private Security	Administration and Support Services	Memorial Fund
2001-03 Actual	$12,272,342	$1,241,725	$857,883	$3,522,487	$426,192
2003-05 Estimated	11,838,719	1,409,713	957,509	7,580,938	246,950
2005-07 Legislatively Adopted	15,275,428	2,737,160	1,243,631	19,996,054	556,088

The 2001-03 budget included $77.1 million for Capital Construction as a one-time increase for the new Salem training facility. Debt service is included in the Administration and Support Services program and totals $8.5 million General Fund in the 2005-07 legislatively adopted budget.

Revenue Sources and Relationships

The primary revenue source for the ***Criminal Justice Training and Certification Program*** is the Criminal Fine and Assessment (CFAA) Account funded by a variety of fines and assessments, including the unitary assessment, paid by offenders. The revenues are split between the General Fund and the Public Safety Account for specific programs including those at DPSST. In 2003-05, that split was 66.35% for the General Fund and 35.65% for the Public Safety Account; for 2005-07 that split is 67.43% and 32.57% respectively. The Legislature decided to use General Fund for the debt service on the new facility totaling $8.5 million. There is also $5.4 million of CFAA revenue carried forward from 2003-05 in the 2005-07 budget. This program is also funded with polygraph examiner licensing fees and miscellaneous revenues ($12,040), a grant from the Oregon Department of Transportation (ODOT) ($306,998), and revenue from the 9-1-1 telephone tax ($396,935) for the 9-1-1 tele-communicators and emergency medical dispatchers training.

The primary revenue source for the ***Fire Training and Standards Program*** is the Fire Insurance Premium Tax (FIPT) ($3 million). This program also receives funding from a Federal Emergency Management Agency (FEMA) grant for training developed by the U.S. Fire Academy ($52,992). The ***Private Security Program*** is funded primarily with licensing and certification fees ($1.4 million). The ***Administration and Support Services Program*** is supported with General Fund for debt service costs; CFAA funds for operation of the facility, administrative costs, and housing costs; and inter-fund transfers from programs within the agency to cover their share of common administrative costs. The ***Public Safety Memorial Fund*** is funded with CFAA and $451,126 available in the program's beginning balance.

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" (Employment Department data for 2002) including over 8,700 law enforcement personnel, over 500 parole and probation officers, over 4,100 correctional officers and jailers, over 12,800 fire related personnel, almost 900 emergency tele-communicators, and over 9,600 private security personnel. Trends or factors affecting the demand for DPSST services include:

- In the year 2000, Oregon had the lowest number of full-time sworn state and local law enforcement officers responding to calls per 100,000 residents; 104 compared to a national average of 151.
- The growth in prison and jail populations in the recent past, in part because of Ballot Measure 11 and SB 1145, has increased the demand for correctional officer training. The prison population for the Department of Corrections continues to increase and is expected to grow by roughly 1,000 during the 2005-07 biennium.
- The number of private security staff licensed by DPSST could continue to increase as more commercial and other interests look at private security agencies as alternatives to depending on local law enforcement agencies.
- Regional training continues to be an important component in DPSST's overall curriculum. Between the fire training and law enforcement training programs, over 12,800 "students" participated in some form of regionally provided training during 2003.
- A business plan prepared by DPSST outlines major needs identified by interest groups. These include the increase in the length of the basic police course, the desire for greater access to local training, and continued improvement in the quality and performance of private security professionals.

Oregon's basic training for law enforcement was the shortest in the country based on a national survey of police chiefs in 2000. The average number of weeks for training across the country for 31 states and Canadian provinces that were part of the survey was just under 22 weeks, while Oregon's current basic course is only 10 weeks long. The 1997 Legislature instructed the agency to increase the course from eight weeks to 16 weeks. The increase in length was delayed until a new facility is built and fully staffed. The 16 week course is expected to begin in January 2007. The composition of the new 16-week course is being updated for content (e.g., new court decisions and law changes) as well as how the training is delivered. The expanded curriculum will include greater use of scenarios in the training and will also include the topics specifically noted in a 2003 budget note, including cultural awareness, gang recognition, major injury investigations, and defusing hostilities.

Other public safety groups would like to increase the length of their training courses which has also been constrained by the current DPSST facilities and staffing. For example, the basic corrections course is currently five weeks in length, and correctional agencies have stated that they would like to increase the length of this course. Training not provided by DPSST must, in part, be provided by the public safety agencies with their own resources.

Groundbreaking for the new $77.8 million DPSST training facility was June 30, 2004, and the facility is scheduled to be completed in July 2006. This new facility replaces the Western Oregon University site currently used and significantly expands the available space as well as the programming potential for law enforcement, fire, and other training. The new facility will include classroom space, food service, and dormitory space for 351 students, indoor shooting ranges, an Emergency Vehicle Operation Course (EVOC), and a variety of facilities allowing for scenario-based training. Functions like housekeeping and food service at the new facility will be contracted out.

Legislatively Adopted Budget

The legislatively adopted budget for 2005-07 is $39.8 million total funds, an increase of 70% over the 2003-05 legislatively approved budget. This increase is primarily due to three factors: (1) the costs of operating the new facility scheduled to open in July 2006; (2) the increased debt service for the new facility; and (3) the increase in the length of the basic law enforcement training course from 10 to 16 weeks after the new facility opens. The Legislature did not agree with the Governor's proposal to use General Fund directly instead of CFAA revenue for many programs in the agency. The Legislature did decide to use General Fund ($8.5 million) to pay the debt service on the new facility.

The 2005-07 budget includes $2.8 million and 23 new positions (15.13 FTE) to operate the new facility when it opens in July 2006. The positions are expected to cost $1.5 million for 2005-07 and include a facilities manager, facility operations and maintenance staff (e.g., electric control technician, HVAC technician), groundskeepers, warehouse staff, personnel staff, and information systems staff. Funds for contracting out for security, housekeeping, and food service are also included totaling $1.2 million. A review of the costs and other factors led the agency to decide to contract for these services instead of using state staff. Utilities are expected to cost $632,052, while maintenance supplies and motor pool costs are estimated at $240,000. The $985,684 in the 2003-05 budget for the student housing costs at Western Oregon University is removed from the budget. There is $1.8 million in Other Funds limitation funded by Certificates of Participation (COPs) proceeds to pay for the new facility's furniture, other furnishings, and equipment.

The 2005-07 budget includes $2.6 million and 26 positions (15.32 FTE) for the increase in the basic law enforcement training from the current 10 weeks to 16 weeks. Included in this amount are $1.6 million in staffing cost for new instructors and coordinators as well as staff to oversee the expanded "academy operations" of the agency. The new staff is concentrated in tactical and scenario-based training to match the curriculum approach taken by the agency in the lengthened training course. Also included are equipment purchases for training (e.g., firearms), a new skid car, and on-going supply costs like ammunition and fuel. Finally, $497,500 is included as an initial investment in a four biennium upgrade of information systems to replace processes now that are manual or not integrated with each other. The first phase funded in the 2005-07 budget is a centralized database for managing student registration, housing, and class management.

Since the new facility is not scheduled to open until July 2006 and the basic law enforcement training is not scheduled to be lengthened until the beginning of 2007, there are significant roll-up costs for these two items in 2007-09. The proposed 2005-07 costs of the new facility are $2.8 million, but this is estimated to cost over $6 million for 2007-09. Similarly, the 2005-07 cost of the expanded training is $2.6 million and rolls up to a cost of $3.5 million in 2007-09.

Debt service costs for the Certificates of Participation issued for the new facility have increased from $2.3 million in 2003-05 to $8.5 million in the 2005-07 budget. The Legislature reduced the debt service from what the Governor proposed by $3.4 million including capitalizing interest for a portion of the COPs issued for 2005-07. Debt service will "roll-up" to $11.4 million for 2007-09.

Other features of the legislatively adopted budget for DPSST include:

- An increase of $898,338 Other Funds and five positions to increase the regional capacity of the agency for law enforcement personnel across the State. This amount also includes the purchase of training equipment.
- Establishment of a permanent position and an increase in Other Funds limitation of $157,622 relating to an ongoing grant from ODOT for traffic safety training.
- An increase in the training capacity of the Fire Standards and Training unit by adding $1.2 million Other Funds limitation and five positions (5.00 FTE). This increase will enhance regional training by adding three

regional training coordinators and a "live burn" trailer. Two additional positions are to assist in certification of fire training personnel and to improve communications with fire agencies across the state.

- An increase of Other Funds limitation of $199,164 recognizing the transfer of the functions of the Board of Investigators to DPSST. This transfer is effective January 1, 2006.
- New resources for the Public Safety Memorial Fund are limited to $104,962 General Fund. Even with this reduced amount, there are still sufficient resources for the estimated demands on the Fund given the sizable beginning balance of over $450,000.
- Continuation of three limited duration positions to manage the construction of the new facility in Salem ($343,621 Other Funds). These positions will phase-out in October 2006 soon after the project is completed.
- A reduction of just under $300,000 in funding for services and supplies, including a 3% reduction common to many state agencies.

Oregon Youth Authority (OYA) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	211,706,933	198,050,268	208,202,251	206,903,481
Other Funds	15,034,313	12,801,776	13,033,457	12,582,327
Federal Funds	22,890,223	26,051,097	25,657,502	25,788,647
Total Funds	**$249,631,469**	**$236,903,141**	**$246,893,210**	**245,274,455**
Positions	1,315	1,139	1,086	1,087
FTE	1,251.27	1,032.29	1,044.21	1,045.21

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 manages out-of-home placement of delinquent youth in foster homes and residential treatment programs, provides parole and probation services, provides funding to counties for diversion and transition programs, and operates the state juvenile corrections institutions. In the 2005-07 biennium, it will operate youth correctional facilities at Woodburn, Salem, 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; and mentally ill and developmentally disabled offenders.

OYA's jurisdiction includes youth committed from both the juvenile and adult courts. Youth can be committed to OYA from juvenile court from as young as age 12. There are no mandatory sentences for juveniles whose cases are heard in juvenile court. Youth committed to OYA through adult court are in the legal custody of the Department of Corrections (DOC), but the physical custody of OYA. OYA may keep youth until their 25th birthday, but may transfer offenders committed through adult court back to DOC earlier if they are dangerous or do not apply themselves. Ballot Measure 11 (1994) set mandatory sentences through adult court for juveniles aged 15-17 who are convicted of certain offenses. In July 2004, about 65% of the 853 youth in close custody had been adjudicated in juvenile court; 35% were adjudicated in adult court on waived or Measure 11 offenses.

Revenue Sources and Relationships

The General Fund supports the major share of OYA's activities and operations. About 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. Title XIX reimburses 50% of eligible administrative costs and about 60% of eligible case management expenditures. Title XIX Behavioral Rehabilitation Services funding helps pay for eligible residential treatment services at about a 60% match rate; room and board costs are supported only by General Fund. In addition to the standard Medicaid reimbursement rate, the 2003-05 budget included $0.6 million from a temporary increase in the federal match rate approved in the Jobs and Growth Tax Relief Reconciliation Act of 2003. That does not continue into 2005-07.

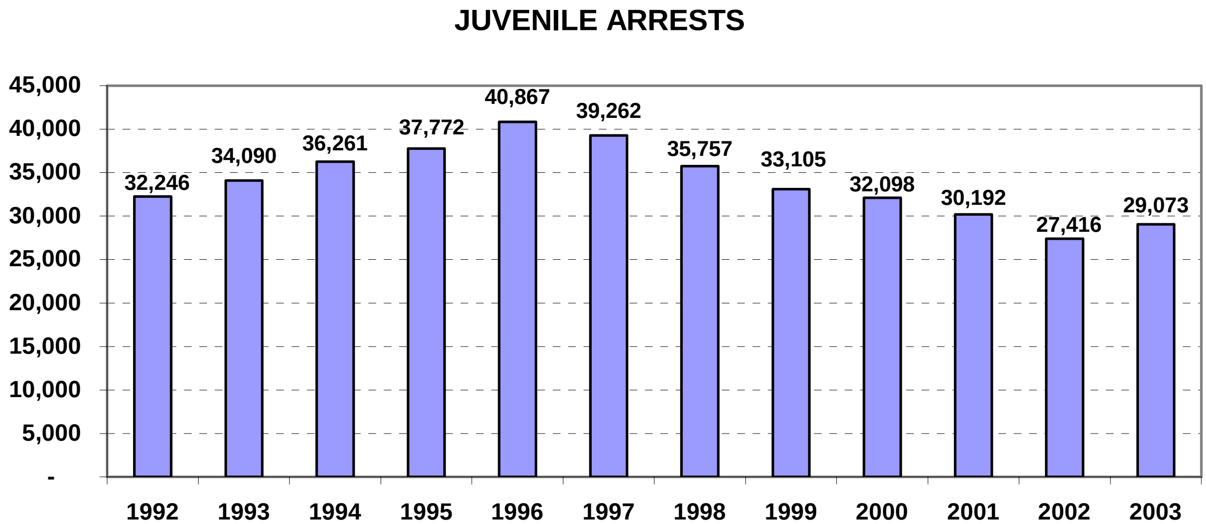
Federal funding is generally not available for juvenile corrections institution operations. However, federal nutrition program funds of $2.1million supplement meal costs; the alcohol and drug treatment program at Hillcrest gets $0.1 million in federal funds. OYA records these as Other Funds.

The largest Other Funds sources are county contracts and reimbursements. OYA's budget includes $3.3 million Other Funds, if revenue is available from counties to operate detention beds located in OYA's regional facilities at Albany and Warrenton. Other Funds sources also include more than $4 million from child support and other assets of the youth, who are billed for part of the cost of care provided in OYA out-of-home placements.

Budget Environment

As the chart below shows, total arrests for juveniles (excluding curfews and runaways) grew significantly in the early 1990s, but have trended down since 1996. Juvenile arrests in 2003 were actually lower than in 1992, and are down almost 30% from the 1996 peak. However, the 29,073 arrests in 2003 were up about 6% from 2002.

Person and property crimes by juveniles have declined overall since 1992. Behavioral crimes, such as alcohol or drug law violations, make up a greater share of juvenile arrests. Behavioral crimes increased from about one-third of all 1992 arrests to about half of the 2003 arrests. In 2003, however, person and property crimes both grew notably from 2002, an overall 11% increase, while behavioral crimes grew only 1.5% over the same period.



The Office of Economic Analysis (OEA) prepares a juvenile population close custody demand forecast semi-annually. The forecast projects demand for state close custody capacity based on the number and characteristics of offenders in close custody and those with similar delinquency characteristics who remain in the community, but who could be expected to be committed to OYA, if OYA had available capacity. The forecast includes three major groups: juveniles convicted in adult court under Measure 11 or waived under ORS 419C.340; Public Safety Reserve youth committed for certain violent crimes, but too young for Measure 11 to apply; and youth committed for new crimes and parole violations as part of the county Discretionary Bed Allocation.

The demand forecast is not constrained by budgeted capacity, but the demand forecast and budgeted capacity are reasonable comparisons. For example, on January 1, 2005, OYA's budgeted capacity was 850 youth, but the OEA forecast demand at 1,048 youth. The budgeted level was about 81% of the forecast demand. For the 2005-07 biennium, the forecast grows from 1,092 youth in July 2005 to 1,167 youth in July 2007. If the budgeted bed level remains at 850, the budget will fund only 73% of forecast demand. To fully fund the forecast would require more than 300 new beds by the end of the 2005-07 biennium, with an estimated $37 million total funds cost including about $33.2 million for operations and $3.8 million for new facility construction.
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Another issue is the mix of populations within the budgeted bed capacity. The April 2005 forecast shows a total of 474 adult corrections and Public Safety Reserve youth in January 2005. This grows to 488 in July 2005 and to 519 in July 2007. With budgeted capacity limited to 850 beds, OYA will need to reduce the number of beds available to counties through the Discretionary Bed Allocation to manage the increase in the other populations. The restriction on beds for lower-level offenders, combined with past reductions in juvenile crime prevention grants and community program funding, will make it more difficult for counties to manage youth offenders.

The diverse population in OYA's institutions and community programs creates challenges in serving the specialized, and often multiple, needs of these youth. A 2004 OYA survey indicated over 55% of the youth offenders in OYA facilities and community programs have a diagnosed mental health condition. The share of the OYA population committed for sexual offenses has increased steadily since 1999, when sex offenders were less than 20% of the total population, to almost 35% in 2004. Female offenders, while only about 13% of OYA's total population, require gender-appropriate services to meet their needs. About 27% of youth in OYA's custody are ethnic minorities, compared to 22% of at-risk youth in the general population.

Statewide revenue limitations during the past two biennia have resulted in reduced funding for community programs and close custody facilities, including closure of regional youth correctional facilities. Funding for the 16-bed pilot Deschutes Community Youth Investment Project was eliminated in June 2003. The Ochoco youth correctional facility in Prineville that OYA vacated in 2003 has been transferred to the Military Department for use as an armory. At this time, the Albany youth correctional facility is used only for county detention beds.

SB 267 (2003) requires state-funded crime-prevention programs and services to reflect scientifically based research and demonstrate cost-effectiveness. The bill applies to certain programs of the OYA, the Department of Corrections, the Commission on Children and Families, the Criminal Justice Commission, and mental health and addiction programs in the Department of Human Services. For the 2005-07 biennium, agencies must spend 25% of the state money they receive for these programs on evidence-based programs. The requirement increases to 50% in the 2007-09 biennium and 75% beginning in 2009. OYA worked with stakeholders to identify both community and facilities programs that meet the SB 267 criteria. These include treatment and interventions such as sex offender or drug and alcohol treatment, family based treatment and transition services.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for the Oregon Youth Authority is $206.9 million General Fund and $245.3 million total funds. This is 4.5% General Fund and 3.5% total funds more than the 2003-05 legislatively approved budget. The growth reflects a full 24-months funding for 50 close custody beds reopened during 2003-05 at the Burns and Warrenton youth correctional facilities, as well as inflation and staffing cost increases.

The budget maintains the existing 850 close custody beds for youth offenders, but does not add capacity to meet expected demand for lower level offenders. The 850 funded beds are, on average, 287 beds (25%) short of the forecast demand. Community parole and probation supervision, foster care and treatment services, and juvenile crime prevention and county diversion grants will receive about the same funding level as in 2003-05.

The 2005 Legislature restored the $563,566 reduction in Multnomah County gang intervention services that was proposed by the Governor, and approved an additional $750,000 General Fund for gang issues in east Multnomah County. The adopted budget includes a total of $3.3 million General Fund for Multnomah County gang enforcement and intervention services for the 2005-07 biennium.

Funding for the Office of the Juvenile Compact Administrator was moved to OYA from the Department of Human Services to reflect the program shift made in HB 2561. This added $199,948 General Fund, $204,256 total funds and 1 position to OYA's budget. Other adjustments were made for reduced Public Employee Retirement System (PERS) rates; reduced assessments and charges from the Department of Administrative Services, Department of Justice, Secretary of State Audits Division, State Treasurer and State Library; and updated federal Medicaid match rates. These changes reduced the Governor's proposed budget by a net $2.4 million General Fund and $2.8 million total funds. General Fund Services and Supplies expenditures in community programs and the Administration budget were also reduced by 3%, totaling $386,443 General Fund.

During the final weeks of the 2005 session, House and Senate budget subcommittees reviewed issues related to alleged sexual abuse of youth offenders by a former OYA juvenile parole and probation officer. OYA was directed to report to the Joint Legislative Judiciary Committee at its first meeting in the 2005-07 interim on the final report and recommendations of the Youth Safety and Abuse Prevention Review Committee that OYA has established, and OYA's plans to implement the recommendations. OYA is also to report to the Emergency Board by January 2006 if additional resources are required to fully implement the recommendations.

OYA – Community and Program Services

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	69,086,809	68,107,111	71,777,957	72,271,828
Other Funds	3,139,756	2,450,105	2,882,266	2,880,598
Federal Funds	21,635,852	25,270,634	24,872,984	25,011,381
Total Funds	**$93,862,417**	**$95,827,850**	**$99,533,207**	**100,163,807**
Positions	196	184	182	183
FTE	187.12	171.93	177.75	178.75

Program Description

Community programs provide community-based supervision and services to youth offenders committed to OYA by the juvenile courts. An individual reformation plan is designed and carried out for each youth in OYA's custody. The Community and Program Services budget consists of four different budget elements: community care and treatment resources; parole and probation services; county grants; and the Program Office.

- Community resources support youth through individualized services in their own homes; foster care and shelter care; residential treatment services; and transition services. Payments to individuals or non-profit service providers for these services account for over half of the Community and Program Services budget.
- Probation services are provided for youth offenders in lieu of placement in juvenile corrections facilities. Parole services support youth offenders who are transitioning out of those facilities. Parole and probation officers provide case management to coordinate supervision, services, and sanctions for youth. As of July 1, 2004, OYA had 721 youth on probation and 532 youth on parole in the community. Parole and probation services are about 20% of the total Community and Program Services budget.
- OYA distributes grants to all counties for diversion programs to reduce commitments to state institutions, and juvenile crime prevention grants that pay for local basic services such as detention and shelter beds. Multnomah County receives a separate grant for gang prevention activities. About 20% of the total Community and Program Services budget supports these county grants.
- The Program Office provides program development, contract monitoring, coordination of health services, rules and policy coordination, training and development, and program evaluation and quality assurance. This office makes up less than 5% of the total Community and Program Services budget.

Budget Environment

During the 2001-03 and 2003-05 biennia, statewide funding constraints resulted in reductions to statewide grants and targeted grants to counties; reduced funding for probation and parole staff; eliminated funding for 160 to 170 residential, shelter, and foster care beds; and reduced other contracted treatment services by about 20%. The reductions in community resources, combined with limited capacity at regional youth correctional facilities, make it more difficult for OYA and local communities to manage at-risk youth and offenders effectively.

In the 2003-05 biennium, OYA allocated $14.9 million for county diversion and juvenile crime prevention basic services grants for 36 counties. The funding covers local services for youth. County diversion funding has been provided since the 1980's. The juvenile crime prevention basic services funding was phased-in beginning in 1999 as part of a comprehensive strategy for services to children and families enacted in SB 555 (1999). These funds are allocated in the context of local juvenile crime prevention plans.

In 2003-05, OYA also allocated $2.4 million specifically for gang intervention efforts in Multnomah County. The county uses these funds with other state, county, and federal resources for specialized case management and services; secure residential alcohol and drug treatment; supervised shelter care; and Multi-Systemic Therapy, which provides intensive therapeutic intervention and other family-based services. Multnomah County has received these targeted funds for more than ten years. In January 2005, the Emergency Board approved an additional, one-time allocation of $1.25 million for distribution to other areas of the state that have recorded gang activity.

To better use existing resources, OYA has converted some of its traditional foster care homes to therapeutic foster care to maximize supports and services for youth as well as better support foster parents. Other challenges facing the agency include limited capacity for sex offender treatment, addressing safety and security issues for staff and youth with mental health and behavioral disorders, better management of the assessment and evaluation process for higher risk youth, and compensation for residential treatment providers.

Legislatively Adopted Budget

The proposed Community and Program Services budget is 6.1% General Fund and 4.5% total funds above the 2003-05 legislatively approved budget level. This is largely due to phased-in costs for programs and services to support the 50 beds that OYA reopened at the Eastern Oregon (Burns) and North Coast (Warrenton) facilities during the 2003-05 biennium, and increased personnel costs.

The budget maintains OYA's existing contracted foster care and residential treatment beds, individual treatment and support services, community parole and probation services, and county diversion and juvenile crime prevention grants. Funding for these services and grants is generally continued at the 2003-05 level increased for inflation, although the Legislature reduced Services and Supplies expenditures by $88,544 General Fund, a 3% reduction. Further adjustments were made for PERS and Department of Administrative Services charges, and the updated federal Medicaid match rate, for a net Community and Program Services reduction of $931,099 General Fund and $798,678 total funds.

The Legislature restored the $563,566 General Fund reduction in Multnomah County gang intervention funding proposed by the Governor, and added an additional $750,000 General Fund for gang issues in east Multnomah County. With these actions, the adopted budget includes a total of $3.3 million General Fund for Multnomah County gang enforcement and intervention services. OYA is expected to report back to the 2007 Legislature as part of its budget discussions on the distribution and outcomes of this funding.

HB 2561 moved responsibility for the Office of Juvenile Compact Administration from the Department of Human Services to the Oregon Youth Authority. HB 5023 made the related budget adjustment, adding $199,948 General Fund, $4,308 Federal Funds and 1 position (1.00 FTE) to the Community and Program Services budget.

The budget includes $25,000 General Fund and $5,841 Federal Funds as a placeholder for rent increases expected to result from the relocation of the Clackamas County Parole and Probation office. The relocation is needed to address health and safety issues at the current site.

OYA – Facilities

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	113,582,333	100,564,990	109,302,198	108,434,487
Other Funds	8,616,438	8,800,424	8,955,934	8,931,061
Federal Funds	571,617	55,051	35,358	35,566
Total Funds	**$122,770,388**	**$109,420,465**	**$118,293,490**	**$117,401,114**
Positions	1,049	892	839	839
FTE	994.69	797.90	801.50	801.50

Program Description

OYA operates a variety of close custody facilities across the state with varying levels of security and structure and a range of treatment services. In the 2005-07 biennium, OYA will operate facilities at MacLaren in Woodburn, Hillcrest in Salem, Grants Pass, Warrenton, Burns, Tillamook, Florence, Corvallis, and La Grande. These provide 725 beds in six youth correctional facilities for more violent offenders; and 125 beds in four transition programs to help youth move successfully back into the community.

The focus in the facilities is on reformation and rehabilitation in the context of public safety and restitution to victims and the community. The facilities provide treatment services, educational programs, and work experience for youth. Treatment, health and mental health services are provided by OYA employees and by contract with community professionals. Local school districts or education service districts provide education and vocational programs through contract with the Oregon Department of Education; educational costs are funded through the State School Fund rather than through the OYA budget.

Budget Environment

The Office of Economic Analysis (OEA) prepares a juvenile population close custody demand forecast semi-annually. The April 2005 forecast projects demand for 1,092 youth offenders in July 2005, growing to 1,167 youth – an almost 7% increase – at July 2007. This assumes no change in current law and practice. As previously noted, this forecast is not tied to budgeted bed capacity. In fact, over the past few biennia the gap between forecast demand and budgeted capacity has widened significantly due to statewide funding constraints. The April 2001 forecast projected an average population of 1,143; the original 2001-03 budget funded an average 30 beds below that level. However, reductions during the 2001-03 biennium eliminated 250 close custody beds at regional youth correctional facilities in Burns, Warrenton, Albany, and Prineville, which were closed; eliminated funding for 16 beds associated with the Deschutes County Youth Investment Project; and made additional bed reductions at other OYA facilities. The 2003 Legislature approved reopening 100 beds at the facilities in Burns and Warrenton, but after the defeat of Measure 30, only 50 of those beds were reopened. OYA is now budgeted to operate 850 beds. The current forecast projects demand averaging 1,137 youth over the 2005-07 biennium, leaving the budget an average of 287 beds (25%) short of the projected demand.

OYA currently has physical capacity for 1,131 close custody beds, including 50 recently remodeled beds at Hillcrest in Salem. This counts all beds at the permanently constructed facilities, including 75 vacant beds at the Albany regional facility, and temporary structures built at Hillcrest and MacLaren during the 1995-97 biennium. The Prineville and Albany youth correctional facilities were closed in spring 2003. OYA has subsequently transferred the Prineville facility to the Department of Administrative Services for use as an armory for the Oregon Military Department. The Albany facility is currently used for county detention beds only.

Legislatively Adopted Budget

The adopted budget for Facilities is 7.8% General Fund and 7.3% total funds more than the 2003-05 legislatively approved budget. The increase reflects the full biennial costs in 2005-07 for operating 50 beds phased-in at the Burns and Warrenton facilities during the 2003-05 biennium, and other personnel cost increases.

The budget funds 850 close custody beds. This is the same as current capacity, but, as discussed above, only about 75% of the April 2005 close custody demand forecast.

To address facility security, and staff and youth safety issues related to the prevalence of youth in the OYA system with mental health and behavioral disorders, OYA will add six Qualified Mental Health Professional positions (5.50 FTE) at MacLaren. The budget funds the permanent positions by abolishing five other positions (4.50 FTE). The position actions produce a net $3,988 General Fund savings, but add one position (1.00 FTE).

The Legislature reduced the Governor's proposed budget by a total of $867,711 General Fund and $892,376 total funds to reflect reductions in PERS rates and Department of Administrative Services charges, and updated federal Medicaid match rates.

OYA – Administration

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	16,859,991	18,586,318	19,862,103	18,998,758
Other Funds	1,318,771	1,185,947	1,195,257	709,083
Federal Funds	682,754	725,412	749,160	741,700
Total Funds	**$18,861,516**	**$20,497,677**	**$21,806,520**	**$20,449,541**
Positions	70	63	65	65
FTE	69.46	62.46	64.96	64.96

Program Description

The Administration section includes the director's office and business services for the agency, such as internal audits, accounting, employee services, budget and contracts, and information systems staff and expenditures. 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 incorporated in this budget.

Budget Environment

OYA has reduced administrative support staffing as part of its cost reduction efforts during the past two biennia. The major cost driver in this budget is intergovernmental service charges, such as insurance and workers' compensation charges. These costs increased from $2.1 million total funds in 2001-03 to $5 million total funds in 2005-07, and now make up about 20% of the Administration budget.

Legislatively Adopted Budget

The adopted budget for the Administration program is 2.2% General Fund higher than the 2003-05 legislatively approved budget, but slightly below in total funds. Inflation, state government service charges, and personnel cost increases are the main cost drivers in this budget. The two additional positions in this budget reflect one position transferred in from the Facilities budget, and a net additional one position (1.50 FTE) from position reclassification actions during the interim.

The Legislature reduced the budget by $565,446 General Fund and $7,460 Federal Funds for reductions in PERS, Department of Administrative Services, Attorney General and other rates and assessments, and a shift in the federal Medicaid match rate. A further reduction of $297,899 General Fund was made based on a 3% across-the-board reduction in Services and Supplies and Capital Outlay line items. Other Funds expenditure limitation was also reduced by $486,174, to eliminate grant funds limitation that is not likely to be needed in the 2005-07 biennium

OYA – Debt Service

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	11,475,441	10,585,600	6,629,178	6,567,593
Other Funds	804,741	0	0	61,585
Total Funds	**$12,280,182**	**$10,585,600**	**$6,629,178**	**$6,629,178**

Program Description

OYA pays debt service on certificates of participation (COPs) issued through the Department of Administrative Services (DAS). The largest share of the debt service payment has repaid COPs issued for regional facilities, fencing, and property transactions. OYA has also paid for Juvenile Justice Information System COPs issued in 1998 and for remodeling at Hillcrest related to suicide prevention issues. Existing debt obligations will be fully paid in April 2012.

Budget Environment

OYA's debt service payments are declining as its shorter-term financing is repaid. At the end of the 2003-05 biennium, only obligations for regional facility construction remained. Also, because OYA transferred the vacant Prineville youth correctional facility to DAS for the Military Department's use, OYA will not pay for the facility's share of the outstanding COP debt after July 1, 2005.

Legislatively Adopted Budget

The $6.6 million General Fund budget meets OYA's debt service obligations for 2005-07. The funding is $2.6 million less than in the 2003-05 biennium due to final repayment of OYA's shorter-term COPs, and $1.4 million less because of the transfer of the Prineville facility debt. The legislatively adopted budget reflects a one-time use of $61,585 Other Funds to offset General Fund for the 2005-07 debt service payments. The Other Funds were available from the close-out of accounts related to prior COP issuances.

OYA – Capital Improvement/Capital Construction

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	702,359	206,249	630,815	630,815
Other Funds	1,154,607	365,300	0	0
Total Funds	**$1,856,966**	**$571,549**	**$630,815**	**$630,815**

Program Description

Capital Improvement covers land and building improvements, including major repair or replacement, which cost more than $5,000 but less than $500,000. Capital Construction projects include land acquisition and new construction or major renovation projects costing $500,000 or more.

Budget Environment

The agency's 6-year capital management plan identified a total of $5.8 million in projects for the 2003-05 biennium: $1.1 million for capital repair and improvement projects for existing facilities, and $4.7 million to replace the Corvallis House Young Women's Transition Program and Whiteaker Hall at MacLaren. The 2003-05 legislatively adopted budget for Capital Improvements funded only a small part of the identified repair and improvement needs, and included no Capital Construction funding. Facility base budgets have included some funding to supplement the Capital Improvements funding.

OYA's close custody facilities currently have a physical capacity of 1,131 beds. The capacity greatly exceeds the current budgeted bed levels. Until the budgeted bed level changes, OYA does not need additional physical capacity in its facilities. However, the 1,131 bed total includes beds at MacLaren Youth Correctional Facility that are housed in soft-sided structures that were built for temporary use, and which are nearing the end of their useful life. OYA has also repeatedly identified a need to replace Whiteaker Hall, the aging and deteriorating administration building at MacLaren. This replacement has not been funded.

Legislatively Adopted Budget

The total amount available for Capital Improvements in the 2005-07 legislatively adopted budget is comparable to the amount available for the 2003-05 biennium, adjusted for funding for repairs and improvements shifted from the Facilities budget to Capital Improvements and for inflation.

The budget does not include any Capital Construction for the 2005-07 biennium because existing physical capacity is adequate to house the 850 funded close custody beds. If the April 2005 close custody demand population forecast were fully funded, however, OYA would exceed its current physical bed capacity in the spring of 2006.

ECONOMIC AND COMMUNITY DEVELOPMENT

County Fairs – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Lottery Funds	3,061,250	2,530,173	3,330,656	3,344,827
Total Funds	**3,061,250**	**2,530,173**	**3,330,656**	**3,344,827**

Agency Overview

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

Revenue Sources and Relationships

For the 1997-99 and 1999-2001 biennia, the Legislature provided $3 million General Fund for support of county fairs. The 2001 Legislature shifted County Fair funding to Lottery Funds for 2001-03 and future biennia with the passage of HB 3530 (2001). This bill allocates 1% of the net proceeds of the lottery to the County Fair Account, but not to exceed $1.55 million per year, adjusted biennially by the change in the Consumer Price Index and directs that County Fair funds are distributed on an equal share basis to each county.

Budget Environment

The Governor's 2003-05 budget included $3,167,100 Lottery Funds funding for county fairs in the Department of Agriculture budget. The 2003 Legislature reduced this amount to $2,530,173 and transferred the funding to the Department of Administrative Services (DAS) for pass through to county fairs. The Legislature determined that county fair funding would be better placed in the DAS budget since most other state Lottery pass through funding resides in the DAS budget. The statutorily required distribution of net Lottery proceeds was also reduced to reflect this lower funding.

Legislatively Adopted Budget

The legislatively adopted budget includes $3,344,827 Lottery Funds for county fairs in the DAS budget. The DAS budget total has been reduced by this amount to reflect the separate treatment of County Fair funding for purposes of this document.

Economic and Community Development Department (OECDD) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	2,324,751	1,168,674	1,284,569	1,268,049
Lottery Funds	64,600,459	74,198,242	104,841,115	91,009,479
Lottery Funds Limitation	8,061,414	9,094,878	4,996,782	** 12,308,780
Other Funds	39,104,753	32,135,133	38,040,477	39,971,027
Federal Funds	35,525,030	36,862,390	36,067,899	36,037,984
Other Funds (NL)	146,539,302	* 197,030,302	303,105,231	287,806,566
Total Funds	**$296,155,709**	**$350,489,619**	**$488,336,073**	**468,401,885**
Positions	152	116	114	116.00
FTE	148.10	116.39	113.00	115.00

** The ORBITS report includes $36,805,382 in nonlimited Other Funds that reflects the receipt of replacement Other Funds from the refunding of lottery-backed bonds. The agency did not receive additional bond proceeds from this refunding. However, refunding resulted in a reduction in the Lottery Funds debt service on these bonds. The increase in Lottery Funds reflects a combination of this reduction and the biennialized rollup of debt service on infrastructure bonding authority.*

*** This number includes $3.35 million in excess limitation from an error in the budget bill. The Department of Administrative Services has been requested to unschedule this excess limitation.*

Agency Overview

The Oregon Economic and Community Development Department (OECDD) provides economic and community development and cultural enhancement throughout the state, and administers programs that aid businesses and communities. The Economic and Community Development Department receives General Fund, Lottery Funds, Federal Funds, and Other Funds primarily from the Oregon Bond Bank and other bonding programs, and uses the funds to provide grants, loans, and direct and contract services. Program focuses include regional and rural development, business and industry development, and ports.

The 1997 Legislative Assembly directed that Oregon's economic development system be redesigned to meet the changing economy in Oregon, to provide flexibility in funding statewide and regional needs, and to focus on funding economic and community development services for rural and distressed communities. The Economic and Community Development Commission was provided with the authority to distribute funds within the Community Development Fund, subject to performance-based contracts. The 2005 Legislature removed the Small Business Development Center Network and Minority, Women and Small Business development services from the oversight of Commission, increased funding for these programs, and directed the agency to work with the Joint Legislative Audit Committee on establishing performance outcomes for these programs.

The Department has six budgetary divisions:

- The ***Operation**s* program provides overall policy direction, service delivery, and program support, including ports and international trade staff support.
- The ***Community Development Fund*** includes state and federal funds that support the Department's grants, loans, and contracted services for communities, businesses, ports, and regional economic development boards.
- ***Lottery Funds Debt Service*** is used exclusively for debt service on lottery bonds.
- The ***Tourism Commission*** promotes Oregon and helps create jobs in tourism-related industries. The 2003 Legislature shifted Tourism Commission expenses from state funding to the transient occupancy tax. Budgetary oversight by OECDD will occur only if the state allocates resources to the Commission.
- The ***Film and Video Office*** develops the film and video industry in Oregon.
- The ***Oregon Arts Commission*** fosters the arts and cultural development in Oregon.

Budget Environment

OECDD provides administrative support to the Arts Commission and distributes funds to the semi-privatized Oregon Film and Video Office.

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 provides support for community-identified economic and community development programs. The 1999 Legislature approved $45 million in lottery bonds for infrastructure for this effort and the 2001 Legislature approved lottery-backed bonding authority of $181.1 million for various community infrastructure development projects, Columbia River channel deepening, and the Joseph Branch Railroad. A portion of the $181.1 million in bonds was scheduled for sale in early May 2003. This sale was deferred by the 2003 Legislature, and $64.7 million of this infrastructure and Columbia Channel deepening bonding authority from the 2001-03 biennium was issued in the 2003-05 biennium. The 2003 Legislature also authorized $4 million in bonding authority for small ports. The 2005 Legislature added $45 million in lottery-bond authority to develop industrial land sites.

The 2003 Legislature directed the agency to focus its efforts on the primary goal of assisting business to create new jobs and retain existing jobs. The agency was directed by budget note to report to the Emergency Board on the use of the Strategic Reserve fund, including planned and actual outcomes. The 2005 Legislature added $7 million in Lottery Funds for an Innovation Economy initiative and added staff to support this initiative.

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

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget provides $468.4 million total funds and 115.00 FTE. This represents an increase of $117.9 million (34%) above the 2003-05 legislatively approved budget. Most of this increase ($90.8 million) is in Nonlimited Other Funds, from increased bond activity and from $45 million in lottery-bond authority for industrial land sites that was approved by the 2005 Legislature.

The budget reflects a 3% reduction to services and supplies and statewide adjustments to state government service charges, the Attorney General rate, and the Public Employees Retirement System (PERS) rate. Adjustments to Other and Federal Funds include standard adjustments for inflation, salary and benefit costs, and state government service charges, and $824,406 in reduced Federal Funds revenues. Adjustments to Nonlimited Other Funds reflect increased bonding and loan repayments in the various revolving loan programs.

The 2005 Legislature made specific adjustments to the programs, services, Economic Development Commission responsibility, and program funding levels, as outlined below:

- Reduced the Strategic Reserve Fund by $2.75 million and eliminated $600,000 in funding for Community Assistance Grants. This left the Commission will a net Strategic Reserve Fund allocation plan of $5.6 million, as compared to a $10.2 million allocation for the 2003-05 biennium. The Legislature increased the Lottery Funds expenditure limitation by $3.35 million for allocation for the Strategic Reserve Fund based on a revenue "trigger". This funding will be "triggered" in Fiscal Year 2006 if the net Department of Administrative Services Economic Development Fund (Lottery Funds) revenue exceeds the end of session forecast. If this allocation is made, the total funding available for the Strategic Reserve Fund will be $8.99 million.

- Established dedicated line item funding of $3.3 million for the Small Business Development Center Network (SBDC). This action transferred SBDC from the contractual oversight of the Economic Development Commission, and was an increase of $1.1 million to the funding planned by the Commission. A budget note directed the Economic Development Commission to establish a performance contract with the SBDC that defines the job creation and retention outcomes that will be achieved based on the funding level provided in the line item allocation. The Commission will report to the Joint Legislative Audit Committee on the outcomes.

- Established dedicated line item funding of $1.5 million for business development services for minority, women and small businesses development services. This action transferred these services from the contractual oversight of the Economic Development Commission, and was an increase of $600,000 to the funding planned by the Commission. A budget note directed the Economic Development Commission to establish a performance contract for minority, women and small businesses development services that defines the job creation and retention outcomes that will be achieved based on the funding level provided in the line item allocation. The Commission will report to the Joint Legislative Audit Committee on the outcomes.

- Reduced the corpus of the Oregon Development Fund to reflect the establishment of separate line items for small business services, including SBDC and minority and women business services. This reduction included an unspecified reduction of $1.7 million to reflect the increased funding for the line item allocations, which will require reductions to industry sector outreach and business recruitment and retention services.

Specific budget details are discussed under each program unit.

OECDD – Operations

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Lottery Funds	14,971,959	14,898,191	15,538,578	15,560,783
Lottery Funds Limitation	35,000	289,001	464,534	464,534
Other Funds	7,678,876	7,915,833	8,612,053	8,465,100
Federal Funds	1,180,429	1,531,746	1,462,948	1,435,304
Total Funds	**$23,866,264**	**$24,634,771**	**$26,078,113**	**$25,925,721**
Positions	136	108	106	107
FTE	133.10	107.38	106.00	107.00

Program Description

The Director of the Economic and Community Development Department is appointed by the Governor and confirmed by the Senate. Operations includes the Office of the Director; Program Support that includes fiscal services, employee services, and information services; and Program Delivery that includes Business and Industry Services, Community Development, International Services, and Finance Services.

Program Support provides administrative support to the agency and its allied boards and commissions in the areas of fiscal and personnel management, information processing, research and communications, staff support, and policy development.

Program Delivery provides assistance to Oregon businesses and industry sectors and focuses on job creation and retention. Services also include infrastructure and business development planning and financial assistance for Oregon's communities and 23 ports, as well as the distribution of federal block grants, other Federal Funds, and lottery-backed loans and grants for infrastructure (e.g., water, sewer, telecommunications, and roads), public works, and business and industry development activities. The Department participates in the Economic Revitalization Team effort (formerly the Community Solutions Team) to coordinate the delivery of state services. The Program Delivery section also includes International Services, which provides staff and services in foreign markets including offices in Japan and Taiwan, and contracted services in other countries, including Korea, the United Kingdom, China, and Mexico.

Revenue Sources and Relationships

Estimated revenues for 2005-07 include: $15.6 million in Lottery Funds, $1.4 million in Federal Funds for administration of federal programs and the Community Development Block Grant program, and $8.5 million in Other Funds from interest earnings and loan repayments, and from the Safe Drinking Water Revolving Loan Fund that is administered by the Department.

Budget Environment

Community and regional needs and the needs of businesses and industry drive the workload. External forces, including changes in Oregon's economy, have a direct impact on the workload. Workload is also affected by changes in organization and staffing. The revisions to the budget structure and the change in direction and responsibility of the Economic and Community Development Commission have a major impact on staff workload, as does the additional workload generated by the Safe Drinking Water Revolving Loan program and the expanded infrastructure program. The 2001 Legislature added 4.26 FTE above the 1999-2001 estimated staffing level to handle the workload generated by the additional Lottery bonds for infrastructure that was approved by the 1999 Legislature. The 2003 Legislature deferred $64.7 million of infrastructure and Columbia Channel deepening bonding authority from the 2001-03 biennium into the 2003-05 biennium, and authorized $4 million in bonding authority for small ports.

The 2003 Legislature approved a budget of $24.5 million total funds and 107.38 FTE for Operations, which was a reduction of $4.6 million and 8.87 FTE from the Governor's budget. The budget was reduced by $660,876 Lottery Funds, $1,980,451 Other Funds, and $1,279,521 Federal Funds, of which $3.6 million reflected reductions from streamlining service delivery based on the internal refocus of activities.

The 2005 Legislature authorized $45 million in Lottery backed bonds for industrial lands infrastructure but did not add staff for this activity. The Legislature added 1 position to support the Innovation Economy program.

Legislatively Adopted Budget

The 2005 Legislature approved a budget of $25.9 million total funds and 107.00 FTE for Operations, which is an increase of $1.3 million (5.2%) above the 2003-05 legislatively approved budget. The budget reflects a 3% reduction to services and supplies and statewide adjustments to state government service charges, the Attorney General rate, and the Public Employees Retirement System (PERS) rate. Adjustments to Other and Federal Funds reflect standard adjustments and a slight reduction in Federal Funds revenues. One position (1.0) FTE and $280,000 Lottery Funds was added to provide support for the Innovation Economy.

OECDD – Community Development Fund

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	316,315			0
Lottery Funds	26,168,235	18,720,154	34,884,473	26,184,473
Lottery Funds Limitation	7,269,187	8,117,964	4,500,143	* 11,200,143
Other Funds	31,071,772	23,389,811	23,951,166	23,951,166
Federal Funds	33,108,570	33,675,944	32,910,538	32,910,538
Other Funds (NL)	146,539,302	197,337,459	303,105,231	287,806,566
Total Funds	**$244,473,381**	**$281,241,332**	**$399,351,551**	**$382,052,886**

** This number includes $3.35 million in excess limitation from an error in the budget bill. The Department of Administrative Services has been requested to unschedule this excess limitation.*

Program Description

The Community Development Program contains the funding that is allocated by the Economic and Community Development Commission for business and industry opportunities, regional development, community assistance, small business assistance, and ports programs. The program also includes federal resources used to finance local programs and projects. Each federal resource retains its identity for purposes of eligibility and federal reporting, but is considered as part of the Community Development Fund for statewide resource prioritization and allocation. It also includes Other Funds resources used to finance local programs and projects, either through a loan or a grant, and includes Other Funds resources for business finance. Each Other Funds resource retains its identity for purposes of eligibility and reporting, but is considered as part of the Community Development Fund for statewide resource prioritization and allocation.

The 2005 Legislature removed the Small Business Development Center Network and Minority, Women and Small Business development services from the oversight of Commission, increased funding for these programs, and directed the agency to work with the Joint Legislative Audit Committee on establishing performance outcomes for these programs.

Revenue Sources and Relationships

Oregon Development Program 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 $33.4 million in interest income and $40.3 million in loan repayments from community and port infrastructure projects and business finance loans. Programs include the Special Public Works Fund, Water/Wastewater Funds, Brownfields Redevelopment Fund, and Port Revolving Fund for the investment of proceeds from lottery-backed bond sales. Other Funds revenues include $21.8 million for the Safe Drinking Water Revolving Loan Fund. These are Federal Funds that are transferred to the department from the Department of Human Services. Lottery Funds carryover represents unspent lottery allocations from prior biennia, generally for projects begun but not yet completed in the current biennium, which are carried forward for expenditure.

Budget Environment

The 1999 Legislature approved a total lottery funded bond limit of $45 million. The 2001 Legislature approved $181.1 million in bonding authority. A portion of the $181.1 million in bonds was scheduled for sale in early May 2003. This sale was deferred by the 2003 Legislature, and $64.7 million of this infrastructure and Columbia Channel deepening bonding authority from the 2001-03 biennium was issued in the 2003-05 biennium. The 2003 Legislature also authorized $4 million in bonding authority for small ports.

The 2001 Legislature increased bonding authority levels to $200 million for the Oregon Bond Bank and $250 million for Industrial Development Revenue Bonds. This bonding authority finances capital projects to benefit businesses and counties through the Special Public Works Fund, the Water/Wastewater Fund, and the Industrial Development Revenue Bond program. The mixture of bond, loan, and grant funds increases OECDD's capacity for financing projects. This results in more flexibility in the use of funds for financing activities across programs. The Safe Drinking Water Revolving Loan Fund brings federal resources to this mix.

The 2005 Legislature approved $45 million in lottery-bonds for industrial lands infrastructure development.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget provides $382.1 million total funds. This represents an increase of $100.8 million (35.8%), of which $90.5 million is in Nonlimited Other Funds, reflecting increased bonding and loan repayments in the various revolving loan programs. The increase includes $45 million in lottery-backed bond proceeds for brownfields redevelopment and industrial land infrastructure development. The budget also includes $7 million Lottery Funds for the Innovation Economy and $150,000 Lottery Funds for the Oregon Science and Technology Partnership. Debt service on lottery-bonds is discussed in the Lottery Debt Service budget unit.

As detailed in the agency summary, the legislatively adopted budget includes line item funding for the Small Business Development Center Network (SBDC) and minority, women, and small business development services. The Economic Development Commission will report to the Joint Legislative Audit Committee on the outcome of performance contracts based on this line item funding. The budget also includes an unspecified $1.7 million reduction to the remaining programs and services in the Community Development Fund, and a reduction of $3.35 million to the Strategic Reserve Fund and Community Assistance programs. A revenue trigger will restore these funds in Fiscal Year 2006 if the lottery revenue exceeds the close of session forecast.

Federal Funds are reduced by $765,406 since several old growth diversification grants are closing out, and Other Funds are increased by $561,355, which represents the standard inflation adjustment.

OECDD – Oregon Tourism Commission

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Lottery Funds	6,059,994	1,261,206	0	0
Other Funds	2,441	0	0	0
Total Funds	**$6,062,435**	**$1,261,206**	**$0**	**$0**
Positions	10	0	0	0
FTE	10.00	2.10	0	0.00

Program Description

The 2003 Legislature shifted Tourism Commission expenses from state funding to the transient occupancy tax. Budgetary oversight by OECDD will occur only if the state allocates resources to the Commission. The Tourism Commission is a marketing agency for Oregon's statewide visitor industry. Tourism produces advertising campaigns, and publishes literature on campgrounds, hotels/motels, and restaurants that are available around the state. The 1995 Legislative Assembly replaced the statutory advisory committee, the Oregon Tourism Council, with the Oregon Tourism Commission. The Commission, which is appointed by the Governor, has policy authority over the tourism function.

Revenue Sources and Relationships

The primary source of revenue for Tourism is now the transient occupancy tax. Prior to the action by the 2003 Legislature to shift the program onto this tax, the Commission was supported by Lottery Funds. The Commission also receives revenue from publication sales and anticipates increased revenue from its public/private partnership initiative. The program received $80,000 in Federal Funds from a U. S. Forest Service matching grant to promote tourism.

Budget Environment

The 2003 Legislature approved funding for one year of operating expenses for the Commission, pending full implementation of HB 2267 (2003). This bill established a state transient lodging tax and dedicated the funds to tourism, including 15% that was dedicated to regional cooperative tourism marketing programs. The bill established the Tourism Commission as a semi-independent state agency, but retained legislative oversight over that portion of the budget funded with Lottery Funds.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget represents the phase-out all state funding for the program.

OECDD – Film and Video Office

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Lottery Funds	837,119	821,880	841,605	841,605
Total Funds	**$837,119**	**$821,880**	**$841,605**	**$841,605**

Program Description

The Film and Video Office is a marketing agency for Oregon's statewide promotion of film and television. The 1995 Legislative Assembly authorized the semi-privatization of the Film and Video Office, which provides the program with greater flexibility in marketing activities. The Economic and Community Development Department is responsible for the pass-through of Lottery Funds to the Office. The Office recruits film productions through its marketing efforts, and provides assistance to productions to identify film locations. Services include maintaining a photo library of potential movie and television locations statewide and assisting in film permitting. The Film and Video Office estimates the industry generated $835 million in economic output and 11,023 jobs in 2000.

Revenue Sources and Relationships

The Office is supported by Lottery Funds.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget provides $841,605 lottery Funds, which is the current operating level with the standard adjustment for inflation ($19,725).

OECDD – Arts Commission

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	2,008,436	1,168,674	1,284,569	1,268,049
Other Funds	351,664	829,489	5,477,258	5,597,989
Federal Funds	1,236,031	1,654,700	1,694,413	1,692,142
Total Funds	**$3,596,131**	**$3,652,863**	**$8,456,240**	**$8,558,180**
Positions	6	8	8	9
FTE	5.00	6.91	7.00	8.00

Program Description

The Arts Commission is responsible for making the arts and culture available to all Oregonians by working with other agencies on a variety of initiatives in education, arts, and tourism. The Commission is responsible for a number of activities including: evaluating the impact of arts on Oregon's economy; distributing National Endowment for the Arts (NEA) funding for programs in Oregon; working with the leadership of local arts organizations; conducting assessment and maintenance to protect existing public art and approving new public art; and supporting Oregon's Art in Education program. The Commission coordinates regional efforts and arts education programs through a network of regional arts councils and collaborates to advance arts education for all students. The Commission became a part of OECDD in 1993.

Revenue Sources and Relationships

The Arts Commission receives federal NEA funding, General Fund, and Other Funds from the 1% for Arts program and from donations. The 1% for Arts program is a state law which requires that 1% of appropriations to construct or alter certain state buildings must be used for the acquisition of art works. About 65% of the Commission's funds are used for special payments, which are grants to individuals and non-profit programs that support the goals of the Arts Commission.

Budget Environment

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

The 2003 Legislature funded the Arts Commission at $3.7 million total funds and 6.91 FTE. The General Fund support for the Commission was reduced to $1.2 million, which was the minimum funding level required to meet matching funds requirements for federal arts programs. The 2003 Legislature also transferred the Oregon Cultural Trust program and 1.83 FTE support staff from the Secretary of State's Office to the Arts Commission, with the expectation that the combined programs will result in improved efficiencies and that funds raised for the Trust will help to support the Commission. However, program revenue was not sufficient to support the staffing approved in the transfer.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget provides $8.6 million total funds and 8.00 FTE. This represents an increase of $4.9 million (134.3%) above the 2003-05 legislatively approved budget. Most of this increase is $4.6 million in Other Funds limitation from revised estimates of the funds available for grants and administration out of the Cultural Trust Account. The budget also includes $140,000 and 1.00 FTE to reflect receipt of a Murdock Trust Grant, a 3% reduction to services and supplies, and statewide adjustments to state government service charges, the Attorney General rate, and the Public Employees Retirement System (PERS) rate.

OECDD – Lottery Debt Service

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Lottery Funds	16,563,152	38,183,681	53,576,459	48,422,618
Lottery Funds Limitation	757,227	1,001,043	32,105	644,103
Other Funds				1,956,772
Total Funds	**$17,320,379**	*** $39,184,724**	**$53,608,564**	**$51,023,493**

** The ORBITS report includes $36,805,382 in nonlimited Other Funds that reflects the receipt of replacement Other Funds from the refunding of lottery-backed bonds. The agency did not receive additional bond proceeds from this refunding. However, refunding resulted in a reduction in the Lottery Funds debt service on these bonds. The increase in Lottery Funds reflects a combination of this reduction and the biennialized rollup of debt service on infrastructure bonding authority.*

Program Description

This is a budgetary division that receives Lottery Funds and pays the debt service on lottery-backed bonds.

Revenue Sources and Relationships

The division is supported with Lottery Fund allocations. The budget for this program was increased by $16.8 million in the 2003-05 biennium to cover the increased debt service cost for the $181 million in lottery-backed bonding authority authorized by the 2001 Legislature. However, since $64.7 million of infrastructure and Columbia Channel deepening bonding authority from the 2001-03 biennium was deferred until late in the 2003-05 biennium, and an additional $4 million in bonding authority was authorized for small ports, the debt service for 2005-07 is expected to increase by an additional $14.4 million. The actual debt service cost is contingent on several factors, including fluctuations in the interest rate charged for bonds, and whether or not the taxable bonds are sold.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget provides $51 million total funds. This represents an increase of $11.8 million (30%) above the legislatively approved budget from rollup costs for debt service on previously authorized infrastructure bonds. The 2005 Legislature authorized the use of $1.9 million in Other Funds from interest earnings on lottery-bond reserves and proceeds for the debt service on the $45 million in bonding authority for industrial lands infrastructure.

Total debt service costs are a combination of savings from interest adjustments from refinancing $36.8 million in existing bonds in the 2003-05 biennium, the debt service savings from the reduction in taxable bonding authority, and the rollup of debt service as current and previously authorized bonds are sold.

Employment Department (OED) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	1,946,632	3,426,181	3,586,694	3,584,245
Other Funds	87,779,187	108,175,341	104,606,984	103,567,621
Federal Funds	260,744,308	266,335,469	251,666,439	250,290,816
Other Funds (NL)	2,318,336,696	2,117,668,224	1,328,108,136	1,328,108,136
Total Funds	**$2,668,806,823**	**$2,495,605,215**	**$1,687,968,253**	**$1,685,550,818**
Positions	1,516	1,525	1,431	1,431
FTE	1,432.03	1,421.51	1,368.54	1,368.12

Agency Overview

The Employment Department (OED) offers services in five program areas:

- Unemployment Insurance (UI) provides wage replacement income to workers who are unemployed through no fault of their own.
- Business and Employment Services offers job listing and referrals services and career development resources.
- Child Care promotes and regulates the child care industry.
- Workforce and Economic Research coordinates the collection and dissemination of occupational and economic climate data for the state, workforce regions, and counties.
- Office of Administrative Hearings conducts contested cases for approximately 70 state agencies.

Revenue Sources and Relationships

Sources of Other Funds revenues include:

- The ***Oregon UI Trust Fund***, with a balance of more than $1.1 billion, consists of employer payroll taxes collected by the Employment Department and held by the U.S. Treasury. These funds are designated for unemployment insurance compensation payments to qualified individuals.
- The ***Benefit Reserve Trust Fund*** was established in 1991 and funded through a temporary surcharge on state payroll taxes ($234 million). Interest earnings are transferred to the *Supplemental Employment Department Administrative Fund (SEDAF)* to support administrative expenses throughout OED. With the passage of HB 2127 (2005), the Benefit Reserve Trust Fund will be eliminated and a portion (0.09%) of employer taxes will support SEDAF in the future.
- ***Reed Act*** funds, in the amount of $98 million, were distributed to OED as Other Funds from the federal Employment Security Administration Account. These funds can be spent over multiple biennia, but only for expenditures relating to UI and Employment Services administration. The legislatively adopted budget expends $29.7 million, leaving an estimated ending balance of $38.5 million.
- The ***Special Administrative Fund*** receives revenues from penalties and interest on delinquent payment of employer taxes. These funds are designated for administrative expenses or other needs as determined by the Director of the Department. The legislatively adopted budget expends $12.9 million ($4.3 million from beginning balance and $8.7 million in new revenues) leaving an estimated ending balance of less than $5,000.
- The ***Fraud Control Fund*** is supported by interest earnings on delinquent repayments of UI benefit overpayments and is earmarked for costs associated with the prevention, discovery, and collection of those overpayments. The legislatively adopted budget expends $2.6 million, leaving an estimated ending balance of $1.7 million.
- The ***JobsPlus Unemployment Fund***, authorized by HB 3441 (2001), was created through a diversion of UI taxes over a two-year period to support subsidized employment opportunities for UI clients. The amount collected through the diversion is insufficient to continue the program through the entire 2005-07 biennium. Proposed legislation to divert additional funding and extend the operations of the program failed to pass. The legislatively adopted budget transfers the estimated unobligated balance of $2 million to the General Fund.
- The ***Child Care Fund*** accounts for 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 tax credit was established in 2001; however, due to technical issues that were addressed by the 2003 Legislature, OED does not expect the program to be fully implemented until the 2005-07 biennium. The legislatively adopted budget assumes 100% utilization of the tax credit (donations of

$1.33 million), with an ending balance of approximately $141,000. The Child Care fund also includes the licensing fees from child care providers ($648,000).

The Employment Department also receives Other Funds revenues from other state agencies for providing job placement services and conducting contested case hearings.

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 2005-07 biennium, an estimated $100 million will be distributed by the U.S. Department of Labor for administration of the Unemployment Insurance Program, and an additional $33.7 million is expected for employment and workforce research services provided under the Wagner-Peyser Act.
- ***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 $118.2 million will be received during the 2005-07 biennium. Approximately 93% of these funds are reallocated to child care related programs at other state and local agencies.

Budget Environment

Since Oregon experienced weak economic conditions and had one of the highest unemployment rates in the nation over the last several years, OED has seen significant growth in the number and duration of claims, benefit payments, and appeals, as well as a greater demand for assistance with job search and placement services. While economic conditions are expected to improve during the 2005-07 biennium, the 73rd Legislature approved the extension of benefits for an additional 6.5 weeks to those who had exhausted benefits (HB 3305). This extension ended August 13, 2005. Further legislation was approved to prohibit the disqualification from benefits for victims or parents of minors who are victims of domestic violence, sexual assault, or stalking (HB 2662).

OED has made significant investments to improve customer service and capture efficiencies through technology enhancements such as internet filing and interactive voice response systems. During the 2003-05 biennium, the unemployment insurance programs were removed from the field offices across the state and consolidated into three call centers (Bend, Eugene, and Portland). Return on the initial investment of $5.8 million is expected to be less than four years.

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. Along with the Department of Human Services and the Commission on Children and Families, OED was directed to review Oregon's child care regulation and services and to report on best practices, the need for structural changes, and funding allocations.

OED is one of the 12 agencies to take part in the Computing and Networking Infrastructure Consolidation (CNIC) initiative. OED expects to begin its transition to the consolidated data center in October 2006. The legislatively adopted budget does not assume any cost savings during the biennium, however, 0.42 FTE were eliminated.

OED – Unemployment Insurance

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	7,132,253	19,873,851	14,258,237	14,076,286
Federal Funds	98,861,156	110,021,351	99,753,529	98,831,786
Other Funds (NL)	2,318,336,696	2,117,668,224	1,328,108,136	1,328,108,136
Total Funds	**$2,424,330,105**	**$ 2,247,563,426**	**$ 1,442,119,902**	**$ 1,441,016,208**
Positions	673	712	623	623
FTE	631.76	646.81	598.14	597.93

Program Description

The UI program determines eligibility for benefits, processes benefit payments, enforces UI laws, collects employer payroll taxes, and provides support to the Employment Appeals Board (EAB). EAB, made up of three Governor-appointed members, is a separate and federally funded entity located within OED for administrative purposes and is responsible for reviewing decisions of the Office of Administrative Hearings on benefit cases.

Legislatively Adopted Budget

The legislatively adopted budget reflects a 35.9% decrease from the 2003-05 legislatively approved budget. This substantial decline is attributable to an improved economic forecast and lower unemployment rates which will reduce payments of unemployment benefits to qualified applicants. These payments, budgeted as Nonlimited, are estimated to decline by approximately $790 million. Excluding the Nonlimited portion of the budget, the legislatively adopted budget of $112.9 million is 13.1% lower than the 2003-05 legislatively approved budget. Approximately one-half of this decrease is due to lower operating expenses (overtime, temporaries, and associated services and supplies) from fewer UI claims. The remaining decrease is associated with realigning workload into three call centers and transferring $4.1 million total funds and 33 positions (24.67 FTE) to Business and Employment Services.

OED – Business and Employment Services

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	0	0	0	54,000
Other Funds	56,379,428	66,770,006	60,274,752	59,724,766
Federal Funds	37,830,476	39,226,734	27,001,850	26,694,624
Total Funds	**$94,209,904**	**$105,996,740**	**$87,276,602**	**$86,473,390**
Positions	627	614	539	539
FTE	595.56	581.73	506.40	506.19

Program Description

This program's mission supports businesses and promotes employment. Services are provided through 48 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 via kiosks in 154 locations and 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 legislatively adopted budget reflects an 18.4% decrease from the 2003-05 legislatively approved budget. The budget includes:

- supplementing support to veterans by providing $54,000 General Fund for transportation and employment services;
- establishing 25 limited duration positions (25.00 FTE), replacing 26 limited duration positions approved in the 2003-05 biennium, to respond to grants and contracts as sufficient workload and funding becomes available ($2.9 million Other Funds);
- abolishing 21 positions (20.17 FTE) and $15.5 million expenditure limitation ($12.6 million Other Funds and $2.9 million Federal Funds) due to insufficient revenue for the JobsPlus program and the discontinuation of the Groundfish Transitional Income program;
- transferring 33 positions (24.67 FTE) and $4.1 million total funds from the Unemployment Insurance program for additional support to Oregon's business community; and
- transferring 71 positions (70.50 FTE) and $12.7 million total to establish a separate program area for the Workforce and Economic Research Division.

OED – Child Care

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	1,946,632	3,426,181	3,586,694	3,530,245
Other Funds	2,759,908	653,375	2,289,021	2,278,812
Federal Funds	124,052,676	117,087,384	118,180,142	118,102,804
Total Funds	**$128,759,216**	**$121,166,940**	**$124,055,857**	**$123,911,861**
Positions	75	75	74	74
FTE	66.46	68.88	69.50	69.50

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 legislatively adopted budget represents a 2.3% increase over the 2003-05 legislatively approved budget. OED anticipates the revenue from the CCDF will be insufficient to cover the standard inflationary adjustments; therefore, most of the special payments to other state agencies for child care related services will remain at the 2003-05 budget level. The budget increases Other Funds expenditure limitation by $1.5 million for distributions to qualified community agencies from the Child Care Contribution tax credit program. This program was created in 2001, but implementation had been delayed pending technical changes recommended by the Attorney General. These changes were approved during the 2003 legislative session, but the agency's budget was not adjusted to reflect distributions in the 2003-05 biennium.

OED – Workforce and Economic Research

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	0	0	5,913,611	5,852,448
Federal Funds	0	0	6,730,918	6,661,602
Total Funds	**$0**	**$0**	**$12,644,529**	**$12,514,050**
Positions	0	0	71	71
FTE	0.00	0.00	70.50	70.50

Program Description

This program coordinates the collection and dissemination of occupational and economic climate data for the state, workforce regions, and counties, and is Oregon's designated employment statistics agency under the federal Workforce Investment Act. Businesses and individuals can access data through monthly and annual publications such as *Labor Trends*, which outlines payroll, unemployment, and other economic related issues by workforce region, or through on-line resources such as the Oregon Labor Market Information System. The program also conducts specialized surveys requested through the U.S. Bureau of Labor Statistics or local workforce investment boards.

Legislatively Adopted Budget

The legislatively adopted budget of $12.5 million total funds maintains current services with no program enhancements. This program was previously budgeted as part of Business and Employment Services.

OED – Office of Administrative Hearings

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	21,507,598	20,878,109	21,871,363	21,635,309
Total Funds	**$21,507,598**	**$20,878,109**	**$21,871,363**	**$21,635,309**
Positions	141	124	124	124
FTE	138.25	124.09	124.00	124.00

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 legislatively adopted budget reflects a 3.6% increase over the 2003-05 legislatively approved budget. All services are maintained with no proposed enhancements.

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

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	1,328,779	1,294,260	1,346,117	0
Lottery Funds	2,510,282	3,718,261	4,232,585	0
Lottery Funds Carryover	0	0	2,650	0
Other Funds	19,985,690	11,674,776	12,557,777	7,040,489
Other Funds (NL)	1,311,128	* 1,219,565	1,039,410	0
Total Funds	**$25,135,879**	**$17,906,862**	**$19,178,539**	**$7,040,489**
Positions	52	60	59	59
FTE	32.92	37.18	37.05	10.71

** The ORBITS report includes $4,585,024 in Nonlimited Other Funds that reflects the receipt of replacement Other Funds from the refunding of lottery-backed bonds. The agency did not receive additional bond proceeds from this refunding. However, refunding resulted in a reduction in the Lottery Funds debt service on these bonds. The increase in Lottery Funds reflects a combination of this reduction and the biennialized rollup of debt service on the $10 million of bonding authority for the multipurpose Pavilion.*

Agency Overview

The Oregon State Fair and Exposition Center conducts an annual state fair that lasts up to 17 days and provides services for ongoing exposition activities including recreational vehicle and organization meetings, concerts, and consumer products and services shows. The Fair responds to the needs and interests of visitors, participants, exhibitors, concessionaires, vendors, and facility users.

Budget Environment

The Fair is not generating sufficient revenue to fund operations and maintain its facilities. A 1998 performance audit by the Joint Legislative Audit Committee found that: the Fair was failing financially and risked default on its bonded indebtedness; attendance at the Fair had declined; and facilities had not been adequately maintained and improved. The 1999 Legislature responded to these issues by directing that an interim legislative committee develop a long-range strategic plan for the agency that addressed functions, funding, capital construction and maintenance needs, and ongoing operations. In response to the findings of the interim committee, the 1999 Legislature approved $11.6 million in bonding authority for renovations. In 1999-2001, the Joint Interim Task Force on the Oregon State Fair adopted the Modernization Master Plan and incorporated Master Plan recommendations into the Strategic Plan for the Oregon State Fair and Exposition Center. The Task Force identified the need for $37.9 million in bonding authority to complete renovation and construction of fairgrounds facilities. Based on recommendations from the Task Force, the 2001 Legislature expanded the State Fair Commission to seven members, including two members from county fairs, and created a Community Partnership Task Force to continue the oversight begun in the 1999-2001 biennium. This Task Force was continued into the 2003-05 biennium. The 1999 and 2001 Legislatures authorized a combined total of $21.6 million in lottery-backed bonding authority for facilities renovation and construction, including $10 million in 2001 for the construction of a multipurpose Pavilion. The debt service on lottery-backed bonds is paid out of Lottery Funds that the Legislature allocates to the Fair each biennium.

Despite these efforts, the Fair continued to lack sufficient operating revenue from its fair and exposition events. The Fair requested authority from the Emergency Board in November 2004 to prepay the remaining debt service on its revenue bond. This action was requested because of a shortfall in operating resources. The Emergency Board authorized the Fair to use reserved Lottery Funds plus its bond reserves to pay off this debt. The action of the Emergency Board in November 2004 eliminated an average of $500,000 a year in Nonlimited Other Funds for the debt service obligation, and these funds became available for operating needs. However, these adjustments were not sufficient to meet operating needs. At its January 2005 meeting, the Emergency Board allocated $543,073 General Fund to meet operating expenses through the remainder of the 2003-05 biennium. The Emergency Board estimated that a total General Fund subsidy of $4 million would be required to maintain operations in 2005-07.

The 2005 Legislature considered the options available to address the worsening fiscal situation of the Fair and determined that maintaining the status quo was not an option, since the Fair lacks sufficient operating revenue from its fair and exposition events to continue operating as an independent department.

The 2005 Legislature adopted House Bill 3502, transferring all properties, assets, and management of operations and maintenance of the Oregon State Fair and Exposition Center to the Oregon Parks and Recreation Department, based on legislative findings that:

- The Fair and its management are isolated from state and local government partners, and needs to strengthen its ties to state and local partners in order to assure state-wide value, increase state, community and business partnerships, and optimize operational efficiency.
- The Fair is not self-sufficient and will need funding support for the foreseeable future. The current biennial estimate of General Fund operating support is $4 million. However, a number of factors, including attendance at the Annual State Fair and net revenue from the Multipurpose Pavilion, will affect biennial support requirements.
- The Fair needs assistance with agency management, so that staff can focus on the statutory direction for the agency, which, pursuant to ORS 565.050, is to "disseminate knowledge concerning, and to encourage the growth and prosperity of all agricultural, stock raising, horticultural, mining, mechanical, artistic and industrial pursuits in this state ….(and) …to conduct an annual state fair…." Management assistance includes developing management goals, objectives, measures and outcomes, and developing the necessary reports to track performance against these management objectives.
- The Fair needs a Commission that is directly involved in the marketing and management of the Fair.

By merging the Fair with the Oregon Parks and Recreation Department (Parks), the Legislature believes the Fair will be better managed due to Parks' experience with managing state property, heritage programs, providing entertainment, and collecting revenue. In addition, Parks has the resources to provide operational support to the Fair. The Legislature also noted that the mission of the Oregon Parks and Recreation Department as detailed in ORS 390.010 is to promote festivals, fairs, and heritage programs, which is consistent with the functions of the Oregon State Fair. The Legislature expects that Parks will develop and implement a vision for the Fair that will make use of its unique assets, while generating sufficient resources to maintain its operations.

Fair – Operations

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	1,328,779	1,294,260	1,346,117	0
Other Funds	9,985,690	11,674,776	12,557,777	7,040,489
Total Funds	**$11,314,469**	**$12,969,036**	**$13,903,894**	**$13,903,894**
Positions	52	60	59	59
FTE	32.92	37.18	37.05	10.71

Program Description

Fair Operations is responsible for activities related to the annual Oregon State Fair and for ongoing Exposition Center functions. This includes all permanent and temporary staff, supplies, equipment, maintenance, and related support functions.

Revenue Sources and Relationships

The Fair receives Other Funds revenue from grounds admission, commercial exhibit fees, ride and show admissions, parking, space rental fees, and food concessions, which is not sufficient to fully cover increases in fixed operating costs or to fund essential maintenance.

The Fair has bonding authority for capital construction and renovation projects. To date, the Fair has met all of its debt service payment obligations. However, in 1997, it defaulted on the provision of its bond rate covenant that required the agency to maintain a fund balance of at least $632,000. A financial consultant was hired as required by the covenant. The Fair implemented the rate and fee increases recommended by the financial consultant. However, these increases were not sufficient to meet the covenant requirement. During 2000, the Emergency Board approved the reservation of $556,855 in Lottery Funds, which had been allocated for debt service, for the covenant requirement. The debt service was lower than anticipated due to a delay in issuing lottery-backed bonds.

At its November 2004 meeting, as a result of a shortfall in operating resources, the Emergency Board authorized the Fair to use the reserved Lottery Funds plus its bond reserves to pay off its revenue bond debt. This action was requested because of a shortfall in operating resources. The action of the Emergency Board eliminated an average of $500,000 a year in Nonlimited Other Funds for the debt service obligation, and these funds became available for operating needs. The Department of Administrative Services was also requested to unschedule $600,000 Other Funds from interest earnings on lottery-backed bond proceeds. The Emergency Board had authorized the Fair to expend these funds for projects related to completion of the multipurpose Pavilion. Given the Fair's financial situation, the Emergency Board recommended that decisions on the use of these funds be deferred to the 2005 Legislature.

The adjustments approved in November 2004 were not sufficient to meet operating needs. At its January 2005 meeting, the Emergency Board allocated $543,073 General Fund to meet an additional operating shortfall, which the Fair had subsequently identified, to pay expenses through the remainder of the 2003-05 biennium.

Budget Environment

State Fair attendance has been declining over the past decade, although attendance stabilized between 1995-97 and 1999-2001. However, attendance at the 2002 annual State Fair was down 5.7% from the 2001 annual State Fair, primarily due to the decline in Oregon's economy. This decline was significantly less than declines at similar events in the Pacific Northwest. State Fair attendance in 2003 increased 0.4% from the 2002 Fair and remained stable for the 2004 State Fair. However, increases in Fair expenses were greater than the revenue generated from attendance, resulting in the budget shortfall noted above.

The agency competes with convention and exposition centers in the region. Many of these convention centers receive some form of subsidy from local governments and have newer facilities. Until the 1999-2001 biennium, the Fair had not historically received an operating subsidy. In addition, the deteriorating condition of facilities affected the ability to generate additional revenues. The agency cannot significantly raise fees and remain competitive in this market. The Strategic Plan adopted by the Task Force assumes that, with facility renovation and construction, the agency will be able to expand the number of events and charge somewhat higher rates. However, ongoing state funding will be required for facility renovation and maintenance.

The 1999 Legislature approved a $698,934 General Fund subsidy to enable the annual State Fair to continue programs, such as agricultural and floral exhibits, that are key to the mission of the agency but do not generate sufficient revenue to cover costs or meet cash flow requirements. The 2001 Legislature increased that subsidy to $1.3 million. The 2003 Legislature also approved $1.3 million General Fund for Fair Operations. The 2003-05 budget included startup costs and eight positions (4.31 FTE) to support the multipurpose Pavilion, which opened during the 2004 Annual State Fair. In 2005, the Emergency Board estimated that a total General Fund subsidy of $4 million would be required to maintain operations in 2005-07.

The Legislature directed the Fair, by budget note, to continue collaborative efforts with state and community leaders, added two county fair members to the State Fair Commission, and established a Community Partnership Task Force to continue the oversight created in the 1999-2001 biennium. The Legislature established the expectation that the Fair will demonstrate progress in meeting its operating costs out of the revenue generated, but recognized that ongoing state assistance will be required to maintain Fair facilities.

Legislatively Adopted Budget

The Legislature adopted House Bill 3502 transferring all properties, assets, and management of operations and maintenance of the Oregon State Fair to the Oregon Parks and Recreation Department. The Fair lacks sufficient operating revenue from its fair and exposition events to continue operating as an independent department.

Fair – Debt Service

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Lottery Funds	2,510,282	3,718,261	4,232,585	0
Lottery Funds Carryover	0	0	2,650	0
Other Funds (NL)	1,311,128	1,219,565	1,039,410	0
Total Funds	**$3,821,410**	**$4,937,826**	**$5,274,645**	**$0**

Program Description

This program pays the principal and interest on construction bonds. The 2001 Legislature added $10 million in lottery-backed bonding authority and increased the debt service from Lottery Funds to $2,611,346. The debt service cost for 2003-05 was $3.7 million. This cost will increase to $4.2 million in 2005-07. The increase reflects the full debt service cost for all of the Lottery-backed bonds.

Revenue Sources and Relationships

The program received revenue from operations and received Lottery Funds revenue to repay debt service on the capital construction and improvement bonds.

Legislatively Adopted Budget

The Emergency Board authorized prepayment of the revenue bond, eliminating the $1,039,410 in Nonlimited Other Funds expenditure for that debt. These funds are now available for operating expense.

The Legislature adopted House Bill 3502 transferring all properties, assets, management and debt service to the Oregon Parks and Recreation Department. The Fair lacks sufficient operating revenue from its fair and exposition events to continue operating as an independent department.

Fair – Capital Construction

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	10,000,000	0	0	0
Total Funds	**$10,000,000**	**$0**	**$0**	**$0**

Program Description

This program reflects bond proceeds for capital construction, and includes the proceeds from bond sales. The 1999 and 2001 Legislatures authorized a combined total of $21.6 million in bonding authority for facilities renovation and construction. The 2001 authority was for $10 million for the construction of a multipurpose Pavilion on the Oregon State Fairgrounds.

Revenue Sources and Relationships

The program receives bond proceeds for capital construction.

Legislatively Adopted Budget

The budget does not include any funding for capital construction.

Housing and Community Services Department (HCSD) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved *	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	7,163,258	9,794,031	9,792,104	10,868,769
Lottery Funds	1,905,233	4,462,311	4,460,538	4,460,538
Other Funds	61,703,317	87,215,711	80,823,021	79,494,188
Federal Funds	99,061,323	109,904,381	104,909,464	103,372,888
Other Funds (NL)	1,177,620,640	1,858,215,287	2,194,299,456	2,194,299,456
Federal Funds (NL)	94,483,987	100,717,000	101,600,000	101,600,000
Total Funds	**$1,441,937,758**	**$2,170,308,721**	**$2,495,884,583**	**$2,494,095,839**
Positions	148	152	154	150
FTE	143.49	148.34	150.58	147.08

** Prior to the 2005-07 biennium, the budget for the Housing and Community Services Department has been reviewed and approved as one program. Five programs will now be displayed to assist interested parties in better understanding the budget. While the totals for the 2003-05 Legislatively Approved column are correct, the program budgets are estimates to be used as a general guide. No effort was made to recast position and FTE counts by program.*

Agency Overview

The Housing and Community Services Department (HCSD) provides financing and program support for the development and preservation of affordable housing, and administers federal and state antipoverty, homeless, energy assistance, and community service programs. The State Housing Council, a seven-member panel appointed by the Governor, advises the Governor, Legislature, HCSD, and local governments on affordable housing issues.

Revenue Sources and Relationships

HCSD has numerous sources of Other Funds that include proceeds from the sale of bonds, mortgage and down payment assistance repayments, loan and tax credit related fees, the energy bill payment assistance charge and a portion of the public purpose charge established as part of the electric industry restructuring legislation approved in 1999, civil penalties assessed to farm labor contractors by the Bureau of Labor and Industries, a surcharge on court cases related to residential landlord and tenant law, special assessments on manufactured dwellings, and interest earnings. Resources for bond-related activities are expended as Other Funds Nonlimited.

In addition to the direct sources of Other Funds revenues, a portion of the General Fund appropriation is transferred to the Housing (Trust) 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. Approximately $7.1 million of the General Fund appropriation in the legislatively adopted budget would be transferred to the fund.

Proceeds from the issuance of Lottery Revenue Bonds (LRBs) are used to support the Community Incentive Fund for grants and loans to revitalize downtown areas and main streets, to develop affordable housing near jobs and transportation, and to help rebuild distressed communities. Lottery Revenue allocations support the debt service requirements for these bonds, but the proceeds from the bond sales are spent as Other Funds. Up to $25 million in LRBs may be issued; however, through the end of the 2001-03 biennium, $20 million had been issued. The legislatively adopted budget does not anticipate issuing additional LRBs for HCSD during the 2005-07 biennium.

Federal Funds are received from a variety of federal agencies including the HOME Investment Partnership Program, Section 8 rent subsidies, Community Services Block Grants, Low-Income Energy Assistance funds, Emergency Shelter grants, Supportive Housing programs, Department of Energy weatherization assistance funds, and Food Assistance programs. Federal Funds Nonlimited expenditure authority is for the Section 8 rent subsidy payments.

Budget Environment

- Within the Housing Finance Fund (HFF), which incorporates all of HCSD's bonding activities except for the Elderly and Disabled general obligation bonds, HCSD maintains unrestricted cash and investments to fund agency programs, protection for uninsured projects, and reserves to maintain bond ratings. Resources for this fund include interest on mortgage and non-mortgage loans, loans fees, tax credit fees, and other miscellaneous fees. Resources to support operations are available only after short-term debt payments, legally required reserves, and bond indenture requirements have been met. As of June 2004, HFF held $16.3 million in unrestricted cash and investments. In the most recent two biennia, the Legislature has backfilled General Fund reductions with $3.8 million in unrestricted cash and investments. These transfers, along with other economic factors, have reduced HCSD biennial distributions for programs and administration by $720,000. HCSD has offset the loss of resources by seeking methods in which other programs can more equitably pay for their operations as opposed to being subsidized by the HFF.

There are several risks associated with accessing the unrestricted cash and investments for general government purposes. The level of unrestricted cash and investments is one area of management and fund stability that bond rating agencies will consider when establishing a bond rating. Moody's Investors Services analyzes the potential of "raids" to housing finance agencies and may cap or downgrade ratings, assign negative outlooks, or do nothing to the agency's rating. Any negative action by the rating agencies would increase the cost of borrowing and thus threaten the stability of HCSD's programs. Unrestricted cash and investments also serve as a backstop for uninsured loans within the single-family and multi-unit programs. If loan holders default on their payments to HCSD and reserves or unrestricted cash and investments are insufficient, the agency is at risk of not being able to pay bondholders. HCSD also relies on distributions from the bond indentures to support programs and administration. As unrestricted cash reserves decline, distributions to HCSD decrease and may cause unintended program reductions.

- The Legislature initially established the Housing (Trust) Fund in 1991 and appropriated $20 million General Fund of which $14 million was transferred to the Housing Development and Guarantee Account (HDGA) as a "trust," $5 million was transferred to the Emergency Housing Account, and $1 million was to be used for the same purposes as the HDGA. In 1993, $1.5 million lottery revenue was added to the corpus held within HDGA. As part of the statewide budget balancing efforts in 2003, $5.5 million was transferred back to the General Fund with the intent to rebuild the corpus to $15.5 million over several biennia using interest earnings from the Trust Fund as well as the Community Incentive Fund. During the 2003-05 biennium, HCSD transferred $ 1.35 million back to the Trust Fund.

- HCSD is one of the 12 agencies to take part in the Computing and Networking Infrastructure Consolidation (CNIC) initiative. HCSD expects to begin its transition to the consolidated data center in April 2006. The legislatively adopted budget does not assume any cost savings during the biennium, however, 1.00 FTE was eliminated.

Legislatively Adopted Budget

The legislatively budget of $2.49 billion total funds is an increase of approximately $323.8 million, or 14.9%, over the 2003-05 legislatively approved budget. Most of the overall increase is attributable to activities associated with bond programs that are budgeted as Nonlimited Other Funds. Specific proposals will be outlined in the program areas.

HCSD – Energy/Weatherization

	2001-03 Actual	2003-05 Legislatively Approved*	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	21,521,732	40,697,440	37,348,842	37,345,600
Federal Funds	53,474,452	60,962,967	56,182,515	56,182,313
Total Funds	**$74,996,184**	**$101,660,407**	**$93,531,357**	**$93,527,913**
Positions	0	0	7	7
FTE	0.00	0.00	7.00	7.00

Program Description

Energy and Weatherization programs help families meet their basic needs such as food and housing by providing assistance payments, installing energy-saving modifications on heating systems and home weatherization, and providing conservation education. HCSD administers various activities through local community action agencies.

Legislatively Adopted Budget

The legislatively adopted budget of $93.5 million reduces expenditure limitation to reflect lower than anticipated revenues from Energy Conservation Helping Oregonians (ECHO), Oregon Energy Assistance (OEA), and settlement funds ($3.3 million), and implements a revised federal cost allocation plan.

HCSD – Self-Sufficiency/Emergency Assistance

	2001-03 Actual	2003-05 Legislatively Approved*	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	6,197,708	8,739,770	9,028,343	9,866,811
Other Funds	3,100,985	9,771,747	9,254,660	9,240,795
Federal Funds	10,996,360	14,318,535	13,857,739	12,403,345
Federal Funds (NL)	94,483,987	100,717,000	101,600,000	101,600,000
Total Funds	**$114,779,040**	**$133,547,052**	**$133,740,742**	**$133,110,951**
Positions	0	0	28	24
FTE	0.00	0.00	26.00	23.50

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.
- ***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.
- ***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.

Legislatively Adopted Budget

The legislatively adopted budget of $133.1 million incorporates several program changes, including:

- Establishing 11 positions (11.00 FTE) to replace limited duration positions, increasing a part-time position (0.37 FTE), and reclassifying one position to support the continuation of HUD contract administration for Section 8 project-based Housing Assistance Payments, and establishing two positions (2.00 FTE) to replace limited duration positions for Emergency Assistance and Service Compliance ($1,592,946 Other Funds, $113,443 Federal Funds, and $43,640,000 Federal Funds Nonlimited).
- Eliminating four positions (2.50 FTE) for the Housing Opportunities in Partnership Program ($1,453,138 Federal Funds). The program was consolidated into the Department of Human Services, Health Services.
- Restores support to the Statewide Homeless Assistance Program, which was reduced in the Governor's budget, including emergency shelters, transitional housing, auxiliary services, and case management ($838,027 General Fund).
- Reducing expenditure limitation to align with lower than anticipated revenue levels in the Low-income Rental Housing Fund ($500,000 Other Funds).
- Implementing a revised federal cost allocation plan.
- Reducing General Fund support for services and supplies by 3%.

HCSD – Community Capacity Building

	2001-03 Actual	2003-05 Legislatively Approved*	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	266,784	0	0	0
Lottery Funds	1,905,233	4,462,311	4,460,538	4,460,538
Other Funds	8,364,650	9,280,968	7,133,682	7,124,255
Federal Funds	19,350,702	17,566,568	17,132,646	17,131,130
Total Funds	**$29,887,369**	**$31,309,847**	**$28,726,866**	**$28,715,923**
Positions	0	0	14	14
FTE	0.00	0.00	14.00	14.00

Program Description

Community Capacity Building includes a variety of services intended to promote alternative conflict resolution, volunteerism, and streamlined housing services, including:

- The ***Manufactured Dwelling Park Community Relations Program*** maintains a centralized resource referral program for tenants and landlords to encourage voluntary dispute resolution.
- The ***Community Incentive Fund*** is supported through Lottery Revenue Bonds as part of the Oregon Livability Initiative to revitalize downtown areas and main streets and to develop affordable housing near jobs and transportation.
- ***Community Services Block Grants*** provide funding for community-based organizations which administer a variety of services to low-income Oregonians.
- The ***Oregon Commission on Voluntary Action and Services*** promotes and supports AmeriCorps, volunteerism, and civic engagement to strengthen Oregon communities.
- ***Individual Development Accounts (IDA)*** for low-income individuals who enroll in a 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.
- Five ***Regional Housing Centers*** serving ten rural counties provide "one-stop shopping" services related to housing rehabilitation, weatherization, credit counseling, and homebuyer education.

Legislatively Adopted Budget

The legislatively adopted budget of $28.7 million implements a revised federal cost allocation plan, and phases out a portion of the project expenditures for the Community Incentive Fund ($2.5 million Other Funds).

HCSD – Homeownership/Affordable Rental Housing Development

	2001-03 Actual	2003-05 Legislatively Approved*	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	659,591	797,855	545,977	794,880
Other Funds	14,502,244	14,548,204	15,311,896	14,449,908
Federal Funds	13,554,020	15,232,937	15,447,339	15,360,736
Other Funds (NL)	1,177,620,640	1,858,215,287	2,194,299,456	2,194,299,456
Total Funds	**$1,206,336,495**	**$1,888,794,283**	**$2,225,604,668**	**$2,224,904,980**
Positions	0	0	52	52
FTE	0.00	0.00	51.50	51.50

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. HCSD also promotes affordable housing development through a variety of activities to issue tax-exempt bonds, provide conduit financing and loan programs, and administer the low-income, affordable, and farmworker housing tax credits. Several of the grants and tax credits are allocated through the semi-annual, competitive Consolidated Funding Cycle.

Legislatively Adopted Budget

The legislatively adopted budget of $2.22 billion incorporates several program changes, including:

- Increasing funding for professional services to support the continued use of tax-exempt variable rate demand obligations to achieve lower interest rates and reduce the effects of negative arbitrage for homeownership and rental housing development programs ($625,600 Other Funds).
- Establishing three positions (3.00 FTE), replacing limited duration positions, to support property management and compliance, and establishing three positions (2.50 FTE) and reclassifying one position to address workload concerns in the HOME program and for weatherization grants ($455,605 Other Funds and $226,939 Federal Funds).
- Restoring support for down payment assistance and the ABCs of Homebuying program which was reduced in the Governor's budget ($250,000 General Fund and $250,000 Other Funds).
- Establishing one Architect position (1.00 FTE), replacing a limited duration position, to support the continuation of HUD contract administration for Section 8 project-based Housing Assistance Payments ($157,660 Other Funds).

- Establishing one position (1.00 FTE), replacing a limited duration position, to support increased federal funding for the American Dream Down Payment Initiative that assists first-time home buyers ($29,060 Other Fund and $115,747 Federal Funds).
- Reducing expenditure limitation to align with lower than anticipated revenue levels in the Housing Finance Fund ($839,000 Other Funds).
- Implementing a revised federal cost allocation plan.

HCSD – Program Outreach and Accountability

	2001-03 Actual	2003-05 Legislatively Approved*	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	39,175	256,406	217,784	207,078
Other Funds	14,213,706	12,917,352	11,773,941	11,333,630
Federal Funds	1,685,789	1,823,374	2,289,225	2,295,364
Total Funds	**$15,938,670**	**$14,997,132**	**$14,280,950**	**$13,836,072**
Positions	0	0	53	53
FTE	0.00	0.00	52.08	51.08

Program Description

The Program Outreach and Accountability budget includes:

- The ***Director's Office*** coordinates the mission and goals of the agency, assists community development through the efforts of six Regional Advisors and participation in the Economic Revitalization Team, and houses the director, deputy director, and the human resource function.
- The ***Financial Management Division*** includes accounting, financial reporting, budget, grant monitoring and reporting, field audits, loan processing, payroll, facilities management, and bond related activities.
- The ***Information Services Division*** provides centralized information technology services to the agency as well providing 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 Policy, Planning, and Research section, which gathers and analyzes data on housing market dynamics and the Communications Section.

Legislatively Adopted Budget

The legislatively adopted budget of $13.8 million incorporates several program changes, including:

- Establishing two positions (2.00 FTE), replacing limited duration positions, to support HUD contract administration ($331,108 Other Funds).
- Reducing expenditure limitation to align with lower than anticipated revenue levels in the Housing Finance Fund ($227,000 Other Funds).
- Phasing out two positions (1.00 FTE) due to the transition to a statewide consolidated data center.
- Implementing a revised federal cost allocation plan.
- Reducing General Fund support for services and supplies by 3%.

Department of Veterans' Affairs (ODVA) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-075 Legislatively Adopted
General Fund	2,059,501	2,389,793	2,416,625	6,230,178
Other Funds	29,939,285	37,488,722	37,975,996	37,781,330
Other Funds (NL)	656,134,058	805,581,377	594,687,095	594,662,095
Total Funds	**$688,132,844**	**$845,459,892**	**$635,079,716**	**$638,673,603**
Positions	165	139	113	113
FTE	163.14	139.00	113.00	112.50

Agency Overview

The Oregon Department of Veterans' Affairs (ODVA) has three program areas: the Veterans' Loan Program, the Veterans' Services Program, and the Veterans' Home Program. The Veterans' Loan Program, funded entirely through Other Funds, provides loan servicing and Department administration. It is responsible for repayment of approximately 23% ($880 million) of the State of Oregon's general obligation debt. The Veterans' Services Program provides counseling, claims assistance, conservator services, and partnerships with counties and organizations to support local veterans' programs. The Veterans' Services Program is funded with General Fund and Other Funds which includes conservatorship fees. The Veterans' Home Program operates a skilled nursing care and Alzheimer's disease facility in The Dalles, Wasco County.

ODVA – Loan Program

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	18,517,270	20,751,685	16,718,783	16,510,940
Other Funds (NL)	656,099,297	805,446,377	594,662,095	594,662,095
Total Funds	**$674,616,567**	**$826,218,062**	**$611,380,878**	**$611,173,035**
Positions	142	119	82	82
FTE	140.24	119.10	82.10	81.60

Program Description

The Loan Program provides home acquisition and home improvement loans to veterans at favorable interest rates. Since 1945, the Department has made over 333,000 home and farm loans with a principal amount over $7.4 billion. The program consists of:

- Director's Office – communications, program evaluation, and human resources.
- Loan Services – functions dealing with the loan program, including originating and servicing the loans.
- Financial Administration – overall financial oversight of the Department, including accounting, information services, records, and financial management.
- Administrative Services – service of loans and contracts once they are delinquent, and general support to the agency for daily operations (data entry, forms, procedures, word processing, building management, mail, motor pool, collections, etc.).

Federal and state statutory restrictions on the use of tax-exempt bonds to provide low-cost mortgage loans only to veterans of the Viet Nam and prior eras is reflected in the dramatic reductions in program and staff size. Lacking any significant relaxation of these restrictions, this program will continue to shrink. The Department closely monitors its cash flow needs to ensure that it has sufficient reserves to retire outstanding debt and maintain operations of the program.

Revenue Sources and Relationships

The largest sources of ODVA Other Funds revenues for the 2005-07 biennium are veteran loan and contract-related repayments ($242 million), interest earnings ($180 million), and bonding authority ($120 million). The balance of revenues come from insurance premiums and other service charges, licenses, fees, and miscellaneous revenues. Available revenues will not be sufficient for operations and necessary debt retirement. The Department expects to draw down $57 million from existing cash reserves for this program during the 2005-07 biennium.

Budget Environment

In the past, the Veterans' Loan Program was prohibited from making loans to any veteran who entered active military duty after December 31, 1976. However, state law now allows certain post-1976 veterans to become eligible for a home loan through ODVA. Although veterans have 30 years from the date of their discharge to apply for loans, an aging veterans' population, the overall reduction in armed forces, and a competitive mortgage market impact the demand for loans. The demand for home loan related services is expected to decline overall as older mortgages are paid off. Mortgage interest rates are at 40-year lows and an unprecedented number of borrowers have refinanced their home loans, thus reducing the Department's loan portfolio. As a result, the Department currently services about 10,000 loans as compared to 16,500 in 2003 and 24,800 in 2001. Cash reserves also are earning less because of the low interest rate environment. However, the Department must still pay debt service on non-callable bonds issued in 1979 and 1980. Because these bonds have a significantly higher interest rate than the Department is earning on its investments, the program is suffering losses that can only be resolved with higher interest rates on investments. A cash flow analysis prepared by an independent consultant states "the Program should be able to sustain itself despite different stresses…that may negatively affect the cash flows." The consultant's analyses project self-sufficiency for the program.

Legislatively Adopted Budget

The legislatively adopted budget recognizes the reduction in loan demand. Twenty-six positions have been eliminated due to reduced program activity. Additionally, eleven positions have been transferred to the Veterans' Services program to more appropriately reflect the program services they provide. The budget also acknowledges the transfer of data center operations during the biennium with the reduction of 0.50 FTE. The actual positions will be eliminated when the 2007-09 budget is developed.

ODVA – Veterans' Services

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	2,059,501	2,389,793	2,416,625	6,230,178
Other Funds	726,240	554,575	1,592,511	1,583,455
Total Funds	**$2,785,741**	**$2,944,368**	**$4,009,136**	**$7,813,633**
Positions	19	17	28	28
FTE	18.90	16.90	27.90	27.90

Program Description

The Veterans' Services program includes:

- Counseling and claims ($1.7 millon in the Governor's recommended budget), which assists veterans, their dependents, and survivors to obtain service-connected and non-service related benefits. Over 13,000 active claims have required service during the past two years. This program also provides outreach and assistance to individuals in state institutions, hospitals, domiciliaries, and nursing homes, to help ensure that adequate care is being provided and that the federal VA pays its share of that care.
- The Conservatorship program ($1.4 million in the Governor's recommended budget), which provides conservatorship services for 236 veterans and their dependents who are determined to be "protected persons" and who are recipients of U.S. Department of Veterans' Affairs' benefits. Conservatorship services are provided when no other entity or person is willing or able to act as conservator. The staff serve as trust officers, file required legal reports, apply for all benefits due the veteran, and counsel with families, hospital personnel, social workers, and protected persons to ensure their needs are met within the resources available.
- Educational assistance and service delivery partnerships, which includes the Aid Program, Aid to Counties, and Aid to Veterans' Organizations ($900,000 in the Governor's recommended budget). Aid to Counties, which began in 1947, is a network of trained individuals operating in 34 Oregon counties to help them provide services to veterans on a local level. Up to 75% of the cost of administering each of the county offices is reimbursed, with a limit of $12,500 per year. Aid to Veterans' Organizations was established in 1949 and consists of partnerships with other veterans' service organizations in Oregon, such as the American Legion, Disabled American Veterans, and Veterans of Foreign Wars. Educational assistance provides financial help to offset some of the educational expenses of honorably discharged Oregon veterans

whose GI educational benefits have been exhausted. The program also assists displaced and disabled veteran workers who return to school to change careers or upgrade skills.

Revenue Sources and Relationships

The revenue source for the Claims and Counseling section, educational assistance, and service delivery partnership programs is the General Fund. The revenue sources for the conservatorship program are General Fund and Other Funds through fees. The 2005-07 estimated conservator fees are $748,000. The balance of Other Funds comes from existing cash balances in the Veterans' Loan program. The Constitution allows that those revenues can be used for Veterans' Services.

Budget Environment

Oregon has approximately 376,000 veterans, up from an estimated 368,000 two years ago. The aging veteran population is increasing the demand for veterans' benefits, assistance, and conservatorship services. Additional needs have been created by veterans of current and recent conflicts with claims resulting from the environment in which they served, including claims related to Agent Orange and Post Traumatic Stress Disorder. The need for services is increasing at a time when the services available remain constant or may decline, especially at the county level. The state is required to provide educational aid to eligible veterans who request it; funding for Aid to Counties and Aid to Veterans' Organizations is discretionary. Oregon counties may discontinue or reduce their level of support for local Veterans' Services' Offices, leaving veterans without local services. This further increases the demand on ODVA for services. ODVA's inability to provide service, however, could shift workload to state public assistance agencies.

There are a number of factors that affect the workload of the program, including the rapid evolution in health care programs, increasingly complex health claims, an aging war veteran population, and downsizing of the U.S. Armed Forces and resulting separation of veterans who use educational and vocational rehabilitation programs. The Department has dealt with the workload through a combination of improvements in processes and automation. However, projecting actual workload is difficult because the number of veterans who may access services is unpredictable.

Legislatively Adopted Budget

The Governor's recommended budget reflected the increased demand for services and has reallocated positions not currently utilized in the Veterans' Loan program to this program. It continued approximately $670,000 General Fund payments to 34 counties that provide veterans' services. The Governor's budget did not include any program enhancements. The Legislature adopted the Governor's recommended budget with some minor adjustments for reduced state service agency charges.

The Legislature also passed a number of pieces of legislation to acknowledge the contributions of Oregon's national guard and other veterans and provide additional services. It provided General Fund to the Department to fund this legislation as follows:

- $100,000 to help fund a memorial to for Oregon military personnel killed in Afghanistan and Iraq;
- $500,000 to provide emergency financial assistance to veterans and their immediate families;
- $631,000 for increasing the monthly veterans' education benefit from $50 to $150; and
- $2,600,000 to distribute to counties for expanding services provided by county veterans' service offices.

ODVA – Oregon Veterans' Home Program

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	10,695,775	16,182,462	19,664,702	19,686,935
Other Funds (NL)	34,761	135,000	25,000	0
Total Funds	**$10,730,536**	**$16,317,462**	**$19,689,702**	**$19,686,935**
Positions	4	3	3	3
FTE	4.00	3.00	3.00	3.00

Program Description

The Oregon Veterans' Home in The Dalles provides skilled nursing and Alzheimer's disease care to Oregon veterans. The Home opened in November 1997 and has a bed capacity of 151 residents. Funding for construction and equipping of the facility was from a 65% federal grant matched to a 35% state obligation contributed by Wasco County. The Home is operated with a philosophy of maximum resident independence and encouragement for the residents to function at their highest possible level.

Revenue Sources and Relationships

The Veterans' Home Program consists solely of Other Funds. Revenues are primarily moneys received from the residents of the Home, Medicare and Medicaid payments, and a per diem amount received directly from the federal Veterans Administration. Veterans who reside in the Home receive benefits not available to them if they reside elsewhere. Many veterans receive aid and attendance along with disability compensation or income-based VA pensions, which, combined with their social security benefits, provides the revenue with which to pay for their care in the Home. The total amount of revenue is based in part on the occupancy projections obtained from the Home's contractor. Expenditures of donations to the home are budgeted as Nonlimited expenditures.

Budget Environment

Expenditures for the Home relate to the cost of providing residential care. Operation of the Home was contracted out to a health care service provider. Obtaining and maintaining a high occupancy rate at the Home is important to the financial condition of the Home. As of late 2004, the Home had an occupancy rate of 85%, which is higher than the 66% occupancy rate about two years ago. The Home has been able to address the issue of shortages of qualified nursing personnel by working with local post-secondary education institutions. That shortage was a contributing factor to the lower occupancy rate. Operating costs still consume all of the Home's revenues. If this situation continues, the inability to fund significant facility maintenance needs could have future negative consequences. At this point, the facility is still in good condition and can operate during the 2005-07 biennium without significant maintenance expenditures.

Legislatively Adopted Budget

The legislatively adopted budget contains no program enhancements. It provides for the continuation of the existing program level of the Veterans' Home. The Legislature removed the exemption from expenditure limitation for expenditures of donations made to the home. The expenditures are at the discretion of the Director of Veterans' Affairs and the Legislature determined that they should be made subject to budgetary authority.

NATURAL RESOURCES

Department of Agriculture (ODA) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	17,498,207	11,295,439	17,900,969	14,082,794
Lottery Funds	7,506,927	7,835,034	6,408,093	11,240,762
Other Funds	38,682,242	51,140,076	46,519,559	46,762,046
Federal Funds	6,798,922	6,877,314	4,970,843	5,148,005
Total Funds	**$70,486,298**	**$77,147,863**	**$75,799,464**	**$77,233,607**
Positions	707	605	524	520
FTE	423.42	382.56	348.57	368.93

Agency Overview

The Department of Agriculture's mission is centered on three broad policy areas of ensuring food safety and providing consumer protection, protecting agricultural natural resources, and promoting economic development in the agricultural industry. The agency emphasizes public education and technical assistance in its provision of regulatory oversight on legislatively mandated programs. Oregon's agricultural industry is one of the state's most important economic activities. Producers are active in over 200 major commodities with a farm level value of more than $3.8 billion per year. Another $1.5 billion per year can be counted as value-added through food processing activities.

The Department consists of permanent staff and 135 seasonal employees. The permanent staff is primarily located in Salem, Portland, or one of nine regional offices. Seasonal employees are used to provide industry requested inspection services in the Commodity Inspection, Animal Health and Identification, and Plant Divisions and are located throughout the state.

Legislatively Adopted Budget

The adopted budget for the Department of Agriculture of $77.2 million total funds is nearly identical to the 2003-05 legislatively approved budget and 1.9 % higher than the Governor's recommended level. The increase over the Governor's recommended level is due largely to the restoration of Other Funds limitation in the Shipping Point Inspection program eliminated in the Governor's budget and the addition of Federal Funds for a grant to acquire habitat to protect an endangered butterfly in the City of Jacksonville. General Fund totals $14 million, which is $3.8 million or 21.3% less than the Governor's recommended levels. The primary cause of this General Fund decrease is the continuation of fund shifts moving the Department's Oregon Plan for Salmon and Watersheds related activities from General Fund to Measure 66 Lottery Funds and Federal Funds from the Pacific Coastal Salmon Recovery Fund that were originally adopted by the 2003 Legislature. The Governor had initially proposed to end some of these shifts. Total state funding for the Department (General Fund and Lottery Funds) was increased by $1 million, 4.2% over the Governor's level, primarily due to increased General Fund support for the Food Safety program. General Fund support actually increased from 2003-05 legislatively approved levels by $2.8 million due to a number of enhancements in the adopted budget, including funding to complete and operate the Pesticide Use Reporting System (PURS) and $2 million in additional state support for the Food Safety program that significantly reduced the inspection fee increase needed to fund the program.

ODA – Administration and Support Services

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	1,071,766	1,213,029	1,553,074	1,520,431
Other Funds	5,446,223	5,697,153	6,061,451	6,064,445
Federal Funds	19,750	0	0	0
Total Funds	**$6,537,739**	**$6,910,182**	**$7,614,525**	**$7,584,876**
Positions	43	41	42	41
FTE	42.46	41.00	42.33	41.98

Program Description

Administration and Support Services provides policy direction and support functions for the agency, including financial management, development and maintenance of information systems, public information, personnel, purchasing, budget development, grants administration, license processing, facilities management, and fleet operations. The Office of the Director is also included within the Administration and Support Services program area. The program also provides accounting services for the Beef Council and auditing services for other commodity commissions.

Revenue Sources and Relationships

Approximately 20% of the program's expenditures are financed by General Fund dollars. Other Funds revenues include service charges, cost reimbursements, management assessments for central administrative services, and transfers from other and federally funded program areas. The method used to assess central administrative costs varies depending on the program's funding source. General Fund programs do not contribute to central services since the Administrative Services Division receives a separate General Fund appropriation. Other Funds programs contribute using the same indirect rate as that charged to Federal Funds. Programs dealing primarily with pass-through funds are assessed at a lower rate. Federal Fund programs are assessed at a federally approved indirect rate.

Budget Environment

The need for administrative and support service functions within the agency rises or falls as external demands on agency programs change and programs are either added or removed.

Legislatively Adopted Budget

The adopted budget for Administration and Support Services is 9.8% above the 2003-05 legislatively approved budget. The budget includes an increase of $275,461 General Fund, $275,469 Other Funds, and 3 Information Technology positions to implement and maintain the Pesticide Use Reporting System (PURS), completion and operation of which was suspended by the 2003 Legislature. The adopted budget also eliminated 2 positions (1.50 FTE) and $160,000 Other Funds to ensure the program maintains an adequate Other Funds ending balance. The adopted budget also eliminated a vacant position that the Department had been using the funding from to support an internal auditor position, as required by a Governor's executive order. The General Fund for this position was eliminated, but $50,000 Other Funds was provided for the Department to contract for internal auditing functions. The Governor did not recommend funding for department internal auditing requirements he has imposed.

ODA – Food Safety

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	4,546,117	3,933,041	4,333,417	6,260,762
Other Funds	16,106,695	20,377,812	18,638,892	17,353,984
Federal Funds	157,808	1,193,638	586,309	583,894
Total Funds	**$20,810,620**	**$25,504,491**	**$23,558,618**	**$24,198,640**
Positions	202	194	184	189
FTE	134.62	129.21	119.71	124.71

Program Description

The Food Safety Policy Area consists of the Food Safety, Measurement Standards, Animal Health and Identification, and Laboratory Services Divisions. These divisions are primarily responsible for addressing public concerns over the safety of the food supply, the regulation of livestock diseases, and the accurate labeling and packaging of food products and other goods.

- The ***Food Safety*** division's mission is to ensure a safe, wholesome, and properly labeled food supply. The program is implemented by a combination of central support staff and field inspectors to license and inspect all food establishments except food service providers. The Division uses 36 field inspectors located throughout the state to sample food and inspect over 8,100 facilities including dairies, food processors, grocery stores and meat markets, food storage warehouses, bakeries, delicatessens, and home kitchens operated for commercial purposes. Inspectors examine food handling practices and equipment for safety and cleanliness. The Division also operates the shellfish program to monitor shellfish and their habitats for bacteria and toxins.
- The ***Measurement Standards*** division licenses and inspects measuring devices to prevent consumer fraud by ensuring goods are accurately weighed and measured. Devices licensed and/or examined by the Division include store checkout scales and scanners, gas station pump meters, truck scales, livestock scales,

propane bottle fill and truck delivery meters, and produce scales. The Division also ensures motor fuels meet national quality standards. Weighing and measuring devices are licensed, inspected, and certified by 20 field inspectors. It is projected that there are currently over 52,000 such measuring devices.

- The ***Animal Health and Identification*** division protects Oregon's human and animal communities from infectious animal diseases and deters livestock theft through the registration and inspection of livestock brands. The Division also regulates and permits exotic animals, regulates commercial feeds, and operates animal damage control programs in partnership with local governments and the U.S. Department of Agriculture. The Division includes 67 brand inspectors who inspect all cattle sold in Oregon and all cattle and horses leaving the state to ensure legal ownership. Veterinary products and commercial feeds are registered and monitored for compliance with state and federal laws.
- The ***Laboratory Services*** division provides analytical services for the Department's food safety, pesticide, natural resource, feed, and fertilizer regulatory programs. The lab program uses physical, chemical, microbiological, immunological, molecular, and chromatographic methods to test food and feed supplies. The Division also provides an export certification program through the Export Service Center (ESC) to assist domestic companies in meeting the food safety import requirements of foreign countries. The ESC is a certified customs laboratory for Japan, Taiwan, and Korea, which eases entry of Oregon agricultural products into these markets. The regulatory food safety laboratory was reorganized and merged with the ESC laboratory as a cost saving measure during 2001-03.

Revenue Sources and Relationships

The Food Safety Policy Area is funded primarily through Other Funds consisting of licenses issued to wholesale and retail businesses, charges to public and private entities for lab analysis, veterinary product registration fees, livestock brand inspection service fees, and other registration fees and charges for services. Some services for federal agencies under service contracts are reported as Other Funds. Roughly 18% of funding comes from the General Fund, which is a decrease from previous levels when General Fund comprised almost 30% of the 1999-2001 budget. Federal funding consists of grants for Laboratory Services, funds for the Animal Health and Identification Division relating to BSE or Mad Cow disease and other animal disease testing, and contracts for random sampling of products.

Budget Environment

Several factors continue to contribute toward increases in workload. Population growth brings a corresponding increase in the number and complexity of food establishments. In addition, food product sampling and testing done under contract for the Food and Drug Administration (FDA) more than tripled in 2000-01. It is likely the FDA will continue to request an increase in state inspections as it diverts resources toward Homeland Security activities. Potential threats to the state's food supply have also caused the Food Safety Division to work with federal authorities to enact cooperative efforts to reduce the likelihood of food related bioterrorism.

The Food Safety program was projected to have an Other Funds revenue shortfall for the 2005-07 biennium. The Food Safety shortfall was due to several factors all of which have necessitated the need for significant increases in Other Funds revenue through higher fees, more General Fund, reduced expenditures, or some combination of these to meet the estimated $4.5 million shortfall of the revenue necessary to continue the program at its 2003-05 budgeted level of activity. The program shortfall is due to fund shifts away from General Fund, inflationary pressures, and fees levels which have not been adjusted since 1987. The General Fund began being reduced to its 2003-05 level of five percent General Fund support in 2001-03 with a series of fund shifts using the program's Other Funds balances to replace General Fund as part of statewide plans to meet General Fund shortfalls. In 2003, the Legislature again used the ending balance to fund more of the program to create additional General Fund savings.

Changes in commercial weighing, measuring, and packaging technologies have made monitoring measures and labels more difficult. The Measurement Standards Division is responding to additional federal standards and increased demand for technical assistance from businesses. The Animal Health and Identification Division faces the challenge of maintaining program effectiveness with reduced General Fund support.

Legislatively Adopted Budget

The adopted budget represents a 2.7% increase from the 2005-07 Governor's recommended levels. This increase is due to Legislature's decision to restore reductions in the Food Safety program proposed by the Governor using additional General Fund support.

The adopted budget for the Food Safety program area includes the following changes:

- $2.7 million General Fund and $0.8 million Other Funds were added to restore 27 positions (27.00 FTE) eliminated in the Food Safety program due to insufficient revenue. The General Fund increase was intended to fully restore all the General Fund removed from the program during previous biennia as well as increase state support beyond previous levels. The increase in Other Funds was accomplished through passage of HB 2593 which set new fees in statute. Fees for this program were last increased in 1987.
- $289,355 Other Funds were added to restore 3 laboratory positions (3.00 FTE) that had been reduced in the Governor's budget because of concerns there would be insufficient revenue to support the positions. The restored positions are now supported with revenue from the export services program, which tests agricultural products being exported to ensure they meet destination market requirements, and shellfish license revenue received from the Department of Fish and Wildlife that ODA will use to increase testing of shellfish for recreational fisheries.
- $252,813 Federal Funds and one position (1.00 FTE) was added to work with the U.S. Department of Agriculture in developing a national animal tracking system to assist with the investigation of animal diseases such as Mad Cow (BSE).
- $215,653 Other Funds and 1 position (1.00 FTE) was added to fund a bioterrorism response coordinator position. The position would work with agency programs to improve planning and preparedness for potential attacks on the state's food supply. The funding is federal monies from DHS which are expended by ODA as Other Funds. DHS receives the money through a grant from the Centers for Disease Control.
- $55,000 General Fund was added to allow the Department to test retail package weights to ensure that prepackaged goods are sold at the correct weight and consumers are not being overcharged.

ODA – Natural Resource

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	9,487,762	3,989,650	9,025,147	4,061,946
Lottery Funds	4,466,882	7,801,034	6,374,093	11,206,762
Other Funds	9,525,009	15,760,143	14,452,539	14,787,356
Federal Funds	3,584,862	4,690,301	4,319,660	4,499,237
Total Funds	**$27,064,515**	**$32,241,128**	**$34,171,439**	**$34,555,301**
Positions	198	173	172	171
FTE	137.49	132.45	129.09	133.14

Program Description

The Natural Resource Policy Area includes the Natural Resources, Pesticides, and Plant Divisions. These three divisions are responsible for protecting the state's agricultural natural resource base.

- The ***Natural Resources*** division's mission is to conserve, protect, and develop agricultural natural resources on public and private land to ensure agriculture will continue to be productive and economically viable. The Division administers programs to: provide administrative oversight and financial assistance to Soil and Water Conservation Districts; regulate confined animal feeding operations (CAFOs); protect threatened and endangered plants; conduct field burning smoke management and research; implement agricultural water quality management plans (SB 1010); and conduct groundwater research and development. The Division consists of 27 Salem-based staff and 9 field staff positions.
- The ***Pesticides*** division administers state laws regulating the availability of fertilizer and pesticide products, and the uses of these products. Fertilizer regulation involves the content of plant nutrients contained in fertilizers used for consumer, agricultural, and forest purposes. Naturally occurring materials, such as manure and compost, are not regulated. Pesticide regulation includes product registration, distribution and use recording, user licensing, and use of the products.
- The ***Plant*** division uses permanent staff and seasonal employees to detect and eradicate exotic insect pests, weeds, and plant diseases, and to inspect and certify nursery stock, Christmas trees, and seed crops for pests and diseases. The Division also includes inspection of imported exotic raw logs and wood products. The program supports a forest pathologist position through fee revenues. The spread of invasive plants on public and private land remains a growing concern for land managers. The State Weed Board helps set priorities for the control of nuisance invasive plant species and funds local and regional weed control projects.

Revenue Sources and Relationships

The Natural Resource Policy Area is funded by a variety of revenue sources. General Fund and Lottery Fund revenues provide 45% of the policy area revenue, but are provided primarily to the Natural Resources and Plant Divisions. Lottery Funds have been provided to the Plant Division beginning in the 1999-2001 biennium for weed control activities from Measure 66 Lottery Funds dedicated to salmon and habitat restoration. Lottery Funds have also been provided to the Natural Resources Division for pass through to support Soil and Water Conservation Districts. Other Funds include revenue from licenses and fees, such as oyster fees, CAFO registrations, field burning fees, nursery and Christmas tree licenses, and pesticide applicator fees. Other Funds also include revenue from reimbursable work and charges for services. Federal Funds are received for plant conservation and water quality programs through cooperative agreements with the U.S. Environmental Protection Agency, the U.S. Department of Agriculture, the Bureau of Land Management, and the Bonneville Power Administration.

Budget Environment

Population growth in Oregon has led to increased competition for available natural resources, including water and land. The Department's level of involvement with coordination and development of water use, land use, and conservation plans with other agencies and affected parties has been steadily increasing. Conservation issues are becoming more complex, requiring more planning and inter-agency cooperation. Nonpoint source pollution control, threatened and endangered plant species, confined animal feeding operations, and field burning alternative programs will continue to call for agency attention. The Natural Resources Division has also continued to develop model conservation plans for the 58 species on the state list of threatened and endangered plants. This list was reduced from 61 species during 2001-03.

The Department's Natural Resources Division has a prominent role in the state's Oregon Plan for the restoration of salmon and watersheds. The Division is charged with implementing aspects of the plan dealing with water quality standards in agricultural areas. Under the provisions of SB 1010 (1993) and the Oregon Plan, staff worked with landowners to develop agricultural water quality management plans to meet state water quality standards in basins where agricultural nonpoint source pollution is a major factor. All plans are now complete and the Department has begun implementation efforts. In conjunction with this effort, the Division also has positions dedicated to work with confined animal feeding operations (CAFOs) to improve the level of compliance with water quality regulations. As part of the Division's efforts to achieve delegation from the Environmental Protection Agency for Clean Water Act CAFO permit responsibilities, the CAFO administrative rules were evaluated and rewritten. State efforts to enhance salmon populations and riparian habitat have focused attention on local Soil and Water Conservation Districts (SWCDs). The Natural Resources Division has worked with the existing 45 SWCDs to deliver conservation programs for water quality improvements and watershed management.

The Pesticides Division is responsible for implementing a statewide pesticide use reporting system (PURS) established by the Legislature in HB 3602 (1999). The reporting system was designed with a phased-in approach using the 1999-2001 biennium to create a framework. The 2001 Legislature adopted two components for PURS system development, one to address operational costs of the system and one to address the one-time development costs. Funding of operational costs must split equally between General Fund and Other Funds from pesticide fees as required by statute. During the 2001-03 interim, the Emergency Board denied the Department's request to allocate monies from a special purpose appropriation earmarked for the completion of PURS. After this denial of funding, further PURS development was suspended by the Department. The Governor's 2003-05 budget contained no funding to complete the system and the 2003 Legislature ultimately decided to continue suspension of system development and operations during the 2003-05 biennium.

Legislatively Adopted Budget

The adopted budget for the Natural Resource Policy Area represents a 7.2% increase from 2003-05 legislatively approved levels. The adopted budget supports 171 positions (133.14 FTE).

The adopted budget for the Natural Resource Policy area includes the following changes:

- Continued a 2003-05 fund shift of $1.4 million General Fund for control and eradication of pest species which are harmful to salmonids and other wildlife to Measure 66 capital Lottery Funds.
- Shifted $4 million General Fund support for implementation of agricultural water quality plans and regulation of Confined Animal Feeding Operations from General Fund to Measure 66 operations Lottery Funds. A similar funding change occurred in the 2003-05 biennium.

- Restored a proposed cut that would have eliminated $621,705 and 6 positions (7.00 FTE) doing insect pest prevention and management work. The positions were restored using Measure 66 operations Lottery Funds. This reduction would have severely limited the agency's ability to detect and eradicate harmful invasive species.
- $680,826 General Fund, $672,897 Other Funds, and 3 positions (3.00 FTE) are added to complete and operate the Pesticide Use Reporting System. Of the $1,353,723 total funds added, $450,000 will be used to complete the system and will not be needed during the 2007-09 biennium.
- Reduced support for Soil and Water Conservation Districts (SWCDs) by $175,596, which represents a 10% reduction in funding. All remaining state support for SWCDs ($4.2 million) was provided using Measure 66 operations Lottery Funds ($2.2 million) and Pacific Costal Salmon Recovery Fund federal monies ($2 million). A similar shift occurred in the 2003-05 biennium.
- $142,946 General Fund was added to establish a program to educate consumers on the safe use of pesticides and fertilizers. This effort will focus on urban populations and tracking their use through surveys.
- $297,415 General Fund was added to restore funding for the Pesticide Analytical Response Center to investigate and evaluate cases of suspected exposure to pesticides. This program was eliminated by the 2003 Legislature.
- Added $242,283 Measure 66 operations Lottery Funds and reduced a like amount of Federal Funds to reverse a shift of funding for the Threatened and Endangered Plant program. Funding for the program was shifted to Federal Funds during the 2002 special sessions. The agency was unable to secure the federal funding necessary to continue the program. The Governor had recommended using General Fund to support this program.
- $358,000 Federal Funds was added for a federal grant received from the U.S. Fish and Wildlife Service to acquire critical habitat to protect an endangered butterfly in the City of Jacksonville.
- $117,991 Other Funds, $93,324 Federal Funds, and 2 positions (2.00 FTE) were added to continue positions included in 2003-05 legislatively adopted budget as limited duration to work on Sudden Oak Death activities. Due to the anticipated stability of funding, these positions will be continued as permanent.
- $829,449 Other Funds services and supplies and special payments were eliminated to ensure sufficient program ending balances.
- Eliminated eight vacant positions (3.20 FTE) resulting in funding reductions of $56,803 Other Funds and $162,871 Federal Funds.
- Added $50,000 General Fund for eradication of black flies in Malheur County.

ODA – Agricultural Development

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	2,061,850	2,159,719	2,989,331	2,239,655
Lottery Funds	0	0	34,000	34,000
Other Funds	7,156,796	9,052,861	7,366,677	8,556,261
Federal Funds	3,036,502	993,375	64,874	64,874
Total Funds	**$12,255,148**	**$12,205,995**	**$10,454,882**	**$10,894,790**
Positions	259	197	126	119
FTE	104.80	80.20	57.44	69.10

Program Description

The Agricultural Development Policy Area consists of the Agricultural Development and Marketing Division and the Commodity Inspection Division. The mission of the Agricultural Development and Marketing Division is to work with the state's agricultural producers to increase sales in both domestic and international markets through product and market development of high value-added food and agricultural products. The program provides producers with information on product positioning, market research, sales promotion, buyer access, logistical and transportation planning, and tariff and non-tariff barrier consultation. The Division organizes, coordinates, and participates in agriculture trade shows and wholesaler technical seminars in both offshore and domestic markets. The Division's primary geographic emphasis is on Pacific Rim markets and, to a lesser degree, Europe and the Americas. The program attempts to provide assistance to the state's small to medium sized companies in need of expanded markets while providing new trade opportunities to experienced exporting businesses.

The Commodity Inspection Division assists growers and industry in moving products into the domestic and international markets through inspection, grading, and certification. During the 2001-03 biennium, the Division implemented Good Agricultural Practices and Handling Practices audits at the behest of industry. This effort provides official third party verification of efforts to reduce microbial contamination of fresh fruits and vegetables. The Shipping Point Inspection program provides inspection on over 3.3 billion pounds of produce for processing (primarily potatoes) and 1.4 billion pounds of fresh fruit, vegetables, and nuts each year.

Revenue Sources and Relationships

The Agricultural Development and Marketing Division is funded primarily with General Fund. The Division receives a small amount of Other Funds from outside marketing projects. Federal Funds are received for special commodity marketing projects. The Commodity Inspection Division is entirely funded by Other Funds revenues from inspection, certification fees, and establishment licenses.

Budget Environment

Oregon agricultural producers currently sell 85% of their products outside of the state and 45% 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.

Legislatively Adopted Budget

The adopted budget represents a 10.7% decline from 2003-05 legislatively approved levels. This decrease is due to the elimination of 78 seasonal part-time positions (11.1 FTE) and $0.8 million Other Funds in the Commodity Inspection program due to restructuring of program operations in which fewer seasonal positions are used and more full-time positions are utilized in an audit based capacity. The decrease is also caused by the phasing out of federal funds added for Specialty Crop grants paid in 2003-05. The Legislature declined to approve a Governor's budget enhancement that would have added $698,597 General Fund and 3 positions to establish a new program that encourages, validates, and promotes Oregon agricultural products that are certified to established national and international standards. The adopted budget also transfers funding for staffing the County Fair Commission ($34,000 Lottery Funds) and the Farm Mediation program ($110,928 Other Funds) from the Special Programs policy area into the Agricultural Development policy area. These were the only programs remaining in Special Programs and that policy area is discontinued with the transfer.

ODA – Special Programs

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	176,281	0	0	0
Lottery Funds	3,040,045	34,000	0	0
Other Funds	447,519	252,107	0	0
Total Funds	**$3,663,845**	**$286,107**	**$0**	**$0**
Positions	5	0	0	0
FTE	4.05	0.00	0.00	0.00

Program Description

The Special Programs Policy Area consists of two administrative and policy functions not included in other departmental program areas. The Farm Mediation program is designed to reduce the cost of resolving loan problems by providing a neutral mediator to assist farmers/ranchers address nuisance complaints, contract disputes, labor problems, and other concerns. The Department receives a small amount of Lottery Funds for expenses related to staffing the County Fair Commission.

Legislatively Adopted Budget

The adopted budget eliminated this program area as the Governor proposed by transferring the Farm Mediation program and staffing costs for the County Fair Commission to the Agricultural Development policy area.

ODA – Debt Service

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	154,431	0	0	0
Total Funds	**$154,431**	**$0**	**$0**	**$0**

Program Description

Debt service in 2001-03 represented repayment of certificates of participation issued in 1995-97 and used to buy equipment for the new food innovation center in Portland.

Legislatively Adopted Budget

No further debt service payments are required on equipment purchased for the food innovation center and no new debt was authorized by the Legislature.

Columbia River Gorge Commission (CRGC) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	664,440	631,600	869,247	864,694
Total Funds	**$664,440**	**$631,600**	**$869,247**	**$864,694**

Agency Overview

The Columbia River Gorge Commission (CRGC) was authorized by the 1986 Columbia River Gorge National Scenic Area Act and created as a regional agency through an interstate compact between Oregon and Washington. The Commission was established to implement the National Scenic Area Act's purposes of protecting and enhancing the scenic, cultural, recreational, and natural resources of the Gorge while encouraging compatible growth within existing urban areas of the Gorge region.

The Commission functions as the permanent regional land use policy body for the Scenic Area, a 292,000-acre region stretching along both shores of the Columbia River for 80 miles, just east of the Portland OR-Vancouver WA metropolitan area. The Columbia River Gorge encompasses three counties in Oregon (Hood River, Multnomah, and Wasco) and three in Washington (Clark, Skamania, and Klickitat) and includes 13 designated Urban Areas. The Commission consists of 13 members, one appointed by each of the six counties within the Scenic Area, six appointed by the two states (three by each Governor), and one ex officio, non-voting member appointed by the U.S. Secretary of Agriculture. The Commission's office is in White Salmon, Washington, and functions with employees of the State of Washington.

Commission responsibilities include the adoption and maintenance of a management plan, review and approval of local land use ordinances for the Scenic Area, appellate review of decisions made under the ordinances, and coordination of Gorge resource development efforts envisioned by the Scenic Act. The Commission adopted the initial management plan in 1991. Under the management plan, the Commission sets policy for land use and resource protection on non-federal lands in the Gorge, monitors implementation of the plan, ensures that Scenic Area ordinances are effective, and facilitates enhancements of the economic and natural resource elements of the Scenic Area. Five of the 6 counties are implementing the management plan through locally adopted land use ordinances. Klickitat County, Washington, has not adopted land use ordinances, leaving review of proposed developments to the Gorge Commission.

Revenue Sources and Relationships

The Columbia River Interstate Compact requires each state to pay its Commission members' expenses and to contribute equally to operating costs. Because of this requirement, the budget is, in effect, set by the state appropriating the lesser amount for operational expenses. The Commission has also received grant funding for monitoring program activities and other special project work from the federal government. These grant funds are generally not factored into the development of the Commission's operating budget. The Commission collects no revenue from fees, licenses, or assessments.

Budget Environment

The Commission completed review of the Management Plan adopting a revised Management Plan in April 2004. The review included a public process framed by comment on a set of six monitoring reports developed by commission staff in conjunction with Scenic Area partners. Concurrence with the plan by the U.S. Secretary of Agriculture through the U.S. Forest Service was received in September 2004. Each of the counties in the Gorge area needs to adopt the new plan for full implementation.

The proximity of the entire Gorge area to the Portland/Vancouver population base affects planning efforts by pressures for new development, changing composition of urban areas, availability of affordable housing, uses of resource lands, and increased visitation to tourism and recreation sites. As the regional planning agency, the Commission must work with stakeholders to ensure these pressures are dealt with in a manner consistent with the requirements of the National Scenic Area Act. The broad mission of the Commission results in many interpretations by the various individuals and groups that recreate and live in the Columbia River Gorge. This has led to controversy regardless of which side of an issue the Commission chooses. During the 2003 legislative session, the Commission was directed to develop a work plan and schedule for addressing the following:

- Requirements to meet Oregon statutes regarding permit-processing timelines.

- Developing a process by which appeals are adjudicated by neutral third parties in the state where the subject property is located.
- Working with congressional delegations to secure additional funds for economic development as authorized in the National Scenic Area Act.
- Revising the guidelines to address the selection of finishes, colors, and reflectivity of surfaces in relationship to applying the definition of "visual subordinate" as it applies to the Scenic Area.
- Streamlining the adjudication process so that an appeal can be resolved within reasonable time frames and requiring consolidation of causes of action and/or findings so that property owners do not face multiple appeals.
- Implementing a fee schedule to recover a portion of operational expenses due to Klickitat County's failure to adopt ordinances.

Due to limited resources of the Commission, progress on the work plan has been slow. Elements of the work plan that the Commission accomplished during the 2003-05 biennium included completion of updating CRGC procedures that will assist Gorge counties in ensuring reliable, consistent timelines for processing permits; evaluation of results from work with congressional offices for funding and work on appropriations for federal fiscal year 2006; continued work on visual subordinate guidelines; work required to consider fees for Klickitat County; and evaluating the adjudication process. CRGC views persistent work on all of the work plan elements as an ongoing effort to insure resolution of legislative concerns on a continuing basis. The process by which appeals are adjudicated by neutral third parties in the state has been put on hold until evaluation of new rule changes for appeals that were adopted in August 2003 is complete and legal questions can be resolved. The legislatively adopted budget does not include the additional resources needed to obtain legal advice to pursue this issue.

According to the Commission, base funding levels for Commission activities represent the most limiting factor affecting fulfillment of key strategies. Oregon and Washington frequently fund at a different level. This significantly impacts the Commission because any reduction in one state's funding of the joint expenses program will reduce the other state's contribution by the same amount. While Washington budgets biennially, they allot annually. Unspent funds do not carry over from one fiscal year to another. For the 2003-05 biennium, Oregon's share of the Commission's budget was reduced by 15%. This led to an overall reduction of two times the amount since the interstate compact between Oregon and Washington requires any reduction in funding be matched by the other state. The decrease in funding resulted in reductions to staffing levels and in the quality and timeliness of the services provided.

CRGC – Joint Expenses

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	644,284	609,940	806,929	804,009
Total Funds	**$644,284**	**$609,940**	**$806,929**	**$804,009**

Program Description

The Commission's Joint program represents all operational activities of the Commission except for the expenses of each state's appointed commissioners. Expenditures for Joint program activities are required by law to be equally shared by Oregon and Washington. The Joint program services are provided by 8.25 FTE, all of which are considered to be employees of the State of Washington. The staff positions include an Executive Director, three planners, an outreach coordinator, two administrative support positions, legal counsel (0.75 FTE), and a GIS coordinator (0.50 FTE). The provisions of support to counties within the National Scenic Area for activities related to the Act's implementation are not included in the Joint program budget.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for the Commission's Joint program activities of $804,009 represents an increase of 31.8% over the 2003-05 legislatively approved expenditure level and $2,920 less than the Governor's recommended budget. The budget includes an increase of $137,133 for funding two positions to add capacity for improving the quality and responsiveness in performing planning functions mandated by the National Scenic Area Act and the Columbia River Compact between Oregon and Washington. The budget was reduced by $2,920 services and supplies to address the statewide shortfall in General Fund. This results in a net increase of $86,936 General Fund for inflation, personnel costs, and price list adjustments.

CRGC – Oregon Commissioner Expenses

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	20,156	21,660	62,318	60,685
Total Funds	**$20,156**	**$21,660**	**$62,318**	**$60,685**

Program Description

Under the Compact, each state is required to pay for its own appointed commissioner expenses. The commissioner expense budgets of Oregon and Washington are not required to match due to differences in compensation practices between the states. The commissioner expense budget includes expenditures for personal services, per diem, and travel expenses related to attendance at meetings of the Columbia River Gorge Commission. The agency was directed to establish the Oregon Commissioner Expenses program unit for the 2001-03 biennial budget to avoid confusion with the Joint program expenses that require an equal match with the funding level decided by the State of Washington.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget funds commissioner expenses at $38,425 more than the 2003-05 legislatively approved level and $1,633 less than the Governor's recommended budget. The increase from the 2003-05 legislatively approved expenditure level is the result of an adjustment in the base budget for standard inflation rate calculations for services and supplies totaling $193 and $40,372 for increases in the Department of Administrative Services' Risk Management assessment. The budget was reduced by $93 General Fund to reflect technical adjustments in the Department of Administrative Services assessments and by $1,540 General Fund in services and supplies to address the statewide shortfall in General Fund.

Department of Energy (DOE) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	867,872	0	0	0
Other Funds	14,245,704	15,709,330	18,137,637	17,846,378
Federal Funds	4,468,271	6,302,370	5,446,266	5,425,892
Other Funds (NL)	84,400,641	153,712,283	184,717,257	139,717,257
Total Funds	**$103,982,488**	**$175,723,983**	**$208,301,160**	**$162,989,527**
Positions	87	82	87	86
FTE	80.35	82.49	86.02	84.71

Agency Overview

The mission of the 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. The DOE also staffs two 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; and
- 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.

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 ($80 million), loan repayments ($28.3 million), and interest income ($18.7 million). Other sources include energy supplier assessments ($4.1 million); settlement funds ($2.2 million), Business Energy Tax Credit ($1.86 million), energy siting fees ($1.45 million), and fees from school energy audits and electric market restructuring ($1.08 million).

Federal Funds received from the U.S. Department of Energy support various activities including oversight at the Hanford Nuclear site, grants to improve energy efficiencies in new building construction, promotion of alternative fuels, and energy audits of federal buildings. The National Renewable Energy Laboratory provides resources to support expanding wind resources and development of siting ordinances. Total federal revenues are expected to decrease by approximately $2.2 million to $5 million primarily due to the discontinuation of the National Industrial Competitiveness through Energy, Environment and Economics program.

Budget Environment

Oregon's continued population growth has directly created a greater demand for energy sources. This demand requires not only the construction of more power plants and other energy facilities, but the continued development of conservation and renewable resources. DOE expects workload related to energy facility applications and energy conservation projects will continue to increase.

In addition, 10% of the public purpose charge, established as part of Oregon's electric industry restructuring legislation in SB 1149 (1999), is to be used for energy audits, improvements, energy conservation education, and renewable resources. DOE is responsible for quality control of the audits, program oversight, and technical assistance to businesses that opt to invest in conservation activities and renewable resources in lieu of paying the public purpose charge. DOE anticipates that the workload will continue to increase in this program.

In three of the last four biennia, DOE has received General Fund to support the Oregon Museum of Science and Industry's (OMSI) repayment of a SELP loan. In 1992, SELP loaned $15.5 million to OMSI for energy-saving features and construction costs. From the beginning, repayment of the 30-year loan has been problematic. At this time, DOE anticipates that OMSI will be able to meet the requirements of its forbearance agreement with the SELP reserves covering the balance of the debt service payment. However, if other loans have difficulty, reserves may be insufficient to meet the needs of the program.

DOE – Operations

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	867,872	0	0	0
Other Funds	14,245,704	15,709,330	18,137,637	17,846,378
Federal Funds	4,468,271	6,302,370	5,446,266	5,425,892
Total Funds	**$19,581,847**	**$22,011,700**	**$23,583,903**	**$23,272,270**
Positions	87	82	87	86
FTE	80.35	82.49	86.02	84.71

Program Description

The Operations program has the following primary activities:

- promoting conservation and renewable resources through incentive programs such as the Business and Residential Energy Tax Credits, State Home Oil Weatherization audits and loans, Northwest Energy Efficient Manufactured Housing certification, telecommuting, energy efficiency projects in new state buildings, alternative fuels use, and technical support and review of energy audits for schools;
- siting new energy facilities that are safe and environmentally acceptable;
- promoting the development of new, environmentally sound energy resources and technologies;
- overseeing the cleanup, storage, and transportation of radioactive wastes; and
- ensuring emergency preparedness and public safety in the event of an accident involving radioactive materials, severe petroleum disruptions, and electricity emergencies.

Legislatively Adopted Budget

The legislatively adopted budget reflects a 5.7% increase over the 2003-05 legislatively approved budget. Six limited duration positions (6.00 FTE) were added and three other positions were reclassified to address workload attributable to increased applications for the Business Energy Tax Credit program; implementation of energy efficiency improvements in schools; increased demand for training, consultation, and policy analysis; additional responsibilities related to homeland security; and support for renewable energy and emerging energy technology. Five of the positions replace limited duration positions included in the 2003-05 legislatively approved budget.

DOE – Energy Loan Program Nonlimited

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds (NL)	84,400,641	153,712,283	184,717,257	139,717,257
Total Funds	**$84,400,641**	**$153,712,283**	**$184,717,257**	**$139,717,257**

Program Description

SELP offers low-interest, long-term loans to individuals, businesses, non-profit organizations, tribes, and state and local governments for conservation and renewable resource projects. Established in 1980, SELP funds projects such as energy-efficient heating and lighting systems, weatherization measures, and energy-efficient improvements in manufacturing processes. The program also encourages innovative projects that are energy efficient and environmentally sound. Sales of state general obligation bonds fund the loans.

Legislatively Adopted Budget

The legislatively adopted budget reflects a 9.1% decrease from the 2003-05 legislatively approved budget. The Governor's budget anticipated increasing DOE's bonding by $45 million to support financing for Oregon University System (OUS) capital construction projects. At the time DOE's budget was adopted, the total funding level for OUS was unknown; therefore, this package was eliminated. However, the adopted capital construction budget for OUS includes up to $57.7 million in SELP loans. Since expenditures related to the SELP are nonlimited, DOE may administratively increase expenditures related to the bond program.

Department of Environmental Quality (DEQ) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	35,919,156	23,384,838	24,131,944	22,661,089
Lottery Funds	2,160,080	3,286,418	3,534,936	3,683,380
Other Funds	100,515,095	112,516,442	113,806,687	113,639,930
Federal Funds	33,202,479	51,917,943	35,839,459	37,883,426
Other Funds (NL)	46,864,283	103,554,078	86,253,288	86,740,767
Total Funds	**$218,661,093**	**$294,659,719**	**$263,566,314**	**$264,608,592**
Positions	880	838	810	808
FTE	857.50	814.53	778.35	776.57

Agency Overview

The Department of Environmental Quality (DEQ), with policy direction from the five-member Environmental Quality Commission, administers the state's laws regulating air, water, and land pollution. The Department establishes the standards for clean air, water, and land; determines whether or not these standards are being met; and then takes action to enforce the standards when necessary. The agency attempts to use technical assistance and education whenever possible to enhance compliance. The Department also manages the federally delegated Clean Air, Clean Water, and Resource Conservation and Recovery Act programs. In addition to the federal environmental programs, DEQ administers the state environmental programs in the areas of solid waste management, planning and recycling, groundwater protection, and environmental cleanup. The agency is comprised of four major program units: Air Quality, Water Quality, Land Quality, and Agency Management. A fifth program unit, Cross-Media, was added to address issues that cross the agency's traditional program lines. DEQ headquarters are in Portland with regional administrative offices in Bend, Eugene, and Portland. The agency also maintains field offices in Baker City, Coos Bay, Grants Pass, Hermiston, Klamath Falls, Medford, Pendleton, Roseburg, Salem, The Dalles, and North Coast. The Department manages a laboratory on the Portland State University campus, which is scheduled to move to a new building during the 2005-07 biennium.

Legislatively Adopted Budget

The adopted budget for the Department of $264.6 million total funds represents a 10% decrease from the 2003-05 legislatively approved level. The operating portion of the budget includes $22.7 million General Fund, $3.7 million Measure 66 Lottery Funds, $113.6 million Other Funds, and $37.9 million Federal Funds. The operating budget total of $177.9 million is virtually identical to the Governor's recommended level, but represents a 6.9% decrease from the 2003-05 legislatively approved budget. The operating budget total does not include $86.3 million in Nonlimited Other Funds expenditures for bond proceeds used in various environmental cleanup programs, the state's revolving loan fund for wastewater facility development, and loans to local governments. Much of the reduction in the budget compared to 2003-05 is due to removing one-time Federal Funds approved by the Emergency Board during 2003-05 for cleanup of the McCormick and Baxter Superfund site. The budget eliminates a total of 37.96 FTE from the 2003-05 legislatively approved budget level, with the majority of this reduction being taken in the Air Quality Division.

DEQ – Air Quality Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	4,131,932	4,058,292	3,562,631	3,289,453
Other Funds	31,488,479	34,393,244	34,166,066	35,403,817
Federal Funds	5,919,864	6,437,798	6,507,466	6,418,553
Total Funds	**$41,540,275**	**$44,889,334**	**$44,236,163**	**$45,111,823**
Positions	294	280	267	266
FTE	286.16	275.42	249.56	248.58

Program Description

The Air Quality program is responsible for compliance with federal and state air quality standards. The program monitors air quality to protect the public health through the development and implementation of pollution reduction strategies. Federal ambient air quality standards for six criteria pollutants must be maintained (sulfur dioxide, lead, nitrogen dioxide, ozone, carbon monoxide, and respirable particulate matter). The primary sources of air pollution in Oregon are motor vehicles, forest slash burning, woodstoves, industrial facilities, field burning, and area sources. Program clients include the regulated community (primarily industries, businesses, and local governments) and the general public that benefits from clean air. The federally delegated air quality program includes statewide air quality monitoring and emissions inventory, strategic planning for pollution reduction, and a permit system. Permits are issued under two industrial source air quality programs operated by the Department. The Air Contaminant Discharge Permit program (ACDP) issues permits for approximately 1,100 minor industrial emission sources. The Title V Operating Permit program issues permits for about 135 major industrial emission sources.

The Air Quality program includes headquarters, laboratory functions, regional operations, and a local air pollution control agency. Headquarters is responsible for program planning and development, rules and guidance development, data analysis and reporting, technical services, and the Vehicle Inspection Program. The Vehicle Inspection program requires tests of vehicles operating in the Portland and Medford areas as part of the vehicle license renewal process. Air Quality staff in regional offices are responsible for ensuring that industrial sources of air pollution are operating in compliance with rules and permit conditions. Regional staff are also responsible for certification of asbestos removal, regulating open burning, monitoring field burning, and responding to public complaints. The Lane Regional Air Pollution Authority operates the air pollution control program in Lane County and receives a share of state funding. Of the Division's 275 FTE in the 2003-05 biennium, 36 were located in headquarters, 54 in regions, 29 in the laboratory, and 156 in the Vehicle Inspection program.

Revenue Sources and Relationships

The federally delegated clean air program is primarily financed with permit and emission fees (such as the Air Contaminant Discharge Permit fee) supplemented by a General Fund appropriation and Federal Clean Air Act funds. Federal law requires that the cost of the permit program for major industrial sources be fully paid from emission fees (Title V Permit Fee). The Air Contaminant Discharge Permit (ACDP) fee was last raised in 2001, when the Legislature approved a 30% increase. Other non-General Fund sources include fees for asbestos certification and inspection, field burning permits, and vehicle inspection. The Vehicle Inspection program (VIP) is entirely supported by a $21 fee for certificates of vehicle emissions compliance, required as part of a vehicle's registration process. There is no plan to raise the VIP fee and the program's ending balance should be sufficient to meet any cash flow needs. Federal Clean Air Act program grants under Section 105 for air pollution planning and control require a state match (both General Fund and fees) greater than the previous year's expenditures.

Budget Environment

The federal Clean Air Act requires compliance with federal air quality standards and prevention of air quality deterioration in areas that exceed federal standards. Six areas in Oregon have exceeded air quality standards in the past and have officially been declared nonattainment areas by the U. S. Environmental Protection Agency (Salem, Eugene-Springfield area, Medford-Ashland area, La Grande, Oakridge, and Lakeview). Each of these has failed to meet one or more of three criteria pollutants – ozone, carbon monoxide, and particulate matter. The Department intends to submit plans to the EPA to have the Medford-Ashland area considered in attainment in January 2005 and will likely submit plans to change the designation of Salem, Lakeview, and La Grande later in 2005. The Portland Air Quality Maintenance Area was redesignated by EPA as being in attainment with standards after previously being considered a nonattainment area. The penalties for failing to meet standards include increasingly costly control measures, limitations on the siting of new industry, and, ultimately, loss of federal Highway Funds.

The agency has experienced additional work due to activities related to the new air standards for particulate matter (PM2.5) and ozone. The Clean Air Act also requires regulation of toxic air pollutants. A national study of air toxics completed by the EPA a few years ago found 16 toxic air pollutants that exceeded levels of concern, some by more than 10 times. The agency has developed a state air toxics program that uses monitoring, computer modeling, analysis of air toxics to build upon the findings of EPA's national study and better address air toxics problems as they are found to exist in the state.

Legislatively Adopted Budget

The adopted budget represents a 2% increase from the Governor's recommended level, but a 0.5% decrease from the 2003-05 legislatively approved levels. The General Fund budget of $3.3 million is down 18.9% from the 2003-05 legislatively approved budget due to reductions in program support described below.

The adopted budget for the Air Quality Division includes the following additional changes:

- $1.6 million Other Funds was added to the Vehicle Inspection program to accommodate replacement of testing equipment and implementation of two self-testing pilot projects. Funding for these expenditures came from the projected ending balance of the Vehicle Inspection program.
- $1.1 million General Fund, 4 positions, and 5.13 FTE were cut resulting in the elimination of a community outreach position that works with small producers of air pollution, reduction of months on a position doing particulate matter sampling, reduction in months on a position doing carbon monoxide monitoring, elimination of a position working on Salem ozone attainment and the Columbia River Gorge Visibility project, elimination of a position doing rules coordination, reduction of headquarters and Northwest region clerical support, and elimination of an air toxics grant writing position.
- Eliminated one of three air toxic monitoring stations in Portland, resulting in General Fund savings of $200,285. In addition, $54,302 General fund was cut due to reductions in state government service charges and a 3% cut to all General Fund supported services and supplies expenditures
- $137,526 General Fund was added to cover a rent rate increase for the Department's laboratory. The laboratory has been located at Portland State University since 1975. During the 2003-05 interim, the Emergency Board approved funding to retrofit a building purchased with funds provided by the 2003 Legislature for use as the new environmental lab for DEQ. Work on the new lab will be completed during the 2005-07 biennium.
- $276,195 Other Funds was included to continue 47 limited duration positions (36.00 FTE) in the Vehicle Inspection program. All retained positions are funded by existing Vehicle Inspection fees. These positions are limited duration because as new vehicles replace older vehicles, faster onboard diagnostic tests requiring fewer staff can check vehicle emissions. The package continues 3 fewer positions and 14 fewer FTE than were approved in 2003-05. It is anticipated that only 25 positions will be continued in 2007-09.

DEQ – Water Quality Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	16,611,529	11,464,134	13,755,793	13,280,686
Lottery Funds	2,160,080	3,286,418	3,534,936	3,683,380
Other Funds	13,369,651	16,385,983	15,895,452	15,573,258
Federal Funds	13,989,850	14,467,843	14,170,091	14,025,393
Total Funds	**$46,131,110**	**$45,604,378**	**$47,356,272**	**$46,562,717**
Positions	239	219	210	210
FTE	231.94	207.15	201.40	201.40

Program Description

The Water Quality program's goal is for the state's water bodies to meet water quality standards and support beneficial uses of water such as fishing, swimming, irrigating, and drinking and to sustain healthy communities of fish, plants, and other aquatic life. To attain this goal, the Water Quality program has set measurable objectives to characterize water quality trends in groundwater and surface water, to initiate protective actions in known, clean water bodies, and to reduce pollutant levels in water bodies with limited water quality.

The Water Quality program's primary functions are setting and monitoring water quality standards and assessments, controlling wastewater through permits and certifications, providing financial and technical assistance, implementing the Oregon Plan for the restoration of salmon populations and watersheds, and implementing portions of the Safe Drinking Water Act. The Department is responsible for two permit systems, the federally delegated National Pollutant Discharge Elimination System (NPDES) for discharges into surface waters and the state Water Pollution Control Facility (WPCF) permit program for all discharges such as sewage lagoons and effluent irrigation. Approximately 550 individual water quality permits and more than 4,000 general permits are enforced in Oregon under the NPDES and WPCF programs. In addition, there are 572 Confined Animal Feeding Operation permits subject to agency review and enforcement.

The Water Quality program also operates the nonpoint source pollution program in Oregon. Nonpoint source pollution is that not attributable to a specific source point. Examples of nonpoint source pollution include stormwater and agricultural runoff. Section 319 of the Clean Water Act requires states to have nonpoint source management programs to address the protection and restoration of surface water and groundwater. The Water Quality program also manages a wastewater financial assistance program for municipalities and conducts Section 401 certifications of dredge and fill work and hydroelectric projects.

In 2003, the U.S. Environmental Protection Agency (EPA) approved the Department's latest 303(d) list that included over 1,000 rivers, streams, lakes, and estuaries covering more than 13,000 miles. The list of streams, referred to as the "303(d) list" because of the requirements of section 303(d) of the federal Clean Water Act, must be submitted to EPA by April 1st of each even-numbered year. The most controversial aspect of the list is the number of water bodies included due only to violation of temperature standards. Once a water body is included on the 303(d) list, the Clean Water Act requires that the state develop a plan to meet water quality standards. The plan is referred to as a Total Maximum Daily Load (TMDL) and is used to describe the maximum amount of pollutants from point sources and surface runoffs, which can enter the water body without violating water quality standards. Much of the recent workload of the Water Quality program has been directed toward the development of TMDL's for Oregon's watersheds. A TMDL is implemented through a combination of changes to industrial and municipal discharge permits and the development of water quality management plans. On agricultural lands, the Department of Agriculture, using the SB 1010 process, is responsible for the plan development. On forestlands, the Department of Forestry is responsible for the development of the water quality management plans. The Department is under court consent order to complete all TMDL's by the end of 2010.

In order to maintain water quality programs, the Division's positions are distributed between headquarters, the regions, and the laboratory. In the 2003-05 biennium, 66 of the Division's 207 FTE were located in headquarters, 104 FTE were in regional offices, and 37 FTE were assigned to the laboratory.

Revenue Sources and Relationships

The federally delegated and state water pollution permit programs are financed from a combination of sources - the General Fund, industrial and municipal fees, and Federal Clean Water Act funds. Determining the amount of the program's costs that should be paid from fee sources has been an ongoing debate. The Water Quality program has struggled over the past several biennia to achieve fee increases necessary to maintain these programs as General Fund support has diminished and Federal Funds have failed to keep pace with inflationary increases in program costs. The 2001 Legislature approved a 20% revenue increase from fees in the wastewater permitting program. The 2005 Legislature approved an 11% revenue increase from fees as part of a package that included additional General Fund support.

The primary Other Funds sources of revenue include industrial waste discharge permit fees, municipal wastewater permit fees, and subsurface sewage disposal fees. Other Funds sources also finance the administrative costs of the wastewater finance program. Federal Funds are received primarily under the Clean Water Act for operational expenses (Section 106) and for nonpoint source project grants (Section 319) and from other miscellaneous grant sources for a variety of program activities.

Budget Environment

Under the federal Clean Water Act, either the state or federal government must operate programs to protect the quality of rivers, streams, lakes, and estuaries. The Department of Environmental Quality 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.

Legislatively Adopted Budget

The adopted budget represents a 2.1% increase from the 2003-05 legislatively approved level. The budget supports a total of 210 positions and 201.40 FTE. The adopted budget totals 1.7% less than the Governor's recommended level for 2005-07 due to reductions in state-wide service charges, assessments, and a 3% reduction to all services and supplies expenditures supported with General Fund.

The adopted budget for the Water Quality Division includes the following changes:

- Continued a 2003-05 shift of $3.5 million General Fund for development of TMDLs to Measure 66 operations Lottery Funds.
- Continued a 2003-05 shift of $0.8 million General Fund for monitoring activities associated with the Oregon Plan for Salmon and Watersheds to federal monies from the Pacific Coastal Salmon Recovery Fund received by the Oregon Watershed Enhancement Board and spent by DEQ as Other Funds.
- Shifted $202,551 General Fund to Measure 66 operations Lottery Funds to support a Volunteer Monitoring Coordinator position that works with local groups, including Watershed Councils, to improve their water quality monitoring activities.
- $296,544 General Fund and 1 position (1.00 FTE) were eliminated, which reduces training and other support for water quality rulemaking, shifting this work to technical staff.
- Shifted $174,398 General Fund for the coordinator of the 319 grant program (Nonpoint Source Pollution Control) onto Federal Funds previously used for grant funding, thereby reducing the amount of funding available for grants.
- $831,910 General Fund and 5 new positions (4.50 FTE) were added to implement the Willamette TMDL by working with municipalities, rural land owners, and industries to reduce mercury in the river, improve storm water management, ensure agricultural water quality plans are consistent with the Willamette TMDL, and develop innovative compliance and enforcement options and ensure they are legally sufficient.
- Added $416,944 General Fund, $539,766 Other Funds, and 8 positions (5.25 FTE) to address Oregon's backlog of wastewater permits which is still the worst in the nation. The package would phase-in 4 additional positions (3 part-time) in the second year of the biennium to be supported by General Fund. The package also restores 4 positions eliminated due to insufficient revenue with an overall fee increase of 11% on wastewater permits.
- $229,535 General Fund was added to cover a rent rate increase for the Department's laboratory. The laboratory has been located at Portland State University since 1975. During the 2003-05 interim, the Emergency Board approved funding to retrofit a building purchased with funds provided by the 2003 Legislature for use as the new environmental lab for DEQ. Work on the new lab will be completed during the 2005-07 biennium.
- Increased Other Funds by $581,827 to continue implementation of the Drinking Water Protection/Source Water Assessment effort included in the 1996 Safe Drinking Water Act. Four limited duration positions (3.00 FTE) are continued with Federal Funds from EPA through Health Services within the Department of Human Services (DHS). Both DEQ and DHS are responsible for drinking water source tracking, assessment, and protection.
- $198,674 Other Funds and 1 limited duration position (1.00 FTE) were added to monitor beaches for bacteria that may pose a danger. The funding is provided by DHS from a federal grant and expended by DEQ as Other Funds.

DEQ – Land Quality Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	1,464,025	1,202,809	1,257,919	1,039,033
Other Funds	37,998,499	41,127,945	42,136,691	41,183,161
Federal Funds	12,832,939	29,959,979	14,417,816	16,698,470
Total Funds	**$52,295,463**	**$72,290,733**	**$57,812,426**	**$58,920,664**
Positions	253	247	244	243
FTE	248.95	242.14	240.39	239.59

Program Description

The Land Quality program's goal is to protect human health and the environment by preventing and reducing waste generation, assuring that waste generated is properly managed, reducing and preventing pollution, responding to emergency spills, and cleaning up sites contaminated with hazardous substances and uncontrolled releases of toxic chemicals. Activities are organized into the five main subprogram areas of solid waste, hazardous waste, environmental cleanup, underground storage tanks, and emergency management. In each area, the Land Quality program focuses on the hierarchy of waste management, starting with prevention, reduction, reuse, recycling, recovery, and ending with proper disposal.

Land Quality operates the federally approved solid waste landfill compliance program and the federally delegated hazardous waste program. Other federal programs include underground storage tank cleanup and superfund site cleanups. In addition, the Land Quality program operates various state programs, including waste reduction and recycling, hazardous waste generator reporting and technical assistance, oil spill response planning, hazardous materials spill response, voluntary cleanup, toxic materials cleanup, and policy and program development.

Land Quality programs are implemented by regional office staff. Regional staff conduct inspections, issue permits, provide cleanup oversight, and offer technical assistance. Headquarters staff in the Land Quality program provide centralized functions such as hazardous waste facility data collection, Underground Storage Tank (UST) facility registration, orphan site cleanup management, rule and policy development, billing and financial operations, and federal grant and contract administration. In the 2003-05 biennium, 74 of the Division's 242 FTE were located in headquarters, 160 FTE were in regional offices, and approximately 8 FTE were in the laboratory.

Revenue Sources and Relationships

Most Land Quality programs are financed almost entirely from dedicated Other and Federal Funds. The Solid Waste program is funded entirely by revenue from solid waste permit and disposal fees. Solid waste disposal fees, also known as "tipping" fees, are collected on waste disposed at municipal solid waste sites. Facilities receiving solid waste for disposal must have a permit and are charged a fee for the permit. The amount of the permit fee varies by the type of facility and the volume of waste disposed.

The state also operates the federally delegated hazardous waste management program. General Fund and permit fees provide the 25% match required for receipt of federal funds. Maintenance of an EPA approved program is a condition of program delegation. State hazardous waste management and cleanup programs, including that portion of costs not funded through cost recovery, are financed in part through hazardous waste disposal fees. Revenue from the disposal of hazardous waste began declining significantly during the 2001-03 biennium. A fee increase was approved for 2003-05 which helped offset some of the decline. Lower levels of fee and permit revenue are forecast to continue into the 2005-07 biennium.

Budget Environment

Funding of the Orphan Site program continues to be unresolved. Orphan sites are contaminated sites where the owner is either unknown, unable, or unwilling to pay for cleanup costs. The 1989 Legislature authorized the sale of orphan site bonds to provide funding for state-sponsored cleanup of industrial hazardous orphan sites. Repayment of the bonds was to be financed through a petroleum load fee and revenue from the hazardous substance fee. General Fund and Lottery Funds were also used to partially support debt service requirements of the orphan site bonds. In 1993, the Attorney General advised that the petroleum load fee should not be used for orphan site debt service. In 1995, the Legislature limited collection of the hazardous substance fee to an amount necessary to service debt from previous bond sales only. Due to a lack of funding alternatives outside of additional General Fund commitments, the 1997 Legislature made no change to this funding arrangement. The 1999 Legislature shifted all Lottery funded debt service to the General Fund, but did not directly address the long-term funding strategy for industrial orphan site cleanup. General Fund support of debt service was continued by the 2001 Legislature; however no General Fund was appropriated by the 2003 Legislature or the 2005 Legislature for issuance of new bonds due to General Fund constraints.

Legislatively Adopted Budget

The adopted budget for the Land Quality Division represents a 18.5% decrease from the 2003-05 legislatively approved level. This change reflects a $15.5 million decrease in Federal Funds due to removal of one-time monies approved by the Emergency Board during the 2003-05 interim for cleanup of the McCormick and Baxter Superfund site. Most of the cleanup work was completed during 2003-05, however not all work was completed so the 2005 Legislature added $2.4 million Federal Funds carry-forward limitation using monies received during 2003-05 to complete cleanup at the site.

The adopted budget for the Land Quality Division includes the following changes:

- $337,745 General Fund and a 0.50 FTE were reduced for technical assistance, data management in the clean-up program, and policy guidance for rule making.
- $22,973 General Fund was added to cover a rent rate increase for the Department's laboratory. The laboratory has been located at Portland State University since 1975. During the 2003-05 interim the Emergency Board approved funding to retrofit a building purchased with funds provided by the 2003

Legislature for use as the new environmental lab for DEQ. Work on the new lab will be completed during the 2005-07 biennium.

- Added $824,561 Other Funds for 4 positions and 4.96 FTE to maintain the underground storage tank program which inspects tanks and issues permits to allow their operation. The funding and positions were eliminated due to a sunset of the fee scheduled for December 2005. The added funding and positions reflect the sunset being extended until January 2, 2008 through legislation (SB 45).
- $487,479 Other Funds for orphan site cleanup was reduced to make the money available for a one time shift of General Fund debt service. These funds would have otherwise been available to fund cleanup activities at orphan sites.

DEQ – Cross Media

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	734,894	687,149	680,816	664,611
Other Funds	619,048	1,690,165	1,367,114	1,560,534
Federal Funds	459,826	1,052,323	744,086	741,010
Total Funds	**$1,813,768**	**$3,429,637**	**$2,792,016**	**$2,966,155**
Positions	5	10	8	8
FTE	5.00	8.90	7.75	7.75

Program Description

The Cross Media program was established within the agency's structure in 1999 to highlight the needs of addressing environmental issues that cross the agency's traditional program lines. Many of the operations of the new section were formerly included within Agency Management. Creation of a separate program enables these efforts across a broader spectrum of the agency's responsibilities to be distinguished from general management and centralized services. The Cross Media program manages the pollution control tax credit program, technical assitance to small businesses to reduce waste, and participation in Economic Revitalization Teams (ERT). ERT efforts are designed to streamline the delivery of state services which cross agency lines to local communities through the coordination of effort.

Revenue Sources and Relationships

The 2001 Legislature included General Fund in the Cross Media program to support 4 limited duration positions to work with what is now ERT. These positions and funding were continued with General Fund in 2003-05. Other Funds from pollution control tax credit fees provide funding for agency work associated with certification of tax credit applications. Federal Funds for Cross Media activities are from Environmental Protection Agency pollution prevention grants.

Legislatively Adopted Budget

The adopted budget for the Cross Media Program is 6.2% above the Governor's recommended level due to additional funding of $200,000 Other Funds for the Department to serve has a leader in the effort to establish national standards for electronic reporting into a nationwide data sharing network. This is in addition to $362,672 Federal Funds and two limited duration positions added to complete work on improving data reporting to the EPA through implementation of the nationwide data sharing network. The budget also adds back $661,530 Other Funds and a limited duration position approved in October 2003 by the Emergency Board to act as a chemical terrorism response coordinator to work with first responders and the purchase of chemical terrorism response equipment. The grant is federally funded with Homeland Security monies received by the Department of State Police, which are then granted to DEQ and expended as Other Funds.

DEQ – Agency Management

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	235,731	227,587	0	0
Other Funds	17,039,418	18,919,105	20,241,364	19,919,160
Total Funds	**$17,275,149**	**$19,146,692**	**$20,241,364**	**$19,919,160**
Positions	89	82	81	81
FTE	85.45	80.92	79.25	79.25

Program Description

Agency Management program provides leadership, coordination, and support for the Department and staff assistance for the Environmental Quality Commission. Agency Management includes the Office of the Director, the Public Affairs Office, the Interprogram Coordinator, and the Management Services Division. Management Services consists of the Accounting, Budget and Administration, Human Resources, Information Systems, Business Systems Development, and Health and Safety sections.

Revenue Sources and Relationships

Agency Management is financed primarily from indirect cost revenues. The indirect rate is calculated as a percentage of personal services. In previous biennia, the indirect rate was applied to personal services from Other Funds and Federal Funds sources. Agency Management received a direct General Fund appropriation to account for the remaining approved central service expenditures. Beginning with the 1999-2001 biennium, the indirect collection methodology was changed to include all funding types, including the General Fund. The budgeted indirect rate is set to provide sufficient revenue to fund Agency Management's current service level budget. The actual rate is negotiated with the Environmental Protection Agency once the agency's total budget is established. The change in methodology was necessary in order to meet the conditions of the agency's agreement with EPA on charging the indirect rate against federal revenues. One budgetary effect of this procedure is a double counting of the indirect charged against General Fund positions. The budget first counts the General Fund appropriation to each program for personal services and then counts the indirect rate of that General Fund amount as Other Funds expenditure limitation in Agency Management.

Budget Environment

All funding for Agency Management is generated through its indirect rate charge. The Department has made it a practice to set the indirect rate early in the budget process and leave it unchanged. This means that if programs are reduced in the legislatively adopted budget, the rate will create less revenue and programs in Agency Management must manage to the lower revenue. General Fund in the Division's budget was used to pay for central government service charges that cannot be assessed against Federal Funds through the indirect charge. The adopted budget changed the manner in which central government service charges are paid by moving the funding into the programs funded with General Fund, thus removing all General Fund from the Division. Other Funds for these charges would remain in Agency Management.

Legislatively Adopted Budget

The adopted budget for Agency Management is $19.9 million, an increase of 4% from the 2003-05 legislatively approved budget. This increase is caused, in large part, by personal services increases related to PERS and health benefits, pension obligation bond debt service, and inclusion of merit increases for those eligible. The budget was reduced by $590,049 Other Funds and one position (1.67 FTE) to match expenditures to the anticipated revenue available through the indirect rate charge. The budget was reduced by $227,587 General Fund to reflect the change in the way General Fund obligations for central government service charges are treated.

DEQ – Pollution Control Bond Fund Debt Service

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	12,741,045	5,744,867	4,874,785	4,387,306
Other Funds (NL)	4,893,925	18,772,867	13,342,949	13,830,428
Total Funds	**$17,634,970**	**$24,517,734**	**$18,217,734**	**$18,217,734**

Program Description

The sale of pollution control bonds is used by the Department to finance the Clean Water State Revolving Fund, the Sewer Assessment Deferral Loan program, and the Orphan Site program. Bond proceeds are used to finance municipal waste water facility construction and other water pollution reduction projects, an assessment deferral program for low income households, and cleanup of hazardous waste sites where the responsible party is either unknown, unwilling, or unable to pay for cleanup costs. Bond proceeds also provide the 20% state match for federal capitalization funding.

Revenue Sources and Relationships

Debt service for the waste water program was initially paid from the General Fund, but in 1993-95 was shifted to Lottery Funds. Lottery Funds have also been used to pay for a portion of the Orphan Site Bond debt service. The 1999 Legislature removed all Lottery Funds out of the debt service payment and shifted the amount to

General Fund. The action was taken to provide additional Lottery Funds for economic development activities and to more easily identify Measure 66 Lottery Fund allocations in the agency's budget.

For the Orphan Site program, excluding solid waste sites, the Legislature initially provided that debt service would be financed in equal shares from the hazardous substance possession fee and the petroleum load fee. Following a 1993 court ruling on petroleum assessments, the Attorney General advised that the load fee no longer could be used for this purpose. The Legislature substituted temporary funding and directed a Joint Legislative Task Force to find a permanent funding source. The task proved difficult, and no alternative was recommended. Additional attempts to produce a permanent funding structure have met with similar results. The failure to adopt any permanent funding mechanism has meant the continued use of a combination of state General Fund and Lottery Fund support and revenue from the Hazardous Substance Possession fee.

Budget Environment

Communities with exceptional pollution control problems are able to receive grants under the Department's bond programs. The grants and interest costs are supported out of the sinking fund as debt service obligations are met. The 2001 Legislature allowed for bond sales of $9.1 million in the State Revolving Fund and $4 million for orphan site environmental cleanup. The agency responded to the statewide revenue shortfall by delaying these bond sales and $1.8 million of the resulting debt service savings were used during 2002 special sessions to address the statewide budget shortfall. No General Fund was included to service the debt on sales of Orphan Site cleanup bonds in 2003. 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 $5 million General Fund and $1.8 million Lottery Funds, which was replaced with Other Funds using interest paid on past loans from the CWSRF. Ordinarily interest paid on previous loans is deposited back into the CWSRF and used to make new loans. Debt service on 2005-07 CWSRF bond sales will also be paid using interest proceeds. The Department's efforts to aggressively manage their bond portfolio through the calling of bonds paying higher interest rates generated savings of nearly $1 million in 2003-05 and will translate to 2005-07 savings of over $0.9 million in General Fund debt service.

Legislatively Adopted Budget

The adopted budget funds debt service payments on previously issued bonds for the Orphan Site and Clean Water State Revolving Loan Fund programs. The budget includes no new bond sales for the Industrial Orphan Site program; therefore all General Fund in this program will be used for debt service on previously issued bonds. The adopted budget included a one-time shift of $487,479 General Fund debt service to Other Funds from the ending balance of the Orphan Site Account using funds reduced in the Land Quality Division. Debt service on new issuances of bonds providing the state match in the CWSRF program will again be funded with Other Funds from the revolving fund.

DEQ – Nonlimited

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds (NL)	41,970,358	79,966,211	72,910,339	72,910,339
Total Funds	**$41,970,358**	**$84,781,211**	**$72,910,339**	**$72,910,339**

Program Description

A program to grant loans to local governments for construction of eligible waste water treatment facilities, where the amount available from the Clean Water State Revolving Loan Fund (CWSRF) was insufficient for the required work, was discontinued in 2003-05 due to lack of participation by local entities. During the 2003-05 biennium, the eligible uses of CWSRF loans were expanded to include projects addressing nonpoint source water pollution concerns.

Revenue Sources and Relationships

Since 1999, the repayment source for orphan site bond proceeds has been General Fund. Beginning in 2003-05, payment of debt service on CWSRF bonds has used interest paid on past loans instead of General Fund.

Legislatively Adopted Budget

The adopted budget for the agency's Nonlimited expenditures includes authority for $34.9 million in new CWSRF loans funded by a bond sale and federal capitalization grants for solid waste facilities, sewer systems, and projects addressing nonpoint source water pollution. No nonlimited expenditures for the Industrial Orphan Site program were included in the adopted budget.

Department of Fish and Wildlife (ODFW) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	14,328,508	10,650,611	10,815,450	10,749,697
Lottery Funds	8,201,579	10,297,061	7,891,858	6,896,737
Other Funds	83,268,598	112,882,874	112,073,231	119,161,047
Federal Funds	75,723,980	94,932,601	97,176,639	95,472,053
Other Funds (NL)	2,256,788	3,000,000	0	0
Total Funds	**$183,779,453**	**$231,763,147**	**$227,957,178**	**$232,279,534**
Positions	1,399	1,355	1,378	1,399
FTE	1,127.03	1,108.37	1,150.02	1,163.26

Agency Overview

The Department of Fish and Wildlife (ODFW), under direction of its seven-member Commission, manages the fish and wildlife resources of the state. The agency's mission is to "protect and enhance Oregon's fish and wildlife and their habitats for use and enjoyment by present and future generations." By law, the Department is charged with managing wildlife to prevent serious depletion of any indigenous species and with managing fish to provide the optimum economic, commercial, recreational, and aesthetic benefits.

ODFW manages the state's fish and wildlife policies through three primary divisions: Fish, Wildlife, and Administrative Services. Enforcement of the state's fish and wildlife laws is provided by the Department of State Police, Fish and Wildlife Division. The agency is facing a number of major issues including declining fish populations, listings and potential listings of fish species as threatened and endangered, operation and maintenance of fish hatcheries, as well as landowner relationships and access for hunting.

Legislatively Adopted Budget

The adopted 2005-07 budget for the Department totals $232.3 million and includes $10.7 General Fund, $6.9 million Lottery Funds, $119.2 million Other Funds, and $95.5 million Federal Funds. The adopted budget is 2% above the Governor's recommended budget due primarily to increased Other Funds from higher revenue and the addition of carry forward funds for the Restoration and Enhancement and the Access and Habitat programs, the addition of Other Funds for contracts to improve waterfowl habitat on Department lands, and new General Fund appropriations to restore fisheries in Diamond Lake. The amount of direct state support (combined General Fund and Ballot Measure 66 Lottery Funds) decreased from the Governor's recommended level of $18.7 million to $17.6 million in the adopted budget. The decrease was caused primarily by replacing $1.1 million General Fund with Other Funds from the projected ending balance.

ODFW – Fish Division Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	9,640,529	8,049,335	8,160,170	7,945,072
Lottery Funds	8,201,579	5,088,347	6,407,227	5,582,846
Other Funds	29,229,141	35,805,064	38,145,900	40,752,145
Federal Funds	59,743,224	73,546,600	78,522,034	77,117,604
Total Funds	**$106,814,473**	**$122,489,346**	**$131,235,331**	**$131,397,667**
Positions	1,031	977	1,049	1,071
FTE	820.76	791.4	823.61	838.15

Program Description

The Fish Division manages and enhances the habitat, production, and use of fishery resources for the benefit of Oregon's citizens and communities. The economic value from the commercial and recreational fisheries is significant to the state both in terms of direct earned income from industry salaries and wages as well as expenditures of anglers during sport fishing activities. The Fish Division is organized into four program areas: Propagation, Natural Production, Marine Resources, and Interjurisdictional Fisheries.

Revenue Sources and Relationships

Funding of Fish Division programs is derived from a number of sources. General Fund is used primarily to support hatchery operations. Other Funds revenues are received from recreational and commercial fishing licenses, tag sales, commercial landing fees, hydroelectric operator fees, contracts with non-federal agencies, interest income, donations, commercial fishing industry fees, and revenues obtained from confiscated fish landings.

The major Federal Funds source is Dingell-Johnson funds from a federal excise tax on angling equipment. Other federal sources include the U.S. Department of Commerce (National Marine Fisheries Service), the U.S. Department of Energy (Bonneville Power Administration), U.S. Army Corps of Engineers, Department of Interior (U.S. Fish and Wildlife Service), Bureau of Land Management, and Regional Fish Management Councils. Federal funds are received under contractual agreements to operate hatcheries, conduct specific research, provide mitigation, and perform administrative functions.

Budget Environment

Depressed fishery resources and sales of sport fishing licenses and tags at levels unable to sustain ongoing program activities have plagued the Fish Division. This effect was mitigated somewhat by record returns of salmon and steelhead, assisted by exceptional ocean conditions beginning in 2001 and 2002. These larger than average returns resulted in an increase in fishing license and tag sales in 2001 and 2002. Even with these higher sales, projected revenue from the sale of licenses and tags was insufficient to continue the current level of Department expenditures in the 2003-05 biennium. This revenue shortfall was mitigated by increasing license and tag fees. Salmon and steelhead numbers are expected to decline towards more historically average levels during 2005-07.

Federal Endangered Species Act (ESA) listings or proposed listings of salmon populations on the Oregon coast, the Klamath River, and the Columbia Basin have increased the pressure on the Natural Production program to effectively manage fish populations. Oregon Plan for Salmon and Watersheds requirements for fish population surveys and habitat assessments have also created additional workload for the program. In November 2002, the Fish and Wildlife Commission adopted a new Native Fish Conservation Policy, which is intended to provide a scientific foundation to species recovery efforts.

Actions taken by the Pacific Fishery Management Council have lowered the harvest limits of many marine fish species, most recently groundfish stocks, adversely affecting the commercial fishing industry. The issues and problems associated with both the recreational and commercial fishing sectors have required increasing involvement of the state's fish managers from the Interjurisdictional Fisheries program, in intergovernmental forums at the regional and national levels.

Legislatively Adopted Budget

The adopted budget for the Fish Division is $131.4 million, an increase of 7% from 2003-05 legislatively approved levels. This increase is caused in part by personal services increases related to PERS and health benefits, pension obligation bond debt service, and inclusion of merit increases for those eligible. The Fish Division budget contains roughly as much General Fund as was included in the 2003-05 legislatively approved budget. General Fund increases to restore program reductions recommended by the Governor and restore Diamond Lake fisheries were partially offset by $1.4 million in shifts of program support from General Fund to Other Funds from license and tag revenue. The budget includes $4.6 million Measure 66 Lottery Funds for continuation of the Fish Screening program and $1 million Measure 66 operations Lottery Funds to continue Oregon Plan related fish monitoring, survey, and passage activities. Over three-fourths of the agency's staff work is in the Fish Division. The 2005-07 legislatively adopted budget funds 1,071 positions and 838.15 FTE in the Fish Division.

ODFW – Fish Division/Propagation

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	6,495,393	5,171,911	4,602,698	4,954,125
Other Funds	6,941,505	7,393,754	7,126,524	8,151,815
Federal Funds	27,051,299	28,454,310	30,090,733	29,964,874
Total Funds	**$40,488,197**	**$41,019,975**	**$41,819,955**	**43,070,814**
Positions	307	272	279	292
FTE	267.93	241.03	242.72	253.81

Program Description

The purpose of the Fish Propagation program is to produce fish through artificial propagation to augment natural production and to provide fish for sport and commercial fisheries. In 2003, the program's 33 hatcheries and 15 satellite rearing facilities produced about 44 million salmon, steelhead, and trout. Funding supports program administration, technical expertise on fish culture and rearing, and hatchery operation and maintenance, which include fish health monitoring, tagging/fin clipping, and stocking. More than 70% of all fish caught by recreational anglers and 75% of the salmon harvested commercially are hatchery produced fish. Hatcheries are also a tourist attraction and receive more than 1.4 million visitors per year.

Revenue Sources and Relationships

The program is funded by various Other Funds revenue sources including fishing licenses and tag sales, contractual agreements with non-federal agencies, commercial fishing industry fees, interest income, and donations. Federal revenues are received from the U.S. Department of Energy through the Bonneville Power Administration, the Department of Commerce through the Mitchell Act, and the Department of the Interior through the Lower Snake River Compensation Plan. General Fund is provided to support state hatchery programs.

Legislatively Adopted Budget

The adopted budget for the Fish Propagation program is $43.1 million, which is 5% more than the 2003-05 legislatively approved level. The adopted General Fund budget is $0.2 million less than the 2003-05 approved level and represents a 4.2% decrease.

The 2005-07 adopted budget includes the following changes:

- Shifted $194,312 of support for the Cedar Creek hatchery from General Fund to Other Funds, using license and tag revenue as recommended by the Governor was adopted. The Legislature shifted an additional $100,000 in various hatchery operations from General Fund to Other Funds to make additional General Fund available for statewide needs.
- Restored $246,704 General Fund, or 50%, of the funding for the support of the Klatskanine hatchery operated by the Clatsop Economic Development Committee which produces a salmon fishery in Youngs Bay near Astoria that had been recommended for elimination by the Governor.
- Restored $140,000 of the $280,000 General Fund the Governor had proposed to cut that would have completely eliminated money for the purchase of trout from private aquaculture facilities for stocking lakes and ponds throughout NE and SW Oregon and the Willamette Valley. This restoration allows the Department to purchase trout for the first year of the biennium, after which the statutory requirement to purchase trout from private aquaculture facilities will sunset.
- $816,559 Federal Funds, $162,499 Other Funds, and 13 positions (11.75 FTE) were added to convert long-term limited duration positions into permanent positions, making 11 positions permanent and continuing 2 positions as limited duration. In this budget unit and others, a limited duration position must have been continued for five or more consecutive years and have long-term funding for consideration of switching to permanent status.
- 2 positions (1.00 FTE) were added to address the need for additional staff in the High Desert region. The two seasonal permanent positions are funded through a shift of Federal Funds services and supplies to personal services.

ODFW – Fish Division/Natural Production

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	1,066,997	267,993	747,682	1,315,323
Lottery Funds	8,201,579	4,954,948	6,407,227	5,582,846
Other Funds	13,520,558	18,745,773	20,660,963	20,746,392
Federal Funds	22,147,199	30,735,207	32,140,207	30,936,581
Total Funds	**$44,936,333**	**$54,703,921**	**$59,956,079**	**$58,581,142**
Positions	501	498	506	508
FTE	376.31	383.86	397.53	395.60

Program Description

The Fish Natural Production program manages freshwater fish, trout, steelhead, and salmon within the state's rivers, streams, and lakes. The program directs the inventory of fish populations and their habitats, conducts genetic research, assesses freshwater fisheries, develops fish conservation and management plans, manages state and federally listed fishes, and administers angling regulations. The Salmon and Trout Enhancement program, the Restoration and Enhancement program, and the Fish Screening and Fish Passage programs are part of the Fish Natural Production program.

Revenue Sources and Relationships

The Fish Natural Production program Other Funds revenue sources include fishing license and tag sales, contractual agreements with non-federal agencies, and hydroelectric operator fees. Federal Funds are received from the Bonneville Power Administration, U.S. Army Corps of Engineers, National Marine Fisheries Service, and the Department of Interior through Sport Fish Restoration funds. The program receives Measure 66 Lottery Funds for Oregon Plan related work and for fish screening activities. The agency has received $4 million of Lottery Measure 66 capital Lottery Funds for the Fish Screening program since the 1999-2001 biennium.

Legislatively Adopted Budget

The adopted budget for the Fish Natural Production program is $58.6 million, an increase of 7% from the 2003-05 legislatively approved level. The budget supports 508 positions and 395.60 FTE.

The adopted budget includes the following changes:

- $599,000 General Fund was added to partially fund the cost of restoring water quality and fisheries in Diamond Lake. Private donations and federal resources will be used for the remainder of the restoration costs incurred during 2005-07, which are estimated at $3.3 million.
- Continues a shift made in 2003-05 of $714,797 General Fund using Measure 66 operations Lottery Funds for aquatic surveys and fish passage activities supporting the Oregon Plan for Salmon and Watersheds. The Governor had proposed using federal Pacific Coastal Salmon Recovery Fund monies received by the Oregon Watershed Enhancement Board to support this work, but the federal granting authority, NOAA Fisheries, expressed concerns that this would not be a suitable use of these monies, therefore the Assembly used Measure 66 Lottery Funds instead.
- A shift of $3.5 million Measure 66 operations Lottery Funds to federal Pacific Coastal Salmon Recovery Fund monies for Oregon Plan monitoring activities.
- Added $750,000 of Pacific Coastal Salmon Recovery Fund monies to accelerate completion of recovery plans for Endangered Species Act (ESA) listed salmon and steelhead. This work will be completed in cooperation with NOAA Fisheries. This is an enhancement to the current costs associated with the federal decision to list a number of salmon and steelhead stocks in Oregon under the ESA. The monies are received from OWEB and are treated as Other Funds in the ODFW budget.
- $798,500 of federal Pacific Coastal Salmon Recovery Fund monies was added to continue the Coastal Salmonid Monitoring program. The Governor had recommended using Measure 66 Lottery Funds.
- $219,850 supporting a fish screens engineer position (1.00 FTE) that provides technical and design assistance to landowners statewide for screen projects that the Governor had proposed eliminating was instead shifted from General Fund to Measure 66 operations Lottery Funds so that the position could continue providing services.
- The Governor had proposed eliminating $146,154 General Fund and a position (1.00 FTE) working with data on water rights/flow questions and other water related issues. The Legislature restored the position with Other Funds made available through reductions in other programs.

- $3,841,953 Federal Funds, $627,878 Other Funds, and 70 positions (53.00 FTE) were added to convert long-term limited duration positions into permanent positions, making 64 positions permanent and continuing 7 positions as limited duration.
- $1 million Other Funds and 3 positions (3.00 FTE) were added to operate the Hatchery Research Center which ODFW received funding to construct during 2003-05. This addition uses $1 million Other Funds earmarked for this purpose by the 2003 Legislature that had been used on a one-time basis for information technology upgrades in 2003-05.
- $491,265 and 11 positions (4.12 FTE) were added for work on lower Columbia River estuary restoration projects related to the Columbia River channel deepening project. The funds come from the Economic and Community Development Department and are proceeds of lottery bonds issued in 2004.
- 4 positions (4.08 FTE) were added to address the need for additional positions in the High Desert region, Northwest region, and headquarters.
- $480,790 Other Funds and 6 positions (4.63 FTE) were added for compliance with the conditions of two settlement agreements for hydroelectric re-licensing. Four positions (2.63 FTE) were added for the Pelton-Round Butte dam and 2 positions (2.00 FTE) were added for the North Umpqua Hydro facility.

ODFW – Fish Division/Marine Resources

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	1,351,802	1,488,037	1,673,564	1,630,040
Lottery Funds	0	133,399	0	0
Other Funds	3,354,117	3,965,825	4,091,615	4,416,349
Federal Funds	3,750,199	6,995,947	7,882,157	6,031,988
Total Funds	**$8,456,118**	**$12,583,208**	**$13,647,336**	**$12,078,377**
Positions	123	125	137	109
FTE	87.64	87.74	94.08	80.35

Program Description

The Fish Marine Resources program recommends regulations and assesses harvest of commercial fisheries including ocean salmon, ocean groundfish, estuary bait fish, shrimp, crab, urchin, and other estuarine species. The program also monitors recreational fishing and is responsible for developing new sustainable fisheries and for assessing harvest levels and making allocation decisions between competing user groups.

Revenue Sources and Relationships

The program receives the majority of Other Funds revenue from the commercial fishing industry through license fees, landing fees, and the proceeds from the sale of confiscated commercial fish. The program also receives some angling license and tag sale revenues. Federal Funds are from the U.S. Department of Commerce and Department of Interior.

Legislatively Adopted Budget

The adopted budget for the Fish Marine Resources program represents a decrease of 4% from 2003-05 legislatively approved levels. This decrease is due to the transfer of federal fund limitation for federal contracts from this program area to the programs where the contracts are actually managed. The budget includes a shift in support for the Pacfic Coast Fisheries Information Network (PacFin) program due to elimination of federal support for the program. PacFIN provides information which enables ODFW and industries to track commercial fish catches by area, and to manage and plan more effectively. PacFin related expenses will be paid during 2005-07 with monies from the state's Commercial Fish Fund ending balance on a one-time basis. The budget also adds $25,000 Other Funds expenditure limitation for dedicated and obligated funds to accommodate research on Pacific Halibut with monies from the Halibut Research Fund.

ODFW – Fish Division/Interjurisdictional Fisheries

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	726,337	1,121,394	1,136,226	45,584
Other Funds	5,412,961	5,699,712	6,266,798	7,437,589
Federal Funds	6,794,527	7,361,136	8,408,937	10,184,161
Total Funds	**$12,933,825**	**$14,182,242**	**$15,811,961**	**$17,667,334**
Positions	100	82	127	162
FTE	88.88	78.77	89.28	108.39

Program Description

The Fish Interjurisdictional Fisheries program was created in 1999 from a reorganization of the Natural Production and Marine Resources programs. The program is responsible for management of Columbia River anadromous fisheries, coordination of Columbia Basin activities, and participation in regional and international management councils for the management of marine and migratory fish. The program monitors and evaluates projects funded through the Northwest Power Planning Council and provides the overall planning and management of the Fish Division.

Revenue Sources and Relationships

The program receives Other Funds revenue from fishing license and tag sales and from contractual agreements with non-federal agencies. Federal Funds are derived from the Bonneville Power Administration, the U.S. Army Corps of Engineers, the National Marine Fisheries Service, and the Department of Interior in the form of Sport Fish Restoration funds.

Legislatively Adopted Budget

The adopted budget for the Fish Interjurisdictional Fisheries program represents a 24% increase from the 2003-05 legislatively approved levels. Much of this increase is due to the addition of $2.8 million Federal Funds, $0.6 million Other Funds, and 48 positions (32.65 FTE) to convert long-term limited duration positions into permanent positions and move federal contract expenditures and positions to the program area where the contracts are managed. The budget also shifted $1.1 General Fund support for Fish Division administrative functions which are housed in Interjurisdictional Fisheries to Other Funds from the projected ending balance.

ODFW – Wildlife Division Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	2,854,848	1,500,561	1,513,009	1,514,759
Lottery Funds	0	83,714	1,484,631	1,313,891
Other Funds	21,395,399	28,613,863	28,390,261	30,082,133
Federal Funds	9,601,019	16,866,198	17,153,068	16,714,556
Total Funds	**$33,851,266**	**$47,064,336**	**$48,540,969**	**$49,625,339**
Positions	259	266	213	212
FTE	200.67	205.98	213.41	212.45

Program Description

The Wildlife Division manages wildlife with the objective of maintaining all species at optimum levels for the recreational and aesthetic benefit of the public, consistent with the primary use of the land and waters of the state. The Division is organized into three program areas: Game, Habitat, and Diversity.

Revenue Sources and Relationships

The Wildlife Division has historically been funded primarily from Other and Federal Funds, except for the Wildlife Diversity program which receives a larger percentage of its budget from the General Fund. The primary Other Funds revenue source is the sale of hunting licenses and tags. Revenue is also obtained from sales of waterfowl and upland game bird stamps and prints, fines and forfeitures from game law violations, funds from contractual agreements with non-federal agencies, and donations.

Federal Funds received by the Wildlife Division result from federal laws or agreements with federal agencies to complete specific types of work. The single major source of Federal Funds is the Pittman-Robertson Act, which support habitat improvement projects and wildlife management areas. Pittman-Robertson Act funds require a 25% state match.

Budget Environment

National and state trends indicate a declining proportion of the population engaging in hunting activities. Continuation of this trend, coupled with difficulties in attaining easy access to traditional hunting locations, is likely to result in further erosion of hunting license and tag sales. Projected revenue from the sale of licenses and tags was insufficient to continue the 2001-03 level of Other Funds program expenditures through the 2003-05 biennium, therefore the 2003 Legislature approved a fee increase that affected all license and tag fees to raise almost $10 million of additional revenue during the 2003-05 biennium.

The spread of Chronic Wasting Disease throughout large portions of the United States has focused national attention on containment and elimination of this disease, which is similar to Mad Cow Disease. In response to the threat of this disease spreading among Oregon's cervid populations, the agency banned all importation of live cervids, except reindeer, and whole cervid carcasses that are hunter-killed. The Department continues to actively monitor cervids for any signs the disease has entered the state.

The agency began examining issues surrounding wolf migration into the state during the 2001-03 biennium through a series of briefings for the Fish and Wildlife Commission that addressed wolf management, potential impacts on wildlife, landowners, and the public, and reviewed how other states have addressed this issue. To garner public input on the direction state wolf management should take, the Department held extensive public meetings throughout the state. The Oregon Fish and Wildlife Commission appointed a 14-member committee in 2003 to develop a draft Wolf Management Plan for Oregon. The Wolf Advisory Committee began meeting in November 2003 and presented their draft Oregon Wolf Conservation and Management Plan to the Fish and Wildlife Commission at its September 2004 meeting. The conservation plan was adopted by the Commission at its February 2005 meeting, however the 2005 Legislature failed to adopted legislation necessary to implement to plan and did not appropriate money for compensation of damage done by wolves to livestock. The future of the wolf conservation plan is now unclear.

Legislatively Adopted Budget

The adopted budget for the Wildlife Division totals $49.6 million, an increase of 3.2% from the Governor's recommended levels. This increase is caused largely by the inclusion of additional Other Funds limitation for contracts to improve waterfowl habitat on Department land and for unspent monies from the 2003-05 biennium that are dedicated to the Access and Habitat program. The budget contains virtually the same amount of General Fund as the 2003-05 legislatively approved budget. The adopted budget supports 212.45 FTE, an increase of 6.47 FTE from 2003-05 approved levels.

ODFW – Wildlife Division/Game

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	539,252	353,594	266,462	336,398
Other Funds	16,440,949	22,202,525	20,139,157	20,689,608
Federal Funds	1,818,012	2,155,825	2,134,271	2,120,482
Total Funds	**$18,798,213**	**$24,711,944**	**$22,539,890**	**$23,146,488**
Positions	144	160	107	108
FTE	105.93	118.12	113.73	114.44

Program Description

The Wildlife Game program manages game species including big game, furbearers, waterfowl, and upland game birds. Most regional staff are budgeted within the Wildlife Game and the Habitat programs. Biologists, with the assistance of seasonal wildlife technicians, inventory big game species, develop and implement species management plans, respond to damage complaints, conduct hunter and harvest surveys, and assist in developing hunting regulations. Hunter access is enhanced through the Regulated Hunt Area (RHA). The RHA is a cooperative program between the Department, landowners, and corporations to allow public hunting on privately controlled lands. Other duties of the Game program include management of short-term research projects and habitat improvement projects for waterfowl and upland gamebirds. Management and planning for the entire Wildlife Division is included in the Game program budget.

Revenue Sources and Relationships

The program receives Other Funds revenues from hunter license and tag sales, waterfowl and bird stamp and print sales, and contractual agreements with non-federal agencies. Federal Funds are received through contracts with federal agencies.

Legislatively Adopted Budget

The adopted budget for the Wildlife Game program represents a 6.3% decrease from the 2003-05 approved budget. This decrease is due to the transfer of the Access and Habitat program to Wildlife Habitat, reducing the Wildlife Game budget by $2.6 million Other Funds and 3 positions (3.16 FTE).

The adopted budget includes the following additional changes:

- $950,000 in carry forward Other Funds limitation was added for waterfowl contracts that will provide wetlands restoration on Department land.
- $367,289 Other Funds, $318,638 Federal Funds, and 8 positions (7.50 FTE) were added to convert long-term limited duration positions into permanent positions.
- Added one-time limitation increases from dedicated revenues for the turkey program ($100,000), the antelope program ($25,000), and the mountain goat program ($10,000).
- Shifted $102,309 General Fund for the Upland Game Bird program to Other Funds from license and tag revenue.
- $75,000 General Fund was added for completion of a study of the effects of damage from bears on commercial forest operations.

ODFW – Wildlife Division/Habitat

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	1,476,815	413,943	367,665	314,446
Lottery Funds	0	0	1,484,631	1,313,891
Other Funds	4,808,318	6,093,995	7,941,835	9,089,685
Federal Funds	7,134,878	11,613,899	11,905,886	10,901,778
Total Funds	**$13,420,011**	**$18,121,837**	**$21,700,017**	**$21,619,800**
Positions	102	91	93	92
FTE	82.32	73.44	86.18	85.51

Program Description

The Wildlife Habitat program provides guidance in the agency's development of statewide goals and objectives related to the management of wildlife and their habitat. The program operates state-owned game management areas and develops projects to maintain and improve wildlife habitat. Projects include cover plantings, wildlife food crops, range rehabilitation, protective fencing, water developments, and artificial nesting sites. Wildlife Habitat is also responsible for coordinating, planning, and conserving existing habitat through contacts with other land management agencies and landowners. The adopted budget made the Wildlife Habitat program responsible for management of the Access and Habitat (A&H) program, which had previously been budgeted in the Wildlife Game program. The A&H program started in 1993 and is used to provide both wildlife habitat improvement and improved hunter access to private lands. Projects are approved by a 7-member board and then submitted to the Fish and Wildlife Commission for final action. In 2003-05, the Wildlife Habitat program also added 31 positions from the former Habitat Division as part of a departmental reorganization designed to better integrate habitat-related decisions into Fish and Wildlife programs by eliminating the Department's separate Habitat Division.

Revenue Sources and Relationships

The program receives Other Funds revenues from hunter license and tag sales. The A&H program is funded through a $2 surcharge on hunting and fishing licenses and tags. The A&H program surcharge was to sunset at the end of 2003, however the Legislature extended the sunset until 2009. Federal Funds are derived from the Bonneville Power Administration through the BPA Wildlife Mitigation Program and from the U.S. Department of Interior in the form of Pittman-Robertson Act funds.

Legislatively Adopted Budget

The adopted budget for the Wildlife Habitat program represents almost a 20% increase above the 2003-05 legislatively approved levels. This change is due largely to the transfer of the Access and Habitat program from the Wildlife Game program, increasing the Habitat budget by $2.6 million Other Funds and 3 positions (3.06 FTE).

The adopted budget includes the following additional changes:

- Added $1.5 million Measure 66 capital Lottery Funds, $610,692 Other Funds, and 13 limited duration biologist positions (11.00 FTE) for the Western Oregon Stream Restoration (WOSR) program. The WOSR program uses habitat biologists to provide technical assistance to private landowners, watershed councils, and other local entities undertaking watershed enhancement projects. The program has existed since 1995 and has been funded with Measure 66 Lottery Funds since 2001; $470,692 of the Other Funds provided for the program are federal Pacific Coastal Salmon Recovery Fund monies received by the Oregon Watershed Enhancement Board and spent by ODFW as Other Funds. The remaining $140,000 Other Funds are from fishing and hunting license and tag revenue.
- Shifted $339,768 from General Fund to Measure 66 operations Lottery Funds that fund habitat biologists' activities supporting salmon recovery and the Oregon Plan for Salmon and Watersheds.
- Added $1.1 million Other Funds for unspent monies from the 2003-05 biennium that are dedicated to the Access and Habitat program to be used for grants to landowners.
- Transferred $644,500 Federal Funds received from the U.S. Fish and Wildlife Service for conservation and recovery of species listed under the Endangered Species Act to the Wildlife Diversity program.

ODFW – Wildlife Division/Wildlife Diversity

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	838,781	733,024	878,882	863,915
Lottery Funds	0	83,714	0	0
Other Funds	146,132	317,343	309,269	302,840
Federal Funds	648,129	3,096,474	3,112,911	3,692,296
Total Funds	**$1,633,042**	**$4,230,555**	**$4,301,062**	**$4,859,051**
Positions	13	15	13	12
FTE	12.42	14.42	13.50	12.50

Program Description

The Wildlife Diversity program goal is the protection and recovery of non-game bird and animal species through the protection and enhancement of populations and habitat of native wildlife. This represents 88% of the total wildlife species in the state. Non-game biologists conduct species surveys, determine species management requirements, initiate efforts to preserve and improve critical habitats, and coordinate wildlife rehabilitation programs. The program provides consultation to other state agencies regarding threatened and endangered species, as required under the Oregon Endangered Species Act. Oregon's Threatened and Endangered Species List includes 25 nongame wildlife species and 6 non-game fish species. The state's Sensitive Species List, species not threatened or endangered but with populations or habitats that could lead to listing, includes a total of 135 species or subspecies. The program is also responsible for creating the state's Comprehensive Wildlife Conservation Strategy. Any state receiving monies from the federally funded State Wildlife Grant Program or the Wildlife Conservation and Recovery program must complete such a plan.

Revenue Sources and Relationships

The program receives Other Funds revenues from the nongame income tax check-off contribution and interest income. Federal Funds are received from the U.S. Department of Interior for threatened and endangered species activities through the State Wildlife Grant program and the Wildlife Conservation and Recovery program.

Legislatively Adopted Budget

The adopted budget for the Wildlife Diversity program represents a 14.9% increase from 2003-05 legislatively approved levels. The budget adds $569,141 Federal Funds and 5 permanent positions to accommodate work associated with creating the state's Comprehensive Wildlife Conservation Strategy, which is funded through the State Wildlife Grant. The Legislature also added $644,500 Federal Funds transferred from the Wildlife Habitat program for conservation and recovery of species listed under the Endangered Species Act. This money will be used for a grant to Benton County to implement a multi-species Habitat Conservation Plan.

ODFW – State Police Enforcement

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	11,215,409	12,265,670	12,560,046	12,954,046
Total Funds	**$11,215,409**	**$12,265,670**	**$12,560,046**	**$12,954,046**

Program Description

The Department of State Police, Fish and Wildlife Division's primary responsibility is to ensure compliance with laws that protect and enhance the long-term health and use of the state's fish and wildlife resources, including recreational and commercial fishing laws and regulations and hunting laws. The Division also serves a vital function in the Oregon Plan by enforcing laws designed to protect the remaining salmon populations. The Department of Fish and Wildlife contracts with the Department of State Police to provide these law enforcement services. These enforcement positions are included in the State Police budget. Officers in the Fish and Wildlife Division are sworn police officers and can enforce traffic, criminal, boating, livestock, and environmental laws and respond to emergency situations.

Revenue Sources and Relationships

The Department of State Police, Fish and Wildlife Division receives General Fund support directly through the Department of State Police budget and Other Funds from hunting and fishing license revenue from the Department of Fish and Wildlife. Beginning with the 1999-2001 biennium, the Fish and Wildlife Division is also provided Measure 66 Lottery Funds to support enforcement of fish and habitat policies.

Budget Environment

The proportion of the Department of State Police, Fish and Wildlife Division's operating budget funded with transfers from the Department of Fish and Wildlife has declined over time. In the 1981-83 biennium, 75% of the enforcement budget was funded by hunting and angler license revenues from the Department of Fish and Wildlife. During 1991-93, ODFW funds comprised 69% of the fish and wildlife enforcement budget of the State Police. By the 2003-05 biennium, the proportion dropped to a little more than 50%. The remaining funding has been supported by direct state support, through the General Fund and Lottery Funds.

Legislatively Adopted Budget

The Governor's budget included $12.6 million Other Funds from ODFW revenues for support of the State Police, Fish and Wildlife Division in anticipation of increased personal services costs related to PERS and health benefits, pension obligation bond debt service, and inclusion of merit increases for those eligible. During the legislative session the Department of State Police informed ODFW that it had miscalculated the amount necessary to maintain the same level of officers as had been supported in 2003-05. In response, the Legislature added an additional $394,000 Other Funds to the amount to be transferred to the Department of State Police. This increased transfer amount should be adequate to support 64 positions in the Department of State Police using license and fee revenue.

ODFW – Agency Administration

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	1,631,473	896,856	933,520	1,088,221
Other Funds	18,670,167	29,983,630	28,523,844	28,748,713
Federal Funds	1,055,471	1,263,797	1,501,537	1,639,893
Total Funds	**$21,357,111**	**$32,144,283**	**$30,958,901**	**$31,476,827**
Positions	108	111	115	115
FTE	104.6	109.99	112.00	111.66

Program Description

Agency Administration provides general support functions to all programs of the Department. The Division includes the Office of the Director, the Fish and Wildlife Commission, Commercial Fishery Permit Boards, and the divisions of Human Resources, Information and Education, Administrative Services, and Information

Systems. Agency Administration is also responsible for implementation and development of the Strategic Operational Plan and for management of the Point-of-Sale licensing system.

The Point-of-Sale (POS) licensing system was approved for development in the 1997-99 biennium, after the vendor providing the previous system indicated its planned withdrawal of support. The Department plans to implement a new internet-based POS system during 2005-07. This new system may allow individuals to purchase licenses and tags via the internet.

Revenue Sources and Relationships

Agency Administration is financed through a combination of General Fund, Other Funds, and Federal Funds. Other Funds include license and tag sales, federal indirect cost recovery, and small amounts of miscellaneous revenue, such as interest from certificates of participation, donations, and miscellaneous sales. Federal Funds are received from the U.S. Fish and Wildlife Service in support of the Hunter Education and Aquatic/Angler Education programs. The operational costs of the Point-of-Sale licensing system are paid out of an agent fee collected on each transaction. One-half of the fee is retained by the agent with the other half transferred to the Department.

Budget Environment

The agency's budget development process is guided by the Strategic Operational Plan. The Plan was developed to guide agency decision-making on budget challenges over the next six years. The agency developed its budget plan with the assistance of an External Budget Advisory Committee and presented the budget plan at a series of public meetings held across the state. Based on the responses to the plan, the Department made changes to priorities, which were then adopted by the Fish and Wildlife Commission. As part of its continued effort to ensure fiscal accountability, the Department provides reports to the Fish and Wildlife Commission on current biennium revenues and expenditures at each of its meetings.

General Fund was reduced in 2003-05 by using $1.2 million from license and tag sales revenue to replace General Fund support of administrative positions and functions. No positions in the Division are now funded with General Fund. The 2003 Legislature added $1 million Other Funds as a one-time adjustment for computer hardware and software replacement. This funding was then to be used in 2005-07 to fund the operation of the Hatchery Research Center.

Legislatively Adopted Budget

The adopted budget for Agency Administration represents a decrease of 2.1% from 2003-05 legislatively approved levels. This decrease is due in part to the transfer of $1 million Other Funds that was added on a one-time basis for information technology investments to the Natural Production program to fund operations at the Hatchery Research Center as intended by the 2003 Legislature. The budget also added $152,461 Other Funds, $97,357 Federal Funds, and 6 positions (3.50 FTE) to address the need for additional staff in headquarters by adding positions in the information and education unit and the administrative services unit. This amount also pays for the reclassification of 18 information systems positions upward at least one salary range based on a Departmental review of duties and responsibilities and the reclassification of 5 positions in the Controlled Hunts unit. The budget also cut $51,204 Other Funds to reduce staff support for reception and licensing at the Department's headquarters by 0.50 FTE, which represents a 12.5% reduction in staffing.

ODFW – Nonlimited Debt Service

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds (NL)	2,256,788	3,000,000	0	0
Total Funds	**$2,256,788**	**$3,000,000**	**$0**	**$0**

Program Description

Nonlimited expenditures were used to finance payment of debt on the old Portland headquarters building. The 2003-05 legislatively adopted budget included $3 million for debt service to pay outstanding debt on the Portland headquarters, with proceeds from the sale of the building to complete the move to Salem. This action repaid all outstanding debt on the building.

Legislatively Adopted Budget

There is no debt service contained in the adopted budget.

ODFW – Capital Improvements

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	201,658	203,859	208,751	201,645
Lottery Funds	0	5,125,000	0	
Other Funds	2,758,482	6,214,647	4,453,180	6,624,010
Federal Funds	224,266	3,256,006	0	0
Total Funds	**$3,184,406**	**$14,799,512**	**$4,661,931**	**6,825,655**
Positions	1	1	1	1
FTE	1.00	1.00	1.00	1.00

Program Description

The Capital Improvements budget finances hatchery and wildlife management area facility repairs and improvements. Projects include diking, nesting, water control, and installation of bird netting, repairs to roads, channels, intakes, and ponds. The program includes a position for clerical support to the Restoration and Enhancement Board, funded by surcharge revenues.

Revenue Sources and Relationships

Nearly all of the Other Funds expenditures in the Capital Improvements budget had been for Restoration and Enhancement (R&E) Board projects. R&E projects are funded with $2 surcharge per angling license. All General Fund expenditures are for emergency hatchery repairs. Lottery Funds were added by the 2003 Legislature on a one-time basis for costs related to building the Hatchery Research Center.

Budget Environment

Hatchery maintenance needs continue to grow. Generally, hatchery facilities are aging and need improvements to water supplies and waste water systems. The Department completed an preliminary deferred maintenance field study in 2002, which estimated the following deferred maintenance needs: state funded hatcheries, $1.6 million; state and federal funded hatcheries, $0.9 million; federal funded hatcheries, $2.4 million; and other agency facilities, $1.4 million. Funds are not presently sufficient to eliminate the maintenance backlog.

The 2003-05 legislatively adopted budget added $5,125,000 Lottery Funds and $1,875,000 Other Funds for conversion of the Fall Creek Hatchery into a Hatchery Research Center. The Lottery Funds are Measure 66 dedicated funding for salmon recovery and the Other Funds come from a settlement with Portland General Electric over illegal takings of salmonids. The Research Center will begin operations in 2005-07 and is expected to provide valuable insight into the interaction of hatchery reared salmonids with their wild counterparts and determine methods to raise fish that will mitigate possible negative impacts from this interaction.

Legislatively Adopted Budget

The adopted budget represents a 54% decrease from the 2003-05 legislatively approved levels, due primarily to the removal of $7 million provided for the construction of the Hatchery Research Center. The Legislature provided $0.3 million of Other Funds carry forward limitation to complete construction of the Hatchery Research Center using funding provided last biennium. The budget eliminated all federal funding ($3.3 million) since the Department does not anticipate any federal support for capital improvements during the 2005-07 biennium. The adopted budget added $1.5 million Other Funds for Restoration and Enhancement (R&E) program grants, of which $0.5 million is 2003-05 funding being carried forward into the 2005-07 biennium and $1 million is for increases in the estimated 2005-07 R&E surcharge revenue. The Legislature also added $0.4 million Other Funds on a one-time basis for contract work to update the Department's deferred maintenance needs for all ODFW facilities. This work will be used to develop a plan to address the Department's deferred maintenance for which ODFW will likely be requesting funding in the 2007-09 budget.

ODFW – Capital Construction

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Federal Funds	5,100,000	0	0	0
Total Funds	**$5,100,000**	**$0**	**$0**	**$0**

Program Description

The Capital Construction budget is for major construction or acquisition projects. No capital construction projects were anticipated in the 2003-05 biennium.

Legislatively Adopted Budget

No Federal Funds are anticipated for capital construction expenditures in 2005-07. If new projects and funding were to become available, the Department would seek Federal Funds expenditure limitation from the Emergency Board during the interim.

Department of Forestry (ODF) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	38,865,203	39,782,341	37,149,257	37,682,391
Other Funds	229,447,110	189,478,905	162,635,171	157,983,199
Federal Funds	9,720,030	19,059,519	23,527,700	24,724,173
Other Funds (NL)	2,645,741	15,000,000	15,000,000	15,000,000
Total Funds	**$280,678,084**	**$263,320,765**	**$238,312,128**	**$235,389,763**
Positions	1,472	1,358	1,395	1,338
FTE	932.99	880.42	917.58	913.71

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 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 Board'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 Department of Forestry recognized as an agency 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.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget is $235.4 million total funds. This is $27.9 million or 10.6% less than the 2003-05 legislatively approved expenditure level and $2.9 million or 1.2% less than the Governor's recommended budget. The decrease is primarily due to the reduction of one-time Other Funds expenditures related to fire protection in the 2003-05 biennium and elimination of the industrial fire prevention program. The budget continues support for cooperative fire protection, forest plan implementation, smoke management, and reforestation tax credit activities.

The adopted budget reflects a net reduction of 20 positions but increases full-time equivalent positions (33.29 FTE) resulting from the elimination of vacant positions and consolidating part-time and seasonal positions while adding positions primarily for federal National Fire Plan activities and State Forest Management activities, including nine positions to staff the Tillamook Forest Interpretive Center. The adopted budget combines activities of the Forestry Assistance and Forest Practice programs into a new Private and Community Forests program. Combining the two programs into one leverages the expertise and staff from both programs to more effectively accomplish program objectives. Specific details are discussed under each program unit.

ODF – Protection From Fire

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	21,432,800	23,331,452	19,633,024	19,275,422
Other Funds	131,202,303	83,478,130	52,992,939	52,961,334
Federal Funds	5,953,402	12,841,103	16,508,871	16,472,255
Other Funds (NL)	2,645,741	15,000,000	15,000,000	15,000,000
Total Funds	**$161,234,246**	**$134,650,685**	**$104,134,834**	**$103,709,011**
Positions	722	732	763	732
FTE	358.06	372.34	392.52	397.21

Program Description

The Protection from Fire program provides fire protection for nearly 16 million acres of private, state, and federal forest lands, operates an industrial fire prevention program, and, through the Emergency Fire Cost Committee, finances costs of catastrophic fires. Of the total acreage, 12.1 million is privately owned, 1.2 million is state and local government land, and 2.5 million is federal, mostly Bureau of Land Management (BLM) Western Oregon lands. The total acreage has a current estimated value at risk of approximately $60 billion. The program finances costs for central and field administration, fire suppression crews, facilities maintenance, fire cache, communications, and weather and mapping services. Program services are delivered through 13 forest protection districts including three locally managed Forest Protective Associations. Over one-third of all agency positions are assigned to this program.

The Legislature combined two other program units with the Protection from Fire program in 1995. The four-member Emergency Fire Cost Committee is comprised of forest landowners or their representatives. The committee manages the Oregon Forest Land Protection Fund (OFLPF), which is used to purchase insurance for catastrophic fires and to equalize extraordinary fire costs among forest protection districts. The Cooperative Fire program provides forest management services to public and private forest landowners through contracts. The purpose is to maintain trained fire suppression personnel through the off-season and to maximize the use of public services through the sharing of resources. Both programs are entirely supported with Other Funds revenue.

Revenue Sources and Relationships

The State's Protection from Fire program is provided in three levels with separate funding mechanisms:

Base Protection – ODF's base protection program is delivered through ten local Forest Protection Districts and three private Forest Protective Associations. Each of the local fire protection units prepares an operating budget for prevention, detection, resource readiness, initial attack, and extra cost deductible. The revenue to support the local budgets comes from a combination of the Public Share Fire Fund (General Fund) and forest patrol assessments on local forest landowners. The assessment system includes more than 291,000 parcels, with and without improvements. The distribution is established in statute as 50% General Fund, 50% landowner assessment. Since each local budget is developed independently, the forest patrol assessments charged against subject landowners vary by district. The assessments are collected by county assessors and are made on a per acre basis with a minimum assessment of $18.00 per lot. Public landowners receive no General Fund match and pay the full cost of fire protection.

Emergency Protection – The purpose of emergency protection is to pay for the excess fire suppression costs of major fires in Oregon. The enabling legislation is based on the belief that the emergency fire suppression costs on forest lands protected by the State Forester need to be equalized so that no single district is required to pay the full amount of fire fighting expenses. Funding for emergency costs is provided through the Oregon Forest Land Protection Fund (OFLPF), administered by the Emergency Fire Cost Committee. The Legislature modified the reserve base for the OFLPF in House Bill 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 fire protection districts. Revenues to support the OFLPF are estimated to be $15 million in 2005-07, and are generated from an assortment of landowner assessments and taxes:

- harvest tax of $0.50/thousand board feet (mbf) 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) ($1.6 million);
- assessment of $3.00 per lot (out of the $18.00 minimum assessed for forest patrol) ($1.14 million);
- surcharge of $38.00 for each improved tax lot ($8 million); and
- interest from State Treasurer investments of the fund ($0.1 million).

The OFLPF reimburses fire suppression costs after a district meets an annual deductible based on protected acreage and a deductible of $25,000 for any one fire or on any one day.

Catastrophic Protection – House Bill 2327 directs that prior to February 1 of each year that 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 statue 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 House Bill 2327 limits the landowners' responsibility to $15 million per year, including the cost of insurance premiums and all claims paid to local districts from the OFLPF. Beyond this limit, the cost responsibility falls on the General Fund. The current reserve and expenditure limits are inadequate when dealing with severe fire seasons and higher per unit costs for firefighters and equipment.

Budget Environment

Fire suppression efforts and costs are driven by forest health (insect and disease damage) and weather (drought and lightning storms) and cannot be predicted with certainty. Over 7.5 million acres of forestland in eastern and southern Oregon are suffering from poor forest health and remain untreated. The last decade of drought has affected much of Oregon's forests. In addition, the siting of dwellings and other improvements on forestlands continues to increase the challenges to fire managers and large areas of the state have no fire protection coverage. Fires originating on these unprotected lands can be a threat to protected forestlands and communities. The increasing numbers of homes in the forest complicates protection priorities and requires additional coordination by fire protection agencies resulting in higher costs and greater damages. Numerous structures located on forestland have not been included within the boundaries of rural fire districts and are unprotected. An estimated 6 million acres of land in north central and southeast Oregon are completely unprotected. Fires originating in these unprotected areas threaten protected forest land. Fewer fire protection resources are available from the private sector such as logging crews and equipment. Federal budget cuts and local resource constraints have also decreased existing wildfire protection levels by reducing fire fighting resources and revenues. Also, federal fire management policies have reduced the overall productivity of suppression resources and at times limited the availability of critical resources.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $103.7 million is $31 million or 23% less than the 2003-05 legislatively approved expenditure level and $0.4 million less than the Governor's recommended budget. Most of the reduction is related to phasing out the one-time costs of $36 million total funds associated with the 2003 and 2004 extraordinary fire costs. The adopted budget continues the Protection From Fire assessment program at the statutorily-required 50:50 distribution between the General Fund and private forest landowners. Between 1991 and 1999, the Legislature had approved a 45:55 split each biennium to reduce the amount of General Fund needed to operate the program. The adopted budget includes a total of $19.3 million General Fund supporting the program at $4.1 million less than the 2003-05 legislatively approved budget level. The reduced level primarily reflects phasing out $6 million General Fund one-time increases (included in above total funds) to pay costs associated with contracting for large air tankers and helicopters to supplement fire suppression resources for the 2003 and 2004 fire seasons.

The Legislature approved a $0.2 million General Fund reduction to address the 2005-07 biennium General Fund revenue shortfall and restored the Industrial Fire Program which was eliminated in the Governor's recommended budget adding $0.8 million General Fund and $0.5 million Other Funds and 7.74 FTE. The remaining $0.8 million Other Funds expenditure limitation in the Industrial Fire Program was not restored since it results in double-budgeting of program funds. The Legislature instructed the Department to establish an accounting system that reflects actual sources of program expenses within corresponding fund types. Also approved was $80,000 total funds reduction anticipating reduced costs associated with the "Smart Buy" initiative.

An increase of $3.5 million Federal Funds expenditure limitation and 22 positions (30.88 FTE) are added to enable the program to fully utilize and manage federal grant funds available through the National Fire Plan. Four of the positions are conversions of existing limited duration positions approved in the 2003-05 budget, 18 of the positions are new, and the remaining increase is accomplished by adding months to existing positions for additional National Fire Plan activities. The National Fire Plan provides funds to help reduce the fuels problem, make wildland-urban homes more defensible, increase the capabilities of state and local fire districts, assist with community fire planning, and increase public education and fire prevention efforts. Most of these federal grants are "passed through" to local fire districts and homeowners. The volume of grants under this program appears to be increasing.

The Legislature also approved a package to reduce $1,185 Other Funds, 31 positions, and 3.05 FTE to address a budget note requiring the Department to review its positions to determine which positions could be combined by adding months or eliminated to reduce the number of unnecessary positions and full-time-equivalents in the agency. These positions represent the Protection from Fire Program's share of that consolidation.

The Legislature approved technical adjustments reducing $1 million total funds to reflect reductions in the Attorney General rate, Secretary of State audit charges, Department of Administrative Services assessments, PERS rates, and additional vacancy savings. In addition, the Legislature reduced $0.5 million in the base budget shifting the funds to a special purpose appropriation in the Emergency Fund. A special purpose appropriation reflected in the Emergency Fund budget totaling $3.5 million General Fund, was approved by the Legislature to pay costs associated with the insurance premium, contracting for large air tankers and helicopters to supplement fires suppression resources for the 2005 and 2006 fire seasons.

The remaining increases in the program budget are adjustments to reflect applying standard inflation rates for other payroll expenses, scheduled merit increases, services and supplies, state government service charge assessments, and a revenue reduction to balance to available revenues for a net increase of $1.6 million total funds.

ODF – State Forest Lands

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	43,983,058	58,213,708	63,874,517	62,030,648
Federal Funds	0	182,440	140,739	140,739
Total Funds	**$43,983,058**	**$58,396,148**	**$64,015,256**	**$62,171,387**
Positions	296	305	317	305
FTE	253.94	252.79	277.12	273.19

Program Description

The State Forest Management program manages 786,000 acres of state forestlands on behalf of counties and the Common School Fund. The Board of Forestry owns nearly 85% (654,000) of these acres, including the five state forests (Tillamook, Clatsop, Santiam, Sun Pass, and Elliott). Counties transferred the title to these lands to the Board of Forestry in the 1930s and 1940s. The remaining 132,000 acres are the Common School Lands, which are managed by ODF under contract with the State Land Board. The primary goal of the program is to provide for healthy, productive, and sustainable forests through active management that will produce sustainable timber and revenue on Board of Forestry lands and maximize revenue over the long term on Common School Lands.

The Department participates in a cooperative tree improvement effort with other major landowners to increase the yield and quality of forest products. The State Forest Management program also operates the J.E Schroeder Seed Orchard to provide improved tree seed for planting on state land, on non-industrial landowner properties, and on 13 industrial lands whose owners share orchard expenditures.

Revenue Sources and Relationships

The State Forest Management program is entirely self-financed from timber sales and the sale of special forest products. The Department retains 36.25% of timber sales for management of the county trust lands. The remaining 63.75% is distributed to the counties and local taxing districts where the forestland is located. ODF projects the state's share of timber sales to be $4.83 million for 2005-07. The agency is reimbursed for Common School Fund land management costs and the remaining revenue goes to the Common School Fund. Management costs are approved by both the Board of Forestry and the State Land Board. Board of Forestry lands are expected to generate $84.9 million for counties and local taxing districts, and timber sales from Common School Fund lands will generate $22.6 million in revenue during the 2005-07 biennium. Management costs on the Common School Fund lands are proposed in the budget at slightly over $12.2 million for 2005-07.

Budget Environment

The level of forest management on county trust lands is dependent upon timber receipts. The Department must be careful to meet the statutory and constitutional fiduciary responsibilities through timber harvests while protecting and making available the other forest values. The program will plant 20,860 acres with appropriate tree species and genetic sources of tree seed; fertilize and prune 8,950 acres; conduct regeneration harvest on 15,856 acres; pre-commercially thin 6,100 acres; and commercially thin or partially harvest 21,520 acres during the 2005-07 biennium. The agency projects a relatively stable timber market during the 2005-07 biennium.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $62.2 million Other Funds is $3.8 million or a 6.5% increase over the 2003-05 legislatively approved expenditure level and $1.8 million or 2.9% less than the Governor's recommended budget. The adopted budget includes the addition of $0.7 million Other Funds and 7 positions (4.42 FTE), including one Principal Executive Manager D; one Office Manager 2; three Natural Resource Specialist 1's; and two student professional Forest Workers to operate the Tillamook State Forest Interpretive Center scheduled to open in 2005. Three of the positions will be funded from revenues in the Forest Development Fund or from the sales of forest products on state forest lands. Four positions will be funded with Lottery Funds from the Oregon Parks and Recreation Department.

The adopted budget also provides $2.4 million Other Funds and 21 limited duration positions (21.98 FTE), including one Natural Resource Specialist 4; two Natural Resource Specialist 3's; two Forest Unit Supervisor 2's; one Information Systems Specialist 3; seven Natural Resource Specialist 2's; six Natural Resource Specialist 1's; one Forest Inmate Crew Coordinator; one Forest Management Technician; and one Laborer 2 to implement integrated forest management plans for all state forests in periods of average timber markets and revenue flow. The staff and associated services and supplies will be funded from projected revenues to the Forest Development Fund and from the sale of forest products on state forest lands.

The Legislature approved a package to reduce $1,107 Other Funds and 8 positions, and added 0.43 FTE to address a budget note requiring the Department to review its positions to determine which positions could be combined by adding months or eliminated to reduce the number of unnecessary positions and full-time-equivalents in the agency. These positions represent the State Forest Program's share of that consolidation.

The adopted budget reduces the expenditure limitation available for the management of Common School Fund lands by $1 million. No positions are affected. Services and supplies categories will be reduced. The Legislature approved technical adjustments reducing $0.8 million Other Funds reflecting reductions in the Attorney General rate, Secretary of State audit charges, Department of Administrative Services assessments, PERS rates, and additional vacancy savings.

The remaining changes in the program budget are adjustments to reflect applying standard inflation rates for other payroll expenses, scheduled merit increases, services and supplies, and state government service charge assessments for a net increase of $2.7 million Other Funds.

ODF – Forest Practices

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	7,625,533	3,995,332	0	0
Other Funds	5,714,855	10,176,214	0	0
Federal Funds	94,288	296,503	0	0
Total Funds	**$13,434,676**	**$14,468,049**	**$0**	**$0**
Positions	102	89	0	0
FTE	106.62	90.31	0.00	0.00

ODF – Forestry Assistance

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	1,524,316	830,166	0	0
Other Funds	1,749,360	3,358,184	0	0
Federal Funds	3,134,433	5,095,487	0	0
Total Funds	**$6,408,109**	**$9,283,837**	**$0**	**$0**
Positions	47	37	0	0
FTE	41.67	32.01	0.00	0.00

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget combines the Forest Practices Program with the Forestry Assistance Program into a consolidated Private and Community Forests Program beginning with the 2005-07 biennium.

ODF – Private and Community Forests

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	0	0	7,885,410	9,133,400
Other Funds	0	0	11,262,485	8,850,514
Federal Funds	0	0	6,175,951	7,411,356
Total Funds	**$0**	**$0**	**$25,323,846**	**$25,395,270**
Positions	0	0	120	108
FTE	0.00	0.00	117.83	113.67

Program Description

The Private and Community Forests program is an integrated program that:

- Promotes forest stewardship through the Oregon Forest Practices Act and rules, and by providing training, technical and financial assistance to forest landowners and operators.
- Promotes healthy forests through monitoring insect and disease conditions, applying integrated pest management strategies, controlling/eradicating invasive species and assisting landowners conduct stand management prescriptions through technical and financial assistance.
- Promotes increased timber production by family forest landowners through information, incentives, services, and assistance.
- Promotes a stable regulatory and investment climate by developing and promoting science-based best management practices and encouraging federal, state and local government policies that are supportive of the Board's mission, that avoid unintended adverse consequences, and that improve efficiency of program delivery.
- Promotes the implementation of the voluntary measures under the Oregon Plan for Salmon and Watersheds through technical, cost-share and administrative assistance.
- Conducts monitoring to ensure rules and programs are effective and efficient.

The Forest Practices Act, adopted in 1971, provides the Board of Forestry authority to regulate forest practices, including timber harvesting and reforestation on 12.3 million acres of private, state, county and some federal owned forest lands. The statutory and program goals are to ensure the continuous growing and harvesting of forest tree species is maintained as the leading use of privately owned forestland while ensuring forest practices are consistent with the sound management of soil, air, water, fish, and wildlife resources. The Forest Practices Act has been revised in nearly every legislative session since 1979, including major amendments in 1987, and 1991 that changed the requirements governing clear-cut size, green tree and downed wood retention, reforestation, and scenic highway corridors. As a result of the statutory changes, the Board adopted a number of rule changes from 1994 to 1996 related to water protection, chemical use and reforestation. Senate Bill 12 (1999) provided additional direction and authority for the Board to adopt rules to manage public safety risks from rapidly moving landslides. HB 3264 (2003) removed authority for the Board of Forestry and State Forester to require prior approvals and approve written plans and directed rulemaking for conformity. Staffing includes 56 stewardship foresters across the state to provide training, technical and cost-share assistance, review operating plans and inspect operations for compliance. The Forest Practices program is also responsible for the

Smoke Management/Fuels program, which regulates prescribed burning on all forestlands in Oregon in compliance with federal and state air quality standards.

Oregon has approximately 166,000 family forest landowners and community forest managers owning a combined 4.5 million acres. Nearly 52,000 of these landowners own and manage at least 10 acres of forestlands. This acreage includes critical habitat for salmon and other fish and wildlife species and has the substantial potential for increased timber productivity. Thus, the program provides family landowners with the information, incentives, services, and assistance needed to encourage voluntary stewardship and investment in their forestland. The technical and financial assistance to family landowners includes multiple resource management, forest property tax policies and options, federal cost-share programs, the Forest Resource Trust, and insect and disease prevention.

Private and Community Forests Program also includes two additional work units:

- ***Insect and Disease Management*** surveys, evaluates, and monitors forest insects and diseases, and provides information, education, and advice on integrated pest management practices for non-federal forest landowners.
- ***Urban and Community Forestry*** provides leadership and technical services to support the stewardship of the state's urban and community forests.

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. The Smoke Management/Fuels program is funded by registration and burning fees collected from landowners (87%), contractual payments from other government agencies (12%), and landowner assessments (1%). Oregon Watershed Enhancement Board grants provide partial funding for some cooperative research projects. Pacific Coast Salmon Restoration funds were used in to restore General Fund reductions for the 2003-2005 biennium.

The Forestry Assistance subprogram receives support from a number of revenue sources. General Fund is provided for insect and disease activities, including integrated pest management services, and is used to conduct annual aerial surveys, provide forest pest data and maps, and deliver technical assistance for forest landowners. Federal Funds are provided by the U.S. Forest Service under a consolidated grant program for forest resource management, forest stewardship, and forest insect and diseases management. The federal funding for these programs requires a 50% state match. Federal funding is also provided for Urban and Community Forestry and Forest Health monitoring activities. Other Funds revenues are phased out in the 2003-2005 biennium from Privilege Tax from the western and eastern Oregon Timber Tax Accounts. These funds were used to inspect under-stocked designated forestland, administer the 50% reforestation tax credit program and provide technical assistance to family forestland owners in eastern Oregon. The program also receives private donations, including the Forest Resource Trust funds and Urban and Community Forest donations for specific projects. Pacific Coast Salmon Restoration funds were also used to restore General Fund for the 2003-2005 biennium.

Budget Environment

Forest Practices workload has increased as harvesting on private lands accelerated due to improved timber and lumber markets. For the 2005-07 biennium, the Department anticipates processing over 19,000 notifications of operations per year (intent to conduct a forest operation), plus reviewing and commenting on 3,000 written plans describing operating methods on sensitive sites, and conducting more than 17,000 on-site inspections for pre-operation planning, active operations, and reforestation auditing. Other factors affecting the Forest Practices program include continued implementation of the Oregon Plan; implementation of rules related to landslides and public safety on forestland, harvesting practices, and the use of pesticides; workload necessary to achieve reforestation and "free to grow" status; and encouraging appropriate responses by the federal government on actions and policies related to endangered species and clean water programs.

Forest health remains a critical issue for the state's economy. Sudden Oak Death (an invasive species) has infested portions of southwest Oregon. Failure to effectively manage this problem will have major economic implications for Oregon's forest products industry. About 8.2 million acres of Oregon's forests have been affected by drought, insects, disease, and fire. The state loses about 1.6 billion board feet of timber every year to insects and disease. Forest managers are concerned about declines in the coastal Douglas-fir forests due to 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 non-industrial private forest land owners regarding the potential listing of threatened and endangered species. Approximately 783,000 acres of family forestlands are classified as under-producing or without a manageable stand of trees.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget is $25.4 million total funds and 117.83 FTE. The adopted budget is $1.6 million, or 6.9%, more than the 2003-05 legislatively approved combined budgets for Forest Practices and Forestry Assistance. The adopted budget for the new consolidated program includes $4.8 million General Fund, $13.5 million Other Funds and $5.4 million Federal Funds.

The Governor's recommended budget reversed a fund shift of federal Pacific Coastal Salmon Recovery Funds (PCSRF) utilized to backfill General Fund during the 2003-05 biennium for cumulative effects monitoring activities, reducing Other Funds by $5.2 million and increasing General Fund by $5.2 million. The program was reduced by $2.7 million General Fund and 9.06 FTE, with $1.7 million Other Funds restored utilizing PCSRF to address statewide priorities. The Legislature shifted $2.1 million Other Funds from PCSRF to General Fund determining that the use of PCSRF is better utilized in other Natural Resource agency budgets. The result is a $0.65 million General Fund and $0.45 million Other Funds program reduction. The Legislature reduced the landowner technical assistance program by $0.44 million General Fund, $0.23 million Other Funds, and 4.06 FTE to address the 2005-07 biennium General Fund revenue shortfall. Services and supplies was reduced $30,000 total funds to reflect the Oregon "Smart Buy" initiative that created savings among agencies by leveraging the state's purchasing power. An increase of $90,000 General Fund and $0.1 million Other Funds corrects budget errors which eliminated funding for Attorney General expenses and services and supplies. A reduction of $0.8 million Other Funds to balance program expenses to available Other Fund revenue levels was also approved. The Legislature did not approve a proposal to increase Federal Funds by $0.5 million for Federal Watershed Grants since federal funding is not currently available.

Four program enhancements are approved in the budget.

- An increase of $0.19 million Other Funds and $0.12 million Federal Funds to make permanent an increase in the Smoke Management fee which was raised during the 2003-05 biennium.
- An increase of $0.4 million Other Funds to maintain an ability to continue to administer the Reforestation Tax Credit Program was approved along with authorization in Senate Bill 1101 to establish a fee to support 50% of the program. The balance of the program is financed through timber harvest taxes. The program supports landowner reforestation efforts and administers certification necessary to support the tax credit. Program staff and related supplies were funded by the Western Oregon Timber Tax which sunsets June 30, 2005. The package adds months to 15 existing positions totaling 2.34 FTE to continue the program.
- An increase of $0.32 million Other Funds was approved to establish an expenditure limitation for assistance provided to private and public entities that are reimbursed by the recipient of the services under a cooperative agreement.
- An increase of $2 million Federal Funds was approved to establish a Federal Forest Legacy Program in Oregon. The Legislature approved Senate Bill 496 which authorizes the Department to apply for and expend federal grants from the U.S. Department of Agriculture Forest Service for acquiring the development rights of private forestland in urban growth boundaries.

The Legislature also approved a package to reduce $1,600 Other Funds and $720 Federal Funds, while adding 3 positions and 2.24 FTE to address a budget note requiring the Department to review its positions to determine which positions could be combined by adding months or eliminated to reduce the number of unnecessary positions and full-time-equivalents in the agency. These positions represent the Private and Community Forests Program's share of that consolidation.

The Legislature also approved technical adjustments reducing $0.5 million total funds reflecting reductions in the Attorney General rate, Secretary of State audit charges, Department of Administrative Services assessments, PERS rates, and additional vacancy savings.

The remaining increases in the program budget are adjustments to reflect applying standard inflation rates for other payroll expenses, scheduled merit increases, services and supplies, and state government service charge assessments for a net increase of $1.5 million total funds.

ODF – Agency Administration

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	6,459,687	7,119,519	7,592,282	7,235,028
Other Funds	9,054,673	8,500,010	8,805,424	8,509,456
Federal Funds	47,907	688,986	702,139	699,823
Total Funds	**$15,562,267**	**$16,308,515**	**$17,099,845**	**$16,444,307**
Positions	87	79	80	79
FTE	84.49	81.55	78.76	78.29

Program Description

Agency Administration includes the State Forester's office, Board of Forestry support, and traditional support functions such as finance, property management, personnel, computer services, and public information. Agency Administration is also responsible for policy development, forest resource analysis and planning, administration of the log brand inspection program, land use planning coordination, and facilities maintenance.

Revenue Sources and Relationships

Agency Administration is funded by the General Fund, Other Funds, and Federal Funds assessed against agency programs on a pro-rated basis by funding source, such as the State Forests Account and Forest Products Harvest Tax. The program also receives a small amount of revenue from fees charged for services and map sales.

Budget Environment

Agency Administration performs roles in interagency communications with federal government agencies, the Governor's office, and other state agencies involved in natural resource activities. The program has experienced increasing information needs to address public involvement in the Oregon Plan and the development of state forest management plans.

The state in is the process of consolidating the data centers of twelve state agencies. The Department of Forestry is one of the twelve agencies affected. The Governor's budget does not reflect the impact of this consolidation as detailed implementation plans are still being developed. An adjustment to the Department's budget will be necessary once the implementation plan has been finalized.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $16.4 million for the Agency Administration Program is $0.14 million or 0.8% total funds more than the 2003-05 legislatively approved expenditure level and $0.65 million less than the Governor's recommended budget. The adopted budget reverses a fund shift of federal Pacific Coastal Salmon Recovery Funds (PCSRF) utilized to backfill General Fund during the 2003-05 biennium for cumulative effects monitoring activities reducing Other Funds by $0.1 million and increasing General Fund by $0.1 million. A program reduction of $0.48 million General Fund, $0.4 million Other Funds, and 3.35 FTE was made to address statewide priorities. The impact of this reduction increases workloads for executive staff, reduces analytical, communication, and technology capabilities. An additional $30,000 total funds was reduced in services and supplies to reflect the Oregon "Smart Buy" initiative that created savings among agencies by leveraging the state's purchasing power. The Legislature further reduced services and supplies by 3% totaling $80,000 General Fund to address statewide priorities. A technical adjustment adds $0.11 million Other Funds to transfer services and supplies funds from Facilities Maintenance and Development to accommodate a change in organizational responsibilities.

The Legislature also approved a package to add 0.03 FTE to address a budget note requiring the Department to review its positions to determine which positions could be combined by adding months or eliminated to reduce the number of unnecessary positions and full-time-equivalents in the agency. This change represents the Agency Administration Program's share of that consolidation. In addition, the Legislature approved the reduction of one position and 0.50 FTE for the consolidation of data centers and networking infrastructure to the State Data Center.

The Legislature also approved technical adjustments reducing $0.27 million General Fund, $0.3 million Other Funds, and $2, 316 Federal Funds reflecting reductions in the Attorney General rate, Secretary of State audit charges, Department of Administrative Services assessments, PERS rates, and additional vacancy savings.

The remaining changes in the program budget are adjustments to reflect applying standard inflation rates for other payroll expenses, scheduled merit increases, services and supplies, and state government service charge assessments for a net increase of $0.87 million General Fund, $0.7 million Other Funds, and $20,000 Federal Funds.

ODF – Facilities Maintenance and Development Program

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	0	3,307,692	3,201,716	3,200,396
Total Funds	**$0**	**$3,307,692**	**$3,201,716**	**$3,200,396**
Positions	0	1	1	1
FTE	0.00	1.00	1.00	1.00

Program Description

The Facilities Maintenance and Development program provides oversight and coordinates preventive maintenance, repairs, improvement, planning and construction coordination, and management for the agency's 390 structures throughout the state. The program unit is charged with developing a statewide facilities rental pool program to charge other program and field operations the cost of constructing, operating, maintaining, repairing, replacing, equipping, improving, acquiring, and disposing of structures.

Revenue Sources and Relationships

Facilities Maintenance and Development is currently funded by utilizing facility operation and maintenance budgets of each program. The program was established to assist in the operations, maintenance, and construction of ODF facilities by providing an additional and relatively stable source of funding to allow more effective management of ODF properties.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget is $3.2 million Other Funds and one position (1.00 FTE). This is $0.1 million less than the 2003-05 legislatively approved level and $1,320 less than the Governor's recommended budget. The adopted budget reflects an increase of $90,000 for adjustments to reflect applying standard inflation rates for other payroll expenses, scheduled merit increases, services and supplies, and state government service charge assessments. The adopted budget also reflects a transfer of $0.1 million from services and supplies to the Administration Program to reflect a shift in organizational responsibilities and a reduction of $90,000 due to reductions in other program areas resulting in a decrease in assessments. The Legislature also reduced the budget by $1,320 to reflect reductions in the PERS rate, Attorney General hourly rate, and Department of Administrative Services assessments.

ODF – Forest Nursery Program

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	3,740,779	4,382,722	4,338,222	4,351,074
Total Funds	**$3,740,779**	**$4,382,722**	**$4,338,222**	**$4,351,074**
Positions	187	83	85	84
FTE	57.25	20.55	20.61	20.61

Program Description

The Department's D.L. Phipps Nursery provides quality, genetically adapted tree seedlings to forest landowners for public and private reforestation. Currently, about 50% of the nursery's annual production goes to non-industrial woodland owners, 28% to the forest products industry, 12% to state forests, and 10% to the Bureau of Land Management. The agency has operated the nursery for over 74 years.

Revenue Sources and Relationships

Expenditures for the Forest Nursery program are financed 100% from sales of seedlings and service charges. Fees charged by the nursery change depending upon costs.

Budget Environment

The Forest Nursery program operates on a business model and adjusts expenditure levels to available revenue. The nursery must maintain an adequate supply of clean water for irrigation of seed crops and is subject to the requirements of the Umpqua Watershed Agricultural Water Quality Management Plan.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $4.3 million Other Funds is $30,000 less than the 2003-05 legislatively approved program and $10,000 more than the Governor's recommended budget. A reduction of $0.18 million is made to reflect the biennialized impact of the Department's shift of resources to other program areas approved by the Emergency Board in April 2004; an increase of $0.14 million reflects adjustments to reflect applying standard inflation rates for other payroll expenses, vacancy savings, scheduled merit increases, services and supplies, and state government service charge assessments; and a reduction of $4,038 reflects savings resulting from the Oregon "Smart Buy" initiative that created cost reductions among agencies by leveraging the state's purchasing power. The Legislature reduced the budget by $10,000 reflecting reductions in the PERS rate, Attorney General rate, and Department of Administrative Services assessments.

ODF – Equipment Pool Program

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	9,439,557	13,027,227	13,035,918	12,955,827
Total Funds	**$9,439,557**	**$13,027,227**	**$13,035,918**	**$12,955,827**
Positions	31	32	29	29
FTE	30.96	29.87	29.74	29.74

Program Description

The Equipment Pool program operates a motor pool and a radio pool. The motor pool manages 750 pieces of equipment including vehicles, airplanes, pickups, trailers, and heavy equipment. The radio pool supports and maintains 3,500 pieces of major communication equipment such as repeaters, base stations, mobiles, and portables. The radio pool provides the equipment, engineering, maintenance, and support for the Department's co-operators (3 fire protection associations); Department of Fish and Wildlife; Oregon Parks and Recreation Department; and, at times, other agencies, such as the Departments of Agriculture, Water Resources, Justice, Corrections, and the Oregon State Fair.

Revenue Sources and Relationships

Expenditures for the Equipment Pool program are financed 100% from fees charged to equipment pool users.

Budget Environment

Motor pool operations are affected by changes in fuel prices. The radio pool is affected by changing telecommunications technology (narrowband and digital), Homeland Security, and the States Interoperability Executive Committee, which is requiring new strategies to provide the most efficient and effective exchange of information.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $13 million Other Funds is $70,000, or 0.5%, less than the 2003-05 legislatively approved expenditure level and $80,000 less than the Governor's recommended budget. The adopted budget reflects applying standard inflation rates for other payroll expenses, scheduled merit increases, and services and supplies, increasing the budget by $0.4 million, and a decrease of $0.4 million in state government service charge assessments. An additional $6,226 total funds was reduced in services and supplies to reflect the Oregon "Smart Buy" initiative that created savings among agencies by leveraging the state's purchasing power.

The Legislature approved a reduction of $80,000, reflecting reductions in the PERS rate, vacancy savings, the Attorney General rate, and Department of Administrative Services assessments.

ODF – Debt Service

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	1,822,867	2,041,933	2,038,541	2,038,541
Other Funds	1,112,314	1,243,555	1,241,492	1,241,492
Total Funds	**$2,935,181**	**$3,285,488**	**$3,280,033**	**$3,280,033**

Program Description

Debt service payments are required to pay off Certificates of Participation (COPs) issued for the construction of the Salem Headquarters Office Complex. COPs were issued in 1997-99 in the amount $6.6 million, in 1999-2001 in the amount of $11 million, and in 2001-03 in the amount of $1 million.

Revenue Sources and Relationships

Revenue to pay debt service comes from the General Fund (63%) and Other Funds (37%). The associated Other Funds revenue is based on a square footage assessment to the Equipment Pool from the Radio and Motor Pool Funds; State Owned Forest program from the Forest Development and Common School Lands Funds; Forest Practices program from the forest products Harvest Tax; and the Nursery Program from product sales.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget for debt service is $3.3 million total funds. Debt service is adjusted to reflect payments scheduled for the 2005-07 biennium on debt previously authorized by the Legislature.

ODF – Capital Improvements

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	1,950,211	3,791,463	3,882,458	3,882,458
Total Funds	**$1,950,211**	**$3,791,463**	**$3,882,458**	**$3,882,458**

Program Description

The Department owns and maintains 390 structures statewide. Examples include mountaintop lookout facilities, fuel facilities, remote forest fire guard stations, district and unit offices, seed and seedling processing facilities, and automotive maintenance shops. Many buildings need improvement or major construction because of age, type of construction, changing building codes, and growth of the agency.

Revenue Sources and Relationships

Generally, costs are prorated among the funding sources of the programs that occupy the specific facility. In the past, General Fund was provided as the public share match money for projects funded in the Protection From Fire program.

Budget Environment

Many of the Department's structures were built in the 1930s, 40s, and 50s, and are in need of renovation to prevent further deterioration and to meet new standards such as the Americans with Disabilities Act and energy conservation requirements. An architectural feasibility study of the Salem Headquarters site was completed during the 1993-95 biennium. 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 2005-07 legislatively adopted budget of $3.9 million Other Funds for capital improvement projects represents an increase of 2.4% from 2003-05 legislatively approved level. Projects covered within the adopted budget include various park improvements, property exchanges, storage expansions, fuel station relocations, foundation upgrades, office additions, and warehouse construction. The increase reflects applying standard inflation rates for services and supplies.

ODF – Capital Construction

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	21,500,000	0	0	0
Federal Funds	490,000	0	0	0
Total Funds	**$21,990,000**	**$0**	**$0**	**$0**

Program Description

The Department's Long-Range Facilities Management Plan coupled with site master plans provides details on major construction needs over the coming ten-year period. Site master plans and feasibility studies are contracted for by the Department to determine major construction needs to meet workload projections at each site. The Department works with the Capital Projects Advisory Board for review of the agency's major construction, space, and maintenance needs.

Revenue Sources and Relationships

Capital construction projects are funded through COPs and Other Funds generated from the State Forest Management program.

Legislatively Adopted Budget

No expenditures are approved for capital construction in the 2005-07 biennium.

Department of Geology and Mineral Industries (DOGAMI) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	2,875,283	2,887,346	2,948,178	3,377,365
Other Funds	2,986,196	2,842,813	3,141,881	3,148,288
Federal Funds	974,236	1,963,208	2,159,064	2,146,476
Other Funds (NL)	3,000	100,000	100,000	0
Total Funds	**$6,838,715**	**$7,793,367**	**$8,349,123**	**$8,672,129**
Positions	37	36	37	40
FTE	34.66	34.33	35.20	36.70

Agency Overview

The Department of Geology and Mineral Industries (DOGAMI) is the state's primary source of geologic information. DOGAMI gathers data and maps the state's geology including geologic minerals and hazards. The Department attempts to reduce the risks of damage from earthquakes, tsunamis, floods, landslides, and coastal hazards. The agency is also responsible for administering surface mining regulations. Department headquarters are located in Portland, with the Mined Land Reclamation unit sited in Albany. Three small Geologic Survey offices are located in Baker City, Grants Pass, and Newport. Employees of the Department are primarily geologists and other geotechnical experts. Department revenue comes from multiple sources including the General Fund, grants from federal and other state agencies, and fees.

DOGAMI – Geologic Survey

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	2,875,283	2,887,346	2,948,178	3,377,365
Other Funds	1,428,909	1,419,765	1,654,962	1,633,221
Federal Funds	787,590	1,679,993	1,830,691	1,819,011
Total Funds	**$5,091,782**	**$5,987,104**	**$6,433,831**	**$6,829,597**
Positions	27	26	27	30
FTE	25.17	24.84	25.71	27.21

Program Description

The Geologic Survey unit gathers geologic data and maps mineral resources and hazards. Earthquake preparedness and tsunami hazard mapping receive a high priority. Geographic areas needing tsunami hazard mapping, ground response studies, and earthquake risk mapping have been prioritized by the agency. The information is shared with state and local policy-makers for land use planning, facility siting, building code and zoning changes, and emergency planning.

The Geologic Survey program provides publication and library functions, administrative functions such as budgeting, accounting, and personnel services, and operates the Nature of the Northwest Information Center. The Nature of the Northwest Information Center provides public access to a variety of maps, brochures, books, and other materials. The Center is largely supported by sales revenue and a cooperative agreement with the U.S. Forest Service.

Revenue Sources and Relationships

The U.S. Geologic Survey, U.S. Bureau of Land Management, Federal Emergency Management Agency, National Oceanic and Atmospheric Administration, and other federal bureaus provide Federal Funds on a reimbursable basis. Additional sources of Federal Funds are from the Federal Emergency Management Agency (FEMA) for mitigation inventory work and from the U.S. Geological Survey for earthquake assessments and mapping activities. Other Funds are received from charges for services on reimbursable projects.

Budget Environment

Two of the agency's major goals are to reduce losses from geologic hazards and to inventory the state's mineral and water resources. The basis for hazard mitigation planning is data collection and the development of ground response models. Funding limitations have restricted data collection and modeling functions, adversely affecting the agency's ability to provide hazard mitigation information and analysis for local communities.

Concern over coastal hazards led to the addition of positions to assist with defining hazard zones and helping coastal communities with hazard awareness, preparation, and mitigation. The agency also provides help to local governments with mapping and technical assistance needs in identifying seismic safety concerns.

Legislatively Adopted Budget

The adopted budget for the Geologic Survey program is 14.1% above the 2005-07 Governor's recommended budget. This increase is primarily caused by the addition of $500,000 General Fund in Senate Bill 2 (2005) which directs the Department to develop statewide seismic needs assessments of public school buildings, fire stations, police stations, and hospitals. DOGAMI was directed to work with the Seismic Rehabilitation Grant Committee, created in Senate Bill 3 (2005), to identify which groups of buildings should be assessed first. Once this policy choice is made, DOGAMI is to begin conducting assessments on the designated buildings. Due to the limited amount of funding being provided compared to the Department's initial estimate of $1.3 million to complete all the assessment work, the Department was directed to use existing resources to the greatest extent possible to supplement the $500,000 General Fund being made available to begin the state-wide assessment. The Department was also directed to use temporary employees and/or professional service contracts to conduct the actual assessment work to the greatest extent possible. The Department will report to the Emergency Board with a work plan and an estimate of the additional funding necessary to complete the needs assessments. The adopted budget also added one position, $102,635 Other Funds and $102,632 Federal Funds, to assist with earthquake safety issues. This position would be funded through grants, possibly from FEMA, and contracts for completion of hazard mitigation inventories. The adopted budget was reduced by $62,187 General Fund in services and supplies to better reflect past expenditure patterns and the 3% reduction all budgets were required to take.

DOGAMI – Mined Land Reclamation

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	1,557,287	1,423,048	1,486,919	1,515,067
Federal Funds	186,646	283,215	328,373	327,465
Other Funds (NL)	3,000	100,000	100,000	0
Total Funds	**$1,746,933**	**$1,806,263**	**$1,915,292**	**$1,842,532**
Positions	10	10	10	10
FTE	9.49	9.49	9.49	9.49

Program Description

The Mined Land Reclamation program provides oversight and regulation of surface mining activities and chemical leach mines in Oregon. The program's purpose is to provide for beneficial uses of the land after the mining use has terminated. The objectives are to conserve the mineral resource and protect the environment while providing for the economic uses of the mined materials. The program has reclaimed some 5,000 acres once dedicated to mining since the program was initiated in 1972. The agency has the legal authority to perform reclamation in default situations. The Mined Land Reclamation program also regulates oil, natural gas, and geothermal exploration and extraction.

Revenue Sources and Relationships

The program is financed primarily from Other Funds derived from aggregate and mine permit fees. Federal funds from an Environmental Protection Agency grant finance Brownfields work on abandoned mined lands. Nonlimited expenditures represent potential reclamation work financed from forfeited bonds and security deposits.

Budget Environment

The Mined Land Reclamation program was administering approximately 825 active mining permits during November 2004. The program is also responsible for implementation of the federal Clean Water Act's General Stormwater Permits and the state's Water Pollution Control Facility Permits at aggregate sites under an inter-agency agreement with the Department of Environmental Quality. The program currently administers about 220 permits under federal and state water pollution laws.

The program has experienced a sharp decrease in the number of mining permits it regulates, particularly aggregate sites, created in part by the slow economic recovery, resulting in the collection of less fee revenue. This trend of inadequate revenue continues from last biennium, when insufficient revenue led to a fee increase that was intended to enable the program to fill a vacant position. However, continued lower revenue due to fewer permits has caused the agency to keep the position vacant throughout the 2003-05 biennium.

Legislatively Adopted Budget

The adopted budget for the Mined Land Reclamation program represents a 3.8% decrease from the Governor's recommended level. This decrease is largely due to the removal of all Non-Limited Other Funds that had been used in past budgets to represent expenditures from the proceeds of reclamation bonds used when mining operations default on their bonds and do not complete the reclamation work required by the Department. This was done as a part of a state-wide effort to ensure Non-limited funding is only used in budgets where absolutely necessary. The Department was instead given $50,000 Other Funds limitation for reclamation expenditures using bond proceeds, which is the average level of expenditures from this revenue in the past seven biennia. The budget also added Other Funds to fill a vacant position through a permit fee restructuring. This restructuring includes a per ton fee for the actual tonnage extracted per mining operation. The net effect of this change in the way fees are assessed is estimated to be an increase of $49,758 Other Funds.

Department of Land Conservation and Development (DLCD) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	9,024,454	9,122,690	10,403,607	11,539,656
Other Funds	1,456,897	873,425	905,290	897,056
Federal Funds	3,974,216	5,684,425	6,530,552	5,735,131
Total Funds	**$14,455,567**	**$15,680,540**	**$17,839,449**	**$18,171,843**
Positions	64	58	65	71
FTE	60.81	52.47	61.96	66.96

Agency Overview

The Department of Land Conservation and Development (DLCD) is the administrative arm of the Land Conservation and Development Commission (LCDC), whose seven members are appointed by the Governor and confirmed by the Senate. DLCD staff assist LCDC in adopting state land use goals, ensuring compliance of local land use plans with the goals, coordinating state and local planning, and managing the coastal zone program. Oregon's land use planning system is based on a set of 19 statewide goals that express the state's policies on land use and related topics such as citizen involvement, housing, and natural resources.

LCDC, assisted by DLCD staff, carries out state planning responsibilities through acknowledgment of local plans, plan amendment review, and periodic review. State law requires each of Oregon's cities and counties to have a comprehensive plan as well as the zoning and ordinances necessary to implement the plan. When LCDC officially approves the local government plan, the plan is "acknowledged." After acknowledgment, local plans can be changed through plan amendments, which are small, unscheduled changes, or through periodic review. Periodic review is a broad evaluation of the entire local plan and occurs infrequently, such as every five to fifteen years. This review can lead to extensive modification of a plan or to minor adjustments as a way of accommodating changing conditions in the area.

The goals of the agency include protection of farm and forest lands and other natural resources; the fostering of livable, sustainable development in urban and rural communities; conservation of coastal and ocean resources; a clear and predictable land use system; and regional collaboration and coordinated local decision-making. In addition to a main office in Salem, the agency maintains field offices in Bend, Central Point, Eugene, Portland, and Waldport. DLCD implements the state land use planning laws and assists local governments through three major programs: Planning (formerly Operations), Grants, and Landowner Notification.

DLCD – Planning Program

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	6,552,618	6,744,337	8,024,097	9,111,588
Other Funds	1,456,897	873,425	905,290	897,056
Federal Funds	2,875,215	3,950,145	4,754,650	4,162,131
Total Funds	**$10,884,730**	**$11,567,907**	**$13,684,037**	**$14,170,775**
Positions	63	57	64	70
FTE	59.81	51.95	61.44	66.44

Program Description

This program includes the *Office of the Director*, the *Operations Services Division*, the *Community Services Division*, the *Planning Services Division*, the *Ocean and Coastal Services Division*, and the *Measure 37 Claims Division*. The *Office of the Director* oversees day-to-day operations and agency policy. The *Operation Services Division* provides financial, personnel, and information systems services to the agency.

The *Community Services Division* assists local governments in the implementation of the statewide land use program through technical assistance, administration of grants, periodic review of local plans and land use regulations, and plan amendment review. Regional representatives in the agency's field offices are part of this division and work directly with local governments' elected officials and planners. Key issues for urban areas include affordable housing, urban growth boundaries, transportation planning, public facilities and services, and industrial land. Key issues for rural areas include conservation of farm and forestland, flooding and natural hazards, rural and community development, and protection of natural resources.

The *Planning Services Division* provides technical assistance and policy consultation services in specific planning areas such as economic development, urban growth boundary expansion, farm and forest protection, natural resource management, mineral and aggregate resources, and floodplain management. Services are provided to, among others, the agency's regional representatives in the *Community Services Division* and, in some cases, directly to Oregon communities. This division also includes the agency's Economic Development Planning Team, which is a cross-divisional, intra-agency group of employees that works with other staff and agencies to implement HB 2011 (2003). This bill created the Economic Revitalization Team in the Governor's Office and directs various state agencies, including the Department, to participate in and support the development of an inventory of up to 25 prioritized sites for economic development. The bill also requires the Department to assist local governments in identifying potential sites and amending plans, take final action on certain amendments to comprehensive plans within 180 days of their submission, and focus on issues related to economic growth.

The *Planning Services Division* also includes the Transportation and Growth Management (TGM) Program and the Natural Hazards and Floodplains Program. The TGM Program is a joint effort with the Oregon Department of Transportation (ODOT). This program focuses on helping communities manage urban growth, planning an efficient transportation network, and protecting the function of state highway facilities. Staff provide technical assistance and manage grants to special districts, cities, and counties. Federal funding received through ODOT is this program's primary revenue source. The Natural Hazards and Floodplains Program includes helping flood-prone communities maintain eligibility for participation in the National Flood Insurance Program. Federal funding from the Federal Emergency Management Agency (FEMA) supports this program.

The *Ocean and Coastal Services Division* oversees the implementation of statewide planning goals, with an emphasis on the coastal goals, by local jurisdictions and state agencies in the coastal zone. This division contains two programs: the federally approved Oregon Ocean and Coastal Management Program (OCMP) and the Oregon Ocean Resources Management Program. Division staff provide services such as periodic review, plan amendment review, technical assistance, administration of coastal grants, coordination of state and federal programs in the coastal zone, and support to the Ocean Policy Advisory Council. Key issues for the coastal zone include public access to the ocean, estuaries, and other waters; development on dunes, beaches, and in estuaries; protection of ocean resources; management of coastal hazards and non-point pollution; and natural resource protection, including salmon and steelhead habitat. The OCMP is funded primarily with federal funds under the Coastal Zone Management Act (CZMA).

The Department recently established the *Measure 37 Claims Division* to process demands for compensation made under the provisions of the ballot measure, which was passed by voters in November 2004 and became effective as of December 2, 2004. The measure requires governments to pay property owners or forgo enforcement (either by waiver or modification) when certain land use restrictions reduce owners' property values. Compensation is due if the regulation in question remains in force 180 days after an owner makes written demand for compensation. After that time, the owner may file an action for compensation in the circuit court in the county wherein the property is located.

Revenue Sources and Relationships

Until this biennium, about 60% of the Planning Program had been funded with General Fund. General Fund support for the program is now 64%. Over the last several biennia, federal support has ranged from 25% to 35% of the program, with federal revenues supporting 29% of the program in the 2005-07 legislatively adopted budget. Direct federal funding is primarily from two agencies: the U.S. Department of Commerce's National Oceanic and Atmospheric Administration (NOAA) and FEMA.

NOAA funding under the Coastal Zone Management Act historically has provided between 20% and 30% of the overall costs of the state's land use program. DLCD activities affecting coastal communities are eligible for federal funding since the state's land use planning program represents the core of the federally approved Oregon Ocean and Coastal Management Program. DLCD is required to provide 100% matching funds. The agency expects CZMA resources of $3.5 million for the Planning Program in 2005-07, about the same level as in 2003-05.

FEMA funds, which are used to operate the Floodplain Management Program, require a 25% state match and are restricted to use in floodplain management activities. Revenues from this source are expected to be $0.5 million in 2005-07.

Other Funds revenue sources are primarily federal Transportation Equity Act for the 21st Century (TEA-21) funds from ODOT for support of the TGM Program. DLCD projects a transfer from ODOT of about $0.7 million in 2005-07, approximately the same level as 2003-05. Funding has decreased by about 50% from 2001-03 levels due to policy and budget decisions within ODOT.

In 2001-03, DLCD received a small amount of Other Funds from the Department of Geology and Mineral Industries (DOGAMI) to support part of a position that assists local governments and others on mineral and aggregate issues. Funding from DOGAMI for this position did not continue beyond 2001-03. DLCD also receives small amounts of Other Funds revenue from the sale of publications, subscriptions to plan amendment and periodic review notices, and duplicating services.

Budget Environment

Continued population growth and the resulting pressures on transportation systems, land management, and development increase DLCD's workload. Growth presents challenges to coastal development, urban growth boundary expansion, development of agricultural and rural lands, preservation of natural resources, and maintenance and development of adequate infrastructure.

The agency has faced significant funding challenges over the past several years. Previously, certain positions were budgeted with federal funds that did not exist and the agency used savings in its General Fund budget to support these positions. With the 2001-03 statewide General Fund shortfall and resulting budget reductions, this practice no longer could be sustained. In addition, the 2001 Legislature funded the mineral/aggregate specialist position with General Fund for the first half of the 2001-03 biennium, and ODOT and DOGAMI jointly provided funding to continue the position for the second half of the biennium, but DOGAMI did not provide support beyond 2001-03 as noted earlier. These funding issues, in conjunction with the reduced level of TEA-21 funds from ODOT in 2003-05, created a significant challenge for the agency to continue services without some other funding source. In addition, DLCD is under a federal mandate to participate in non-point source water pollution planning with the Department of Environmental Quality (DEQ). Failure to meet the standards and timelines required by the program could lead to a 30% loss of federal CZMA funds for DLCD and water quality funds for DEQ.

In light of these funding issues, the 2003 Legislature approved a reorganization that realigned the agency's organizational structure with available funding sources and agency needs. This included transferring 4 positions and funding back to ODOT for TGM activities, using General Fund no longer needed as match to the TGM Program to establish a Community Development Specialist position, and partially restoring the mineral/aggregate specialist position with ODOT funds. In addition, the Legislature approved a work plan for the agency, covering areas of concern such as fiscal management, customer service, streamlined processes, and workload prioritization. As directed by the 2003 Legislature, the agency reported twice to the 2003-05 Emergency Board on DLCD's success in implementing the plan.

The latest fiscal challenge comes from Ballot Measure 37, which has had a significant effect on the agency. First, the Governor appointed the director of DLCD to coordinate the state's response to Measure 37. In addition, the state has received over 1,000 claims for compensation and approximately 800 of those have been referred to DLCD as the lead agency. Currently, any DLCD staff person whose activities are not restricted by a particular funding source is involved to some degree in processing Measure 37 claims.

Finally, adding to the demands on the agency has been the long-term interest from a number of stakeholder and interest groups in evaluating, streamlining, and modifying the overall 32-year-old statewide land use program. As mentioned earlier, HB 2011 (2003) directs the agency, among other things, to take final action on certain amendments to comprehensive plans within 180 days of submission and to focus resources in areas related to stimulation of economic growth. In addition, in conjunction with the appointment of five new Commission members in 2004, the Governor asked LCDC to evaluate the existing system and implement appropriate changes, focus on providing jobs and economic vitality to the state, streamline the land use process to become more customer-oriented, and help local governments solve development issues. During the 2005 session, the agency proposed legislation for a review of the existing system. In response, the Legislature passed SB 82, which establishes the Task Force on Land Use Planning, and appropriated General Fund resources for the first two phases of a comprehensive review of the statewide land use system.

Legislatively Adopted Budget

The legislatively adopted budget is a 22.5% increase over the 2003-05 legislatively approved level. General Fund support is increased by 35.1%, Other Funds expenditure limitation by 2.7%, and Federal Funds expenditure limitation by 5.4%.

The increase in General Fund support for the program is due primarily to the addition of $1.5 million for processing Measure 37 claims. This additional support, which provides funding for 9 positions (8.5 FTE), was based on the agency's receipt of 67 claims per month on average. Recent data from the agency indicates that the average has grown to approximately 120 claims per month. Thus, the agency expects that it will continue to involve existing staff as well as the new positions to ensure it meets the 180-day deadline for responding to claims. Continued use of existing staff will affect other activities of the agency.

In addition to funding for the processing of Measure 37 claims, the adopted budget:

- provides $600,000 General Fund for 2 limited duration positions (2.00 FTE), consultants, and other services and supplies for the first two phases of a comprehensive review of the state's land use system;
- includes $374,354 General Fund for 2 permanent information systems positions (2.00 FTE) and equipment to increase systems security, plan and manage information resources, improve customer service, and provide infrastructure for the comprehensive review of the land use system;
- increases Federal Funds expenditure limitation by $240,000 for 3 limited duration positions (2.5 FTE) to improve the quality of flood hazard information, using funding from the Federal Emergency Management Agency;
- reallocates $130,654 Federal Funds expenditure limitation between budget categories to pay for a permanent Information Specialist position (1.00 FTE) to continue the development and implementation of the Coastal Atlas geographic information system;
- adds $25,723 Other Funds expenditure limitation to allow for increased reimbursement by ODOT for TGM activities;
- reallocates federal CZMA funds to support a Natural Resource Specialist position entirely with federal funding, thus eliminating General Fund support for this position (a savings of $85,360 General Fund); and
- reduces the agency's mineral/aggregate position by 0.25 FTE (from 0.83 to 0.58 FTE) due to discontinuance of funding from ODOT.

The agency's budget was adjusted for revised estimates of FEMA and CZMA support; a lower PERS employer contribution rate; a reduced Attorney General hourly rate; a 3% reduction in Services and Supplies expenditure categories; and reductions in various interagency assessments.

The Legislature did not approve a policy package for a permanent deputy director position (1.00 FTE). However, it directed the agency to review its staffing and determine the organizational structure necessary to fulfill its responsibilities, especially in light of the increasing number of Measure 37 claims and the planned review of the 32-year-old statewide land use system. The Legislature acknowledged that this review might result in the establishment of a position similar to that of a deputy.

DLCD – Grants

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	2,266,944	2,103,382	2,109,445	2,153,863
Federal Funds	1,099,001	1,734,280	1,775,902	1,573,000
Total Funds	**$3,365,945**	**$3,837,662**	**$3,885,347**	**$3,726,863**

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 continued compliance with the statewide planning goals.

Grants awarded have included those for periodic review, technical assistance, planning assistance, regional problem-solving, dispute resolution, economic development, and small city and county grants. In addition, coastal communities are eligible for small-scale construction grants for public access and waterfront development as well as other types of grants. Management of this program is conducted by staff in DLCD's Planning Program. No staff positions are included in the Grants budget.

Revenue Sources and Relationships

Federal resources consist of CZMA funds provided to local coastal governments. These funds are used for planning, monitoring, and assistance as well as special projects such as salmon habitat, wetlands planning, nonpoint pollution, and public access. Prior to 2001, this funding source was relatively stable. During the 2001-03 biennium, CZMA funds for the grants to local communities doubled from an original estimate of $0.7 million to slightly over $1.4 million. This increase was due in part to legislative direction to provide more of the CZMA funds to local communities and also as a result of renewed federal funding for "306A" grants, i.e., grants for small-scale construction, restoration, and acquisition projects. The agency had been expecting $1.8 million in CZMA funds for the Grants program in 2005-07, about the same level of funding available in 2003-05. However, during the 2005 session, these estimates were lowered to $1.6 million based on updated information from NOAA.

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 100% match.

The 2001 Legislature phased out the Regional Problem-Solving Program. Funds were provided for 2001-02 only. The funding was projected to be sufficient to complete Regional Problem-Solving efforts then underway.

Reductions taken during the 2002 special legislative sessions to balance the state's General Fund budget and carried forward to the 2003-05 biennium resulted in a $0.5 million General Fund decrease for grants to local jurisdictions. The 2003 Legislature added $0.2 million General Fund in HB 2011 for economic development grants, but the level of General Fund in 2003-05 was still below 2001-03 and 1999-2001 levels (7.2% and 22.1%, respectively).

The 2003 Legislature took action to affect how the agency distributes grants. Under HB 2011, the Economic Revitalization Team is to coordinate the grant and loan activities of state agencies to help identify and prioritize up to 25 sites to be used for industrial and traded sector uses. This legislation also directs DLCD to "…[p]rovide grants to local governments in a manner that furthers the implementation of the state economic development strategy." Additionally, SB 920 (2003) establishes a permanent advisory committee to provide input to LCDC and DLCD on the allocation of the agency's General Fund for grants and technical assistance. Beginning with last biennium, the agency now convenes the Grants Advisory Committee, composed of various stakeholders, to provide guidance on policy, priorities, and administration regarding General Fund grants.

Legislatively Adopted Budget

The legislatively adopted budget is a 2.9% decrease from the 2003-05 legislatively approved level and a 4.1% decrease from the Governor's budget, with both decreases due to a reduction in Federal Funds expenditure limitation. The legislatively adopted budget reflects the decline in CZMA funding for grants.

The 2005-07 adopted budget essentially continues the 2003-05 General Fund level of support for grants.

DLCD – Landowner Notification

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	204,892	274,971	270,065	274,205
Total Funds	**$204,892**	**$274,971**	**$270,065**	**$274,205**
Positions	1	1	1	1
FTE	1.00	0.52	0.52	0.52

Program Description

Ballot Measure 56 was referred to the voters by the 1997 Legislature and approved in the November 1998 General Election, with an effective date of December 3, 1998. The measure requires cities and counties to provide individual written notice to landowners when a new or amended zoning ordinance is proposed that will limit or prohibit uses of the landowner's property. The state is required to reimburse local governments for the notification costs when the proposed ordinance changes are related to changes in state law or policy.

Revenue Sources and Relationships

This program is supported entirely with General Fund. DLCD requested and received an Emergency Fund allocation of $511,500 in January 1999 to begin the landowner notification process. The funding was provided for reimbursement of local government costs, the expenses of a position to manage the local claims, and legal assistance from the Department of Justice on interpretation of the measure's language.

Budget Environment

As future city and county zoning amendments are hard to anticipate, estimating the associated costs of the notification process and associated legal expenses is difficult. With the passage of legislation changing land use regulations, it is generally expected that increased costs for notification (subject to state reimbursement) will occur in the months following legislative sessions.

The 2001 Legislature approved a budget of $686,690 General Fund for the 2001-03 biennium, including $495,000 for reimbursement of claims. As a result of the statewide General Fund shortfall in 2001-03, this program was reduced by approximately $340,000, mostly affecting the funds available for reimbursement. As of June 30, 2002, the agency had processed 27 requests totaling $38,906 in reimbursements. Claims totaling $4,315 were denied for not meeting statutory requirements. This pattern of reimbursement requests continued for the remainder of the 2001-03 biennium, which enabled the agency to manage within the reduced budget.

The 2003 Legislature maintained this lower level of funding for the program, providing about $180,000 General Fund for reimbursement of claims. The agency has been able to manage within this level of funding since requests for reimbursements continue to be lower than originally expected.

The effect of Measure 37 on this program is unknown.

Legislatively Adopted Budget

The legislatively adopted budget continues the 2003-05 staffing level for this program and provides about $180,000 General Fund for reimbursement of claims.

Land Use Board of Appeals – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	1,193,214	1,205,116	1,290,791	1,282,198
Other Funds	44,018	60,507	67,940	64,677
Total Funds	**$1,237,232**	**$1,265,623**	**$1,358,731**	**$1,346,875**
Positions	6	6	6	6
FTE	6.00	6.00	6.00	6.00

Agency Overview

The Land Use Board of Appeals (LUBA) was established in 1979 to provide prompt, professional, and efficient resolution of land use issues and to create a consistent body of land use law. LUBA retains exclusive jurisdiction to hear appeals of land use decisions made by state agencies, local governments, and special districts. Decisions of LUBA may be appealed to the Court of Appeals and ultimately to the state Supreme Court. Private parties and public agencies – including agricultural interests, developers, environmental groups, individual property owners, and state and local governments – are able to bring issues to LUBA for review. Most appeals of local land use decisions are brought before LUBA by individual citizens with the responding party being a local government unit. LUBA only obtains jurisdiction to review local government decisions for consistency with local and state land use laws after an appeal is filed. LUBA has no ability to file an appeal and has no control over the number of cases brought forward for review.

LUBA's mission is to decide appeals quickly and consistently as well as to disseminate its opinions to create a body of land use law that allows for consistent land use decision making. Prior to the establishment of LUBA, review of local land use decisions was conducted by circuit courts, resulting in delays and inconsistent interpretations of land use law in different portions of the state.

The Board consists of three hearings referees, appointed by the Governor with Senate confirmation, who are members of the Oregon State Bar. Other staff include two support positions and one staff attorney. LUBA's offices are located in the Public Utility Commission (PUC) building. PUC provides accounting, personnel, and other administrative support to LUBA through an inter-agency agreement.

Revenue Sources and Relationships

LUBA's operational expenditures are supported primarily by the General Fund. Other Funds revenue is generated from the sales of *LUBA Reports*, which are issued to meet the agency's statutory obligation to publish its opinions. LUBA estimates it will issue five volumes to approximately 80 subscribers in 2005-07 at the current sales price of $175 per volume, thus generating revenues of $70,000. This is about a 14% increase over 2003-05. A growth of 10 is expected in the subscriber base due to several actions, including the offering of previous volumes at reduced rates.

LUBA also collects a filing fee, which is transferred to the General Fund. The filing fee was last increased by the 1997 Legislature when HB 2642 set the fee at $175. Estimated revenues from this source are $70,350 for 2003-05 and $73,500 for 2005-07.

Budget Environment

ORS 197.830(14) requires LUBA to issue final written opinions on appeals within 77 days after the date LUBA receives and settles the local government record. Certain local development efforts are stalled until a case is legally resolved. Legislative policy currently states that "…time is of the essence in reaching final decisions in matters involving land use and that those decisions be made consistently and with sound principles governing judicial review." (ORS 197.805)

Until 2001, LUBA was seriously out of compliance with the statutory deadline for issuing written opinions. There were several reasons for this. First, in the 1990s the agency experienced a steady and sustained increase in the number of annual appeals filed, which climbed from 171 in 1990 to a high of 265 in 1997. In addition, the issues involved in appeals became increasingly complex due to the sophistication of the arguments, the lack of case law on correctly interpreting acknowledged land use plans, and legislative changes to the basic state land use laws. Complicating the workload problem was a complete turnover of referees during 1995. The combination of these conditions resulted in only 58% of written opinions meeting the statutory deadline between 1995 and 2001. During this same period, LUBA also fell behind in its publications, which are required by ORS 197.830(17). LUBA's goal is to publish its opinions within three months after the issuance of the last opinion to be included in that volume of *LUBA Reports*. At various times, LUBA was more than one year behind in issuing these publications.

To help address these workload issues, the 1997 Legislature provided a permanent staff attorney to conduct legal research and to assist with the production of final opinions and orders. As a result, the agency was able to eliminate the backlog in issuing final opinions in 2001. Since then, almost all final opinions have been issued within the statutory deadline. Moreover, the addition of a limited duration publications coordinator in the 1999-2001 and 2001-03 biennia resulted in timely issuance of *LUBA Reports*. In addition to relieving referees from performing publication tasks that divert time from their primary function of writing and issuing opinions, this position assisted the referees and the staff attorney in conducting legal research, maintained the agency's website, and was responsible for final editing and citation-checking of opinions.

Management of the agency's workload also has been aided by the decline in the number of appeals from the peak in the late 1990s. Compared to the 265 appeals LUBA received in 1997, it received 202 appeals in 2001, 181 in 2002, 213 in 2003, and 223 for 2004. It expects 220 for 2005. The agency attributes the overall decline to the state's economic downturn and subsequent slow recovery. Projections for the 2005-07 biennium are anywhere from 220 to 250 cases per year, depending upon the appeals that may be generated by issues related to Ballot Measure 37.

The effect of Measure 37 on LUBA is unknown. This measure, passed by voters in November 2004, requires governments to pay property owners or forgo enforcement (either by waiver or modification) when certain land use restrictions reduce owners' property values. Passage of Measure 7, a similar property rights measure approved by voters in 2000 but ultimately ruled unconstitutional by the Oregon Supreme Court, increased appeals to LUBA by 23%. However, for a number of reasons, at this time it is difficult to know the effect of Measure 37 on LUBA's caseload or to what extent LUBA will otherwise be affected.

Because of the small size of the agency, elimination of any of its positions can result in delays in issuing written opinions and publishing *LUBA Reports*. A delay in issuing opinions briefly occurred in early 2003 due to special session reductions in 2001-03 that affected staffing levels for the agency.

In 2003, the Legislature eliminated the publications coordinator position, but this was done in recognition that the agency likely no longer had a full-time need for this function. The Legislature replaced the position and a support position with a paralegal position, which was to be allocated among administrative support, publications, and website functions. The staff attorney and board members were expected to absorb some of the duties previously performed by the publications coordinator. These staffing changes were made assuming workload would not increase significantly from the 2003-05 projections presented during the agency's 2003 budget hearings. Actual workload remained in line with projections for last biennium and the staffing arrangement worked relatively well, allowing the agency to issue opinions and publications on time as well as meet other performance measures.

For the first quarter of this biennium, the agency believes it will not meet the performance measure of issuing 90% of its opinions on time, in part due to a large number of difficult, time-consuming cases. However, it expects to recover in the second quarter.

Legislatively Adopted Budget

The legislatively adopted budget of $1.35 million is a 6.4% increase over the 2003-05 legislatively approved level and a 0.9% reduction from the Governor's recommended budget. This budget continues current operations but increases Other Funds support for the paralegal position from 25% to 35%. The adopted budget reflects reductions in the PERS employer contribution rate and interagency service charges used to develop the Governor's budget.

The adopted budget does not reflect any possible effects on the agency from the passage of Measure 37.

Department of State Lands (DSL) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	127,690	139,311	181,099	178,807
Other Funds	14,885,317	14,601,441	18,001,256	16,145,098
Federal Funds	1,950,719	2,243,166	1,865,892	2,030,733
Other Funds (NL)	48,929,584	54,714,910	36,902,450	1,602,450
Total Funds	**$65,893,310**	**$71,698,828**	**$56,950,697**	**$19,957,088**
Positions	83	88	94	91
FTE	80.75	86.26	93.50	90.68

Agency Overview

The Department of State Lands (DSL) is the administrative arm of the State Land Board. The Board, created under the Oregon Constitution, consists of the Governor, the Secretary of State, and the State Treasurer. The Board is responsible for managing the assets of the Common School Fund, which include over two million acres of state lands deeded at statehood in trust for education, escheated and forfeited property, and other lands designated by statute. In managing these assets, the Board follows the constitutional standard of "obtaining the greatest benefit for the people of the state, consistent with the conservation of… [the]…resource under sound techniques of land management." By statute, related programs, such as removal-fill and wetlands, are assigned to the Department. The agency also manages the South Slough National Estuarine Research Reserve and provides support to the Natural Heritage Advisory Council.

Effective January 1, 2004, the agency's name was changed from the Division of State Lands to the Department of State Lands as a result of SB 311 (2003).

DSL – Common School Fund Programs

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	0	110,000	151,184	149,816
Other Funds	13,211,403	12,665,232	14,708,729	13,946,328
Federal Funds	298,163	508,248	516,719	515,773
Other Funds (NL)	48,929,584	54,714,910	36,902,450	1,602,450
Total Funds	**$62,439,150**	**$67,998,390**	**$52,279,082**	**$16,214,367**
Positions	69	73	78	75
FTE	67.75	72.09	77.50	74.50

Program Description

The Common School Fund is a constitutional trust created to manage the assets derived from the common school trust lands granted to Oregon by the federal government at statehood. These lands originally comprised 6% of the new state's land for the support of schools, plus land for a state university, and all of the submerged and submersible lands under tidally-influenced and navigable waterways. Revenues from these lands and any associated mineral, timber, or other resource are dedicated to the Common School Fund. The state holds title to the mineral rights for approximately four million acres.

This program area consists of four divisions – Land Management, Wetlands and Waterways Conservation, Finance and Administration, and the Director's Office.

- ***Land Management*** (formerly ***Field Operations)*** provides services related to land ownership, property management, and environmental regulation. The division is responsible for approximately 632,000 acres of range and agricultural lands in eastern Oregon; roughly 131,000 acres of forestlands, mostly in western Oregon; 800,000 acres of submerged and submersible land under navigable rivers, lakes, estuaries, and ocean bays as well as offshore land within the territorial sea; and 695 acres of industrial, commercial, and residential lands. The agency contracts with the Oregon Department of Forestry for management of state-owned forest lands. Land Management staff issue leases, easements, rights-of-way, and licenses for use of state-owned uplands and waterways and they administer about 400 waterway leases for log raft storage, marinas, houseboat and barge moorage, and various commercial operations. This division also provides geographic information systems services for the agency.

- ***Wetlands and Waterways Conservation*** (formerly ***Policy and Planning***) approves wetlands delineations and develops long-range management plans and policies. This division currently prepares the agency's Asset Management Plan, which provides broad policy direction on the uses of state land, rates-of-return objectives, and policies for the purchase and sale of state assets, but this function eventually will be transferred to the Land Management Division. The Wetlands and Waterways Conservation Division provides assistance, monitoring, and enforcement for removal-fill activities. State law requires a permit to remove, fill, or alter more than 50 cubic yards of material within the bed or banks of the state's waterways. Additional protection is provided by the Department on removal and fills of less than 50 cubic yards in essential salmon habitats. All removal-fill activities within the designated state scenic waterways must receive Department review and approval.
- ***Finance and Administration*** provides budgeting, general administrative support, building management, safety services, accounting, purchasing, information systems, rule-making, audit, legislative coordination, and oversight of the Oregon Natural Heritage Program. This division also includes the Trust Property Section, which manages forfeited and unclaimed property and probates estates left without wills and known heirs. It is also responsible for determining the navigability of waterways and processing Measure 37 claims assigned to the agency by the Department of Administrative Services.
- The ***Director's Office*** provides overall agency direction under the jurisdiction of the State Land Board.

Revenue Sources and Relationships

Other Funds revenue for Common School Fund Programs is derived from two major sources: income from program operations and investment income. Statutory program operations generate revenue from waterway, hydroelectric, sand and gravel leases; unclaimed property dividends; removal-fill permit fees; periodic land sales; and other revenue from property holdings. Income from these sources is expected to remain fairly stable from 2003-05 to 2005-07. Investment income is derived from the interest, dividends, and capital gains earnings from funds invested by the State Treasury according to Oregon Investment Council guidelines.

Common School Fund revenues also include receipts from timber harvests on state-owned land. The Department of Forestry projects $20.2 million in timber receipts for 2005-07. These revenues are based on projected sale prices, harvest dates, and volumes that are subject to changing economic and other conditions. Revenues from timber harvests, and from other constitutional sources such as grazing, agricultural, and mineral leases, are retained in the Common School Fund as principal. Land management activities are supported by earnings from investment of the principal.

During the 2003 legislative session, DSL proposed a fee increase for its removal-fill permitting program. The fee was last increased in 1989. Historically, permit revenues covered 25% of the program's costs, but that percentage has fallen to 12% of costs, which were estimated to be about $3.2 million in the 2003-05 biennium. The 2003 Legislature did not approve the fee increase, which would have provided additional revenues of $0.4 million.

During the 2005 session, the agency again sought (but was not successful in obtaining) legislative approval for fee increases as well as establishment of new fees to help cover the costs of the removal-fill program. Additional revenues from this restructuring were estimated at $0.5 million.

Federal Funds are received by the Common School Fund Programs primarily for U.S. Environmental Protection Agency support of the wetlands program, including wetlands inventory grants to local governments.

Budget Environment

Various legal and environmental factors can adversely affect DSL's ability to reduce expenses of the Common School Fund Programs. Increasing needs to balance protection, conservation, and development interests tend to raise land management costs. New legal requirements for agency programs – such as the addition of essential salmonid habitat provisions to the removal-fill law, responses to threatened and endangered species listings, and re-prioritization of efforts due to new initiatives – increase workloads and can affect timber receipts, sand and gravel royalties, and other land and water-related revenues. Lack of agency staff to actively market land leasing, sales, or investment opportunities can limit the growth of revenue from land management. General economic conditions affect lease rates tied to market prices or other indexes.

Concerns raised by the Natural Resources Subcommittee of the 2003 Joint Committee on Ways and Means resulted in a 2003-05 work plan for the agency and a budget note directing the agency to report to the Emergency Board on progress toward implementing the plan. The plan covered a number of areas of concerns, including the costs of Common School Fund forestland management, revenue enhancement for the Common School Fund, customer service, the removal-fill program, waterway leasing, historically filled lands, sand and gravel leasing, and the agency's role in economic revitalization. As of its November 2004 report to the Emergency Board, DSL had completed 66% of the 59 tasks in the work plan, with most of the remaining tasks targeted for completion by the end of the 2003-05 biennium. Of particular note since the November report to the Emergency Board, the U.S. Army Corps of Engineers issued the State Programmatic General Permit to the Department in July 2005. This single permit system essentially eliminates the need for dual federal and state permits for removal-fill projects.

The semi-annual distributions from the Common School Fund to counties in support of public primary and secondary schools have been the largest outlay in the Department's budget. Prior to 1997, distributions to schools were allowed to float based on the Fund's non-equity investment earnings. Beginning in 1997, the State Land Board fixed the annual distribution at $10 million plus 5% per year to cover school enrollment growth and inflation. In response to a resolution passed by the 1999 Legislative Assembly, the Board adopted a revised investment earnings distribution policy. The new policy is based on a sliding scale for annual distributions between 2% and 5% of the Common School Fund market value as of December 31st of each year. The percentage of distribution is based on the annual growth rate in the Common School Fund's market value. The policy took effect with the 1999-2000 school year.

The distribution for the 2001-02 school year was $15.6 million, followed by a distribution of $14.6 million for the 2002-03 school year. At the direction of the Legislature during the third 2002 special legislative session, the Department distributed an additional $17.7 million derived from the accumulation of statutory revenues. This amount, distributed in December 2003, was to offset a corresponding General Fund reduction in the State School Fund. The total distribution of $48 million for 2001-03 was far below the 1999-2001 distribution of $76 million, due to declines in the stock market as well as lower earnings. On the other hand, distributions in 2003-05 were $53.5 million, a $26.4 million increase over the amount originally anticipated by the 2003 Legislature. This large increase was due to a rebound of the market.

Common School Fund distributions by the Department of State Lands are anticipated to be $89.9 million in 2005-07, an increase for K-12 schools of about $36 million over the 2003-05 amount of $54 million. The wide disparities among recent distributions are illustrative of the effect of market conditions on distributions from the Fund. The Board continues to review its distribution policy to ensure a balance between growth in the Fund for future generations of students and optimal distributions in support of the current generation of students (i.e., "intergenerational equity"). Recently, to prevent such large variations in distributions in the future, the Board voted to switch to a three-year rolling average for calculating the Fund's value after January 1, 2006.

The market value of the Common School Fund was approximately $936 million as of August 31, 2005.

The 2005 Legislature approved HB 3183, requiring Common School Fund distributions for K-12 education to be transferred from the Department of State Lands to the Department of Education, which will then distribute the funds to schools. Beginning with the 2005-07 biennium, the budget for the Department of State Lands will no longer reflect these distributions as expenditures.

As is the case with other state agencies as well as local jurisdictions, the effect of Measure 37 on DSL largely is unknown. This measure, passed by voters in November 2004 and effective as of December 2, 2004, requires governments to pay property owners or forgo enforcement (either by waiver or modification) when certain land use restrictions reduce owners' property values. The measure requires that compensation is due if the regulation in question remains in force 180 days after an owner makes written demand for compensation. After that time, the owner may file an action for compensation in the circuit court in the county wherein the property is located. To date, the Department has been designated as the lead agency for about a dozen claims (out of over 1,000 claims received statewide).

Legislatively Adopted Budget

The legislatively adopted budget is a 76.2% decrease from the 2003-05 legislatively approved level and a 69% decrease from the Governor's recommended budget. These changes are primarily driven by the effect of HB 3183, as noted in the previous section.

Without regard to the Common School Fund distributions, the legislatively adopted budget is a 12% increase over the 2003-05 legislatively approved level. Within this increase, General Fund is increased by 36.2%; Other Funds expenditure limitation, by 10.1%; and Federal Funds expenditure limitation, by 1.5%. While the increase in General Fund support appears substantial, this support represents only 1% of the budget, not including the nonlimited budget. Thus, the main driver in the overall increase is the Other Funds expenditure limitation. Without regard to the Common School Fund distributions, the legislatively adopted budget is a 4.5% decrease from the Governor's recommended budget, again primarily due to changes in Other Funds expenditure limitation.

The Legislature approved a number of policy packages to address revenue generation, fiscal accountability, and streamlined operations.

- The budget adds $803,008 Other Funds expenditure limitation to continue, as permanent, 7 limited duration positions (7.00 FTE) from the 2003-05 biennium. This includes 3 positions (3.00 FTE) in the Trust Property Section to address needed improvements or workload increases in areas such as handling trust assets, assisting with estate duties, reconciling records, improving customer service, and implementing tighter fiscal controls; 3 positions (3.00 FTE) in Field Operations to address workload related to rangeland management in eastern Oregon as well as leasing of properties in western and eastern Oregon to generate revenues for the Common School Fund; and 1 position (1.00 FTE) within the Fiscal Unit of Finance and Administration to handle unclaimed property audits, reports, and claims.
- The budget adds $798,702 ($298,702 Other Funds expenditure limitation and $500,000 nonlimited Other Funds) for 2 limited duration positions (2.00 FTE) and other activities to implement the Asset Management Plan. This includes selecting specific lands to be sold, preparing them for sale, and processing the transactions. The Legislature directed the agency to report to the Emergency Board on the progress of the positions in generating revenue for the Common School Fund.
- For Attorney General costs associated with the Portland harbor cleanup issue, the budget provides $230,880 Other Funds expenditure limitation. This is approximately equivalent to a half-time attorney.
- The budget includes $150,356 General Fund and $282,798 Other Funds expenditure limitation to continue 3 positions (3.00 FTE) in the economic development area. Two positions (2.00 FTE) are for the Oregon Department of Transportation's bridge replacement program and are continued as limited duration. The remaining position (1.00 FTE) is an economic revitalization liaison and was made permanent.
- The budget does not include $129,493 Other Funds expenditure limitation for a limited duration position (1.00 FTE) to work as a wetlands specialist that would review and process wetlands delineation reports. This package was dependent upon a new fee, which was not approved by the Legislature.
- The budget adds $26,995 for reclassification of 2 positions. The Legislature did not approve a new permanent position (1.00 FTE) to address additional fiscal workload in the agency.
- The budget does not include expenditure limitation for a position to act as gatekeeper to the State Lands Building, which is shared by three agencies.

The Legislature modified the budget for the decrease in the PERS employer contribution rate, the Attorney General hourly rate, and various statewide assessments and usage rates. As noted above, the Legislature also adjusted the budget for the effects of HB 3183.

DSL – South Slough National Estuarine Research Reserve

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	982,714	1,088,586	1,088,136	1,160,421
Federal Funds	946,380	1,665,615	1,278,207	1,443,994
Total Funds	**$1,929,094**	**$2,754,201**	**$2,366,343**	**$2,604,415**
Positions	14	15	16	16
FTE	13.00	14.17	16.00	16.18

Program Description

The 4,800-acre South Slough National Estuarine Research Reserve (SSNERR) is part of the U. S. National Estuarine Research Reserve System established by the Coastal Zone Management Act of 1972. The 26 estuarine sites in the national system are administered by a partnership with the states and the U.S. Department of Commerce's National Oceanic and Atmospheric Administration (NOAA). The national system was created to preserve representative estuarine types and provide opportunities for education and research.

The South Slough is a tidal inlet of the Coos estuary six miles southwest of Coos Bay. The reserve was designated in 1974 as the first national estuarine research reserve and consists of 1,000 acres of tidelands and open water surrounded by a 3,800-acre upland border. It includes five structures and seven miles of roads and trails. The SSNERR operates an interpretive center and maintains nature trails for hikers and canoeists. It also conducts a variety of research, educational, and stewardship programs.

Revenue Sources and Relationships

The main source of Other Funds revenue supporting the SSNERR is the Common School Fund, which was substituted in 1993 for one-half of the General Fund operating budget. In recognition of the SSNERR's educational opportunities for K-12, the 1997 Legislature added it to the statutory definition of "school lands" to secure Common School Fund dollars for the operation and maintenance of the SSNERR property. The 1997 Legislature then replaced all General Fund in the SSNERR's budget with Common School Fund revenues and transferred ownership of the reserve to the Common School Fund. Other Funds revenues also include grants, donations, and service charges.

Federal Funds are received through NOAA in the form of grants for operations and special projects. State match rates generally range between 30 to 50%, depending on the individual grant. The SSNERR's operating budget, tideland property valuation, and donations all qualify as match. The SSNERR has statutory authority to apply for grants and regularly submits such requests through NOAA's Office of Coastal Resource Management. Federal revenues for the ongoing operations grant are projected to continue at previously authorized levels.

Budget Environment

An estimated 30,000 individuals visit the reserve annually, including school-age children who participate in educational program offerings. The reserve also serves as a summer work site for Job Training Partnership Act and Youth Conservation Corps programs. The SSNERR expects to experience a continued increase in visitor use, especially from school field trips and from the developing ecotourism industry in the South Coast region.

The SSNERR also provides services to the state's higher education system through a Memorandum of Understanding with the University of Oregon's Institute of Marine Biology for sharing administrative resources and laboratory facilities. Reserve staff provide technical and logistical support to visiting scientists and scholars conducting research.

Services are provided at the SSNERR by eight permanent staff positions. This staffing is augmented by the use of limited duration positions, volunteers, seasonal employees, and temporary staff. Temporary positions are funded through grants and cooperative agreements to provide support for education, research, and stewardship programs. The temporary staffing and number of volunteers vary with the seasons and the nature of grant projects.

The 2001-03 legislatively adopted budget contained expenditure limitation for only the first half of the biennium. The 2001 Legislature withheld second-year limitation due to concerns regarding fiscal management within the program. The Legislature directed the Department to request the second-year limitation upon reporting to the Emergency Board on the SSNERR's 2001-02 fiscal activity. The Emergency Board approved limitation for the second half of the biennium at its April 2002 meeting when the Department reported on the accounting and budgeting improvements in the program. While improvements have been made regarding fiscal management, certain areas of concern still exist, such as properly projecting the amount of limitation needed during a biennium for various capital projects.

Legislatively Adopted Budget

The legislatively adopted budget is a 5.4% decrease from the 2003-05 legislatively approved level, primarily due to a decline in Federal Funds expenditure limitation. The 2003-05 legislatively approved budget included Federal Funds expenditure limitation for renovation of the SSNERR's facilities and other projects approved by the 2003-05 Emergency Board in June 2004. The 2005-07 budget includes limitation for completion of certain of these projects, but at a lower funding level.

The Legislature modified policy packages in the Governor's budget, with the following results:

- the addition of $622,015 Federal Funds expenditure limitation to continue 6 limited duration positions (6.00 FTE) for work on federally funded grants related to system-wide monitoring, the coastal training program, public involvement, reserve maintenance, and habitat restoration monitoring;
- the addition of $125,371 Federal Funds expenditure limitation for a limited duration position (1.00 FTE) to provide onsite information systems support; and
- the addition of $73,052 Other Funds expenditure limitation to reclassify a position to provide greater fiscal oversight and accountability and a reduction of $67,475 Federal Funds expenditure limitation to shift support for a position to Other Funds based on a federal audit recommendation.

The Legislature added $165,000 Other Funds expenditure limitation and 0.85 FTE (no additional position, however) to accommodate federal grants that are passed through non-federal entities before the Department receives the funds. Federal Funds expenditure limitation was increased by $120,000 to accommodate carryover construction grant funding. Finally, the Legislature modified the budget for the decrease in the PERS employer contribution rate and the Attorney General hourly rate.

DSL – Natural Heritage Program

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	127,690	29,311	29,915	28,991
Other Funds	0	1,309	1,340	1,340
Federal Funds	24,159	69,303	70,966	70,966
Total Funds	**$151,849**	**$99,923**	**$102,221**	**$101,297**

Program Description

The state's Natural Heritage Act was passed by the 1979 Legislature to create a discrete and limited system of natural heritage conservation areas to represent the full range of Oregon's natural heritage resources. The Act requires that all conservation efforts be voluntary on the part of the landowner or public land manager and that resources be protected, whenever feasible, on public lands allocated primarily to special non-commodity uses (such as parks, preserves, and wilderness areas).

The 17-member Natural Heritage Advisory Council (NHAC) assists the State Land Board in implementing the mandates of the Act. The NHAC periodically identifies areas that qualify for registration. Registration is only an acknowledgment that the site is one of significant natural character and makes the site available for possible future dedication or other voluntary protection. Areas used in commodity production are avoided. Landowner written permission is required before any private land can be added to the register. State law allows any private individual or organization owning a registered natural area to voluntarily dedicate that area as a natural heritage conservation area with the Board. Public agencies can dedicate lands, following public notice and hearing. Procedures for the dedication of lands owned by the State of Oregon as natural heritage conservation areas are required to be established by the State Land Board, Board of Forestry, Fish and Wildlife Commission, Transportation Commission, Board of Higher Education, and the Parks and Recreation Commission, with the advice of the Natural Heritage Advisory Council.

The NHAC also is responsible for administration of the Threatened and Endangered Invertebrate Program and works cooperatively with the U.S. Fish and Wildlife Service to conduct studies and recovery actions on threatened and endangered invertebrate species within the state.

DSL is responsible for providing administrative support to the NHAC. Previously, the Department also was responsible for maintaining a data bank of significant natural heritage sites areas to guide decisions on project planning and land management. The data bank assists governmental agencies, private consultants, and individuals with obtaining information about the known location and extent of threatened and endangered species as well as unique or sensitive natural areas. HB 2179 (2003) transferred statutory responsibility for maintenance of the data bank to Oregon State University (OSU).

Revenue Sources and Relationships

The Natural Heritage Program receives General Fund for DSL's administrative support of the NHAC. Federal Funds are received primarily from the U.S. Fish and Wildlife Service for research and special projects on invertebrates and management techniques to protect rare, threatened, and endangered species.

Budget Environment

As of July 2004, the statewide register of natural heritage resources contained 98 sites, including 8 dedicated as natural heritage conservation areas. This is an increase of 27 sites from July 1998, when the register contained 71 sites.

Program operations historically were provided through a contract between the NHAC and The Nature Conservancy. During the 1999-2001 interim, the Emergency Board directed the Department to investigate options for moving the data bank function from a contract with The Nature Conservancy to a state agency, preferably the Department or OSU. In June 2002, responsibility and funding for management of the function was transferred to the Natural Resources Institute at OSU. As noted earlier, HB 2179 (2003) statutorily transferred that responsibility.

Legislatively Adopted Budget

The legislatively adopted budget is a 1.4% increase over the 2003-05 legislatively approved budget, primarily due to federal funding increases. The adopted budget is a 0.9% decrease from the Governor's budget as a result of a 3% reduction in most Services and Supplies expenditure categories.

DSL – Oregon Wetlands Revolving Fund

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	315,651	350,000	750,000	550,000
Total Funds	**$315,651**	**$350,000**	**$750,000**	**$550,000**

Program Description

The Oregon Wetlands Mitigation Bank Revolving Fund Account was established by the 1987 Legislature to provide financial resources to acquire wetlands banking and wetlands mitigation sites; to accomplish wetlands restoration, enhancement, and creation; and to cover administrative costs. The first mitigation bank was established in Astoria during the 1985 biennium with a federal grant.

A mitigation bank is a wetlands site created or restored by a public or private entity to establish wetlands value credits. The credits represent biological values expressed in the form of dollars. Any entity proposing to fill wetlands must provide mitigation by restoring, creating, or enhancing wetlands or by purchasing credits from an existing mitigation bank. Legislation passed in 1995 allowed private mitigation banks to be established under rules adopted by the State Land Board.

Revenue Sources and Relationships

The Wetlands Mitigation Bank Revolving Fund Account allows for payments – called "Payment-To-Provide" mitigation funds – that can be used by removal-fill applicants with permissible projects that have a wetlands impact, but who cannot perform the required mitigation. The funds in the account are then used to create, restore, or enhance wetlands in the region of the permitted impact, if possible. After a two-year period, the funds can be used anywhere in the state for wetlands creation, restoration, or enhancement.

Budget Environment

In the first year of the 1999-2001 biennium, a total of ten projects were approved and completed using $385,000 of account proceeds. When the Department identified eight other potential projects for a total cost of $578,000, the Emergency Board authorized a $600,000 Other Funds expenditure limitation increase for the Wetlands Mitigation Bank in June 2000 to accommodate these additional projects. In the 2001-03 biennium, six projects totaling $315,951 were funded.

HB 2899 (2003) made changes to the program to make the program more flexible for and useful to the public. Rules adopted in early 2004 to implement these changes offer applicants several choices for replacing wetlands when not practicable to do so at a project site. As a result, DSL expects more activity in this program in 2005-07 and reports that approximately 24 projects have been funded to date in calendar year 2005.

Legislatively Adopted Budget

The legislatively adopted budget adds $200,000 Other Funds expenditure limitation for an expected increase in the number of projects to be funded.

DSL – Capital Improvements/Common School Fund

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	375,549	496,314	1,453,051	487,009
Federal Funds	682,017	0	0	0
Total Funds	**$1,057,566**	**$496,314**	**$1,453,051**	**$487,009**

Program Description

The Department owns and manages property as assets of the Common School Fund. The State Land Board adopted an Asset Management Plan in 1995 that includes strategies for enhancing the revenue-producing capability of Common School Fund assets through capital improvements and property maintenance. Expenditures in this program include small infrastructure design and construction projects, facilities rehabilitation, general maintenance and repair, fire suppression, land rehabilitation, and response to environmental hazards. The Asset Management Plan is currently under revision with an expected completion date in late 2005.

Revenue Sources and Relationships

Capital improvement expenditures are financed by Common School Fund revenues.

Budget Environment

As a property manager, the Department must maintain assets to enhance their revenue production and to protect and improve the resource productivity. Examples of capital improvement expenditures include the reinvestment of a portion of grazing lease fees for rangeland health and productivity improvements. For example, to maintain a viable rangeland leasing program, problems such as noxious weed invasion must be controlled. The Department reports that currently it is at risk for violating state law regarding control of noxious weeds such as Medusa head and pepper weed, and adjacent landowners have expressed concerns about invasion of these weeds into their lands.

Legislatively Adopted Budget

The legislatively adopted budget is a 1.9% decrease from the 2003-05 legislatively approved level and a 66.5% decrease from the Governor's recommended level. The Legislature reduced a policy package from $562,000 to $206,000 Other Funds expenditure limitation for rangeland maintenance, surveys, fire suppression, noxious weed control, and other activities related to protection and enhancement of Common School Fund lands. The reduction was based on the availability of funding in the base budget and the ability of the agency to appear before the Emergency Board to request expenditure limitation as needed.

The Legislature did not approve a policy package that would have added $610,042 Other Funds expenditure limitation for electrical, roofing, carpeting, heating, and ventilation projects at the State Lands Building in Salem. Instead, it directed the agency to appear before the Emergency Board to request expenditure limitation once the agency developed a plan, including timelines and costs, for the projects.

Marine Board (OSMB) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	16,348,190	22,817,871	23,631,913	23,580,047
Federal Funds	4,150,008	4,972,307	5,100,277	5,099,625
Total Funds	**$20,498,198**	**$27,790,178**	**$28,732,190**	**$28,679,672**
Positions	39	39	40	40
FTE	38.00	38.00	39.00	39.00

Agency Overview

The Oregon State Marine Board was established in 1959 and is responsible for registering and titling all recreational boating vessels in the state. The Board consists of five members appointed by the Governor for four-year terms. The Marine Board's budget is comprised of three separate program areas. These programs are dedicated to the Board's mission of boater safety, education, and access in an enhanced boating environment.

Revenue Sources and Relationships

All agency programs are funded by three major revenue sources: registration and title fees (39%); marine fuel taxes (40%); and federal funds (19%). The agency receives no General Fund support or Lottery Fund allocations. A small amount (2%) of revenue is received from outfitter and guide registration, mandatory education, and late penalties. The 2005-07 legislatively adopted budget provides an ending balance of $1.65 million or approximately 1.7 months of operating costs. The following table summarizes the Department's major sources of revenue.

	2003-2005 Estimate	2005-2007 Legislatively Adopted
Other Funds		
Registration Fees	$ 8,738,143	$ 9,555,402
Title Fees	1,670,098	1,825,766
Mandatory Education Fees	390,000	390,000
Guides and Outfitter Fees	139,932	139,932
Charter Boat Fees	28,000	28,000
ODOT Gas Tax	10,915,952	10,972,383
OR Dept of Fish & Wildlife	89,000	89,000
Federal Funds		
Coast Guard Federal Funds	2,299,090	2,354,268
Boating Infrastructure Grant	1,629,536	1,673,942
Clean Vessel Act	1,043,681	1,072,072
Total	**$26,943,432**	**$28,100,765**

The motorboat fuel tax revenue is estimated to be $11 million during the 2005-07 biennium. Each year the Department of Administrative Services certifies the amount of motor vehicle fuel taxes imposed during the preceding fiscal year on fuel purchased and used to operate motor boats. The amount, less refunds for commercially used motor boats, is transferred to the Marine Board's Boating Safety, Law Enforcement and Facility Account. The estimate is based on the results of the Oregon Motorboat Gasoline Use Survey that is conducted every four years to determine the amount of fuel tax to be transferred from the Department of Transportation. The next survey will be conducted in the fall of 2005 and is expected to be completed in Spring 2006.

Registration fees are set by statute and vary based on type and size of vessel. Registrations are valid for two years. A boat owner must also secure a one-time certificate of title from the Marine Board. The Board sets the title fee by rule, not to exceed seven dollars. The 2003 Legislature adopted new fees based on a flat fee of $3/foot for two years; one time title fees were adjusted to $30, which enabled the agency to restore funding levels for programs eroded by inflation, flat registration counts, and drought conditions. The agency projects total fee revenue at $11.9 million, an 86% increase from the 2001-03 revenue levels. The Department of Fish and

Wildlife uses Sport Fish Restoration funds to pay the Marine Board for technical assistance on cooperative projects.

Federal Funds are received from the U.S. Coast Guard's Recreation Boating Safety (RBS) grant program ($2,354,268) and the Clean Vessel Act (CVA) program ($1,072,072). The Boating Infrastructure Grants (BIG) program grants ($1,673,942) are obtained through the dedicated Aquatic Resources Trust Fund with revenues from federal motorboat gasoline taxes and excise taxes on sport fishing equipment. The Coast Guard restricts use of RBS grants to boating safety programs and requires a 50-50 state match. CVA funds were first made available in 1994 for funding vessel waste pump out facilities and dump stations to reduce the effects of untreated sewage from boats in the state's waters. CVA grants require a 25% state match. BIG funds were authorized in 1998 as part of the Sport Fishing and Boating Safety Act and require a 25% state match. The BIG funding program has two tiers. Tier 1 funds are base grants set annually at $100,000 per state and Tier 2 grants are competitive, with approximately $4 million available nationally each year.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $28.7 million is $0.9 million or approximately 3% more than the 2003-05 legislatively approved budget and $50,000 less than the Governor's recommended budget. The adopted budget includes all existing programs at current activity levels, adjustments for inflation, pension bond costs, state government service charges, and increases related to a reclassification policy package and an increase in facility grants. Specific details are discussed under each program unit.

OSMB – Administration and Education

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	3,560,662	4,455,790	4,849,553	4,811,608
Federal Funds	113,405	113,405	116,127	116,127
Total Funds	**$3,674,067**	**$4,569,195**	**$4,965,680**	**$4,927,735**
Positions	25	25	26	26
FTE	22.84	22.84	23.84	23.84

Program Description

The Administration and Education program is responsible for vessel titling and registration activities including floating homes and boathouses, outfitter and guide registration, and ocean charter boat licensing. The program also administers state boating laws, develops waterway management plans, serves as liaison with other government units, conducts boating accident analyses and boater surveys, coordinates the Adopt-a-River program, and provides the agency's central business functions. Education activities include implementation of mandatory boater education, coordination of statewide water safety school programs, development and distribution of safe boating promotional materials, and the production of public information materials for distribution to the media.

Budget Environment

The increasing popularity of water-based outdoor recreational activities in Oregon continues to challenge the Administration and Education program. Over 196,000 boats are currently registered with projections indicating continued growth in boater use of the state's waterways. Other non-traditional boating activities, such as personal watercraft (jet skis) and sail boarding are expected to bring additional challenges to waterway management. Boating safety is the number one priority of the program unit. Over 90% of all boating fatalities involve persons who do not wear a life jacket. Human impact on waterways is a challenge for the Oregon State Marine Board. A Clean Marina program is being proposed to target sustainable best management practices for marinas and boat owners. The Mandatory Education law took effect January 1, 2001. During 2003-05, over 50,000 persons will be certified. The phase-in will continue over the next five years until all motorboat operators are certified by 2009.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $4.9 million is $0.36 million or 7.8% more than the 2003-05 legislatively approved expenditure level and $40,000 less than the Governor's recommended budget. The adopted budget establishes a new program that encourages clean air and water by providing technical advice and educational information to marina operators and boaters. The adopted budget adds one position (1.00 FTE) and $0.1 million Other Funds for personnel and service and supplies costs. The adopted budget also adds

$6,848 Other Funds to reclassify three Data Entry Operators to the Public Service Representative 2 classification, reflecting changes in agency business practices.

The remaining increases reflect applying the standard inflation rate for services and supplies adjusted by the Legislature to reflect reductions in statewide governmental service charges and assessments resulting in a net decrease of $3,144 and cost adjustments for unemployment assessments, PERS rates, overtime, temporaries, shift differentials, mass transit fees, and merit increases resulting in a net increase of $0.26 million

OSMB – Law Enforcement Program

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	7,522,407	9,202,895	9,424,035	9,419,885
Federal Funds	2,185,685	2,185,685	2,238,141	2,238,141
Total Funds	**$9,708,092**	**$11,388,580**	**$11,662,176**	**$11,658,026**
Positions	4	4	4	4
FTE	4.83	4.83	4.83	4.83

Program Description

By statute, funding of law enforcement activities is the first priority for the Marine Board after administrative expenses are covered. The Law Enforcement program provides on-water safety patrol and boating law enforcement for 300 miles of coastline, over 5,500 miles of navigable rivers, 1,400 named lakes, and 889 square miles of inland water. Services are provided through contracts with 31 county sheriffs providing coverage in 32 counties and with the Oregon State Police providing additional statewide coverage, with emphasis in the four counties not covered by contracts with county sheriffs. The program also provides patrol boats and specialized enforcement equipment, develops and offers basic and advanced training for county marine patrol officers, maintains a marine law enforcement 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 static. No significant change in federal funding is anticipated until after the Transportation Equity Act for the 21st Century is reauthorized.

Budget Environment

Law enforcement contracts are continued at the current level with a 2.4% standard inflation adjustment of county contracts. Increases in the cost of personnel, benefits, fuel, insurance, and other items outpace the standard rate of inflation by an estimated 4%. In the past, some county's contributions have increased to maintain services at the local level. Without an increase in funding for marine law enforcement, services will be reduced or reductions will need to be made 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. Another significant issue for this program is the reauthorization of the U.S. Coast Guard's Recreational Boating Safety (RBS) grant program in 2004. Federal aid contributes over $2.2 million to support the marine law enforcement program.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $11.7 million total funds for marine law enforcement is $0.27 million, or 2.4%, higher than the 2003-05 legislatively approved expenditure level and $4,150 less than the Governor's recommended budget. The adopted budget reflects applying the standard inflation rate for services and supplies; increases in the state government service charges; special payments; and capital outlay adjusted by the Legislature to reflect reductions in statewide government service charges and assessments ($0.2 million Other Funds and $40,000 Federal Funds). The remaining increase is for cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, PERS rates, mass transit fees, and merit increases ($30,000 Other Funds).

OSMB – Facility Programs

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	5,265,121	9,159,186	9,358,325	9,349,456
Federal Funds	1,850,918	2,673,217	2,746,009	2,745,388
Total Funds	**$7,116,039**	**11,832,403**	**$12,104,334**	**$12,094,844**
Positions	10	10	10	10
FTE	10.33	10.33	10.33	10.33

Program Description

The Facilities program provides for the maintenance and improvement of boating facilities throughout the state. The Marine Board provides technical and financial assistance for local governments and state agencies to acquire, develop, improve, and rehabilitate public boating facilities. Projects eligible for Board funding include boat launch ramps, parking, restrooms, courtesy docks, transient tie-up facilities, and other boating related facilities. Grants rely on partnerships and the leveraging of other financial resources such as federal funds, private funds and donations, and other local and state funds. Priorities for funding are established in the Board's Six Year Boating Facilities Plan, which identifies $20 million in unmet boating access needs statewide. The federal Clean Vessel Act (CVA) program targets water quality protection through the provision of facilities for boat pump out and dumping of waste.

The Board's Maintenance Assistance Program provides financial support for local governments and the Oregon Parks and Recreation Department for the maintenance and operation of boating facilities in park areas. The Board also provides engineering services for local governments and state/federal agencies lacking the specialized skills needed to design and build boat facilities.

Revenue Sources and Relationships

The Facilities program revenue sources include registration and title fees, marine fuel taxes, and the federal Clean Vessel Act (CVA). The Marine Board expects to receive federal grants from the CVA totaling slightly over $1 million in 2005-07. These grants are awarded competitively on a 75% federal to 25% state matching basis. The Marine Board also expects to receive federal grants from the new Boating Infrastructure Grants (BIG) Program totaling approximately $1.6 million, which are also authorized on a 75-25 match ratio. Most of the projects approved for 2003-05 funded by BIG for non-trailerable boating facilities will not actually begin until sometime in the 2005-07 biennium due to permit timelines. Out of $1 million in BIG funds budgeted for 2005-07, less than $600,000 is estimated for new grants.

Budget Environment

This is one of the few discretionary areas where the Board can make reductions without adversely impacting mandated services in its business, education, and law enforcement/safety programs. The Marine Board leverages a sizeable amount of state dollars with outside sources from federal agencies, local governments, and others. A significant issue for continued funding to maintain and improve public boating facilities and public access to Oregon's waterways is reauthorization of federal aid. The CVA, the BIG, and the Sportfish Restoration Program are all subject to federal reauthorization.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $12.1 million for the Facility program is $0.26 million total funds or 2% higher than the 2003-05 legislatively approved expenditure level and $10,000 less than the Governor's recommended budget. The adopted budget adds $0.75 million to increase facility grants for improving access to waterways by boaters. The adopted budget also phases out a one-time expenditure of $0.8 million for facility improvements on the Columbia River at Rainer.

The remaining increases reflect applying the standard inflation rate for services and supplies; capital outlay; special payments and for increases in the state government service charge adjusted by the Legislature to reflect reductions in statewide government service charges and assessments ($0.14 million Other Funds and $60,000 Federal Funds) and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, PERS rates, mass transit fees, and merit increases ($0.1 million Other Funds and $10,000 Federal Funds).

Parks and Recreation Department (OPRD) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Lottery Funds	48,213,949	57,173,958	72,303,818	84,066,848
Other Funds	66,787,576	76,571,333	81,147,043	91,712,078
Federal Funds	4,867,375	8,976,693	8,972,654	8,964,578
Other Funds (NL)	3,174,407	4,316,0655	3,866,065	0
Total Funds	**$123,043,307**	**$147,038,049**	**$166,289,580**	**$184,743,504**
Positions	766	781	804	865
FTE	517.13	524.44	539.61	560.82

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 230 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; and state park land use and outdoor recreation planning. The Department is also designated as the State Historic Preservation Office and oversees activities of the Oregon Heritage Commission and Oregon Pioneer Cemetery Commission. In addition, the Department manages Natural Resource Lottery Funds programs including local park development grants; state park land acquisition; operations and maintenance; the parks-prisons inmate work program; state park facilities; and development projects. The 2005 Legislature added management, operations, and maintenance of the Oregon State Fair programs.

The Department manages parks lands covering 94,385 acres. These include 53 campgrounds, 173 day-use areas, 475 miles of recreation trails, 362 miles of ocean shore, and other special sites such as boating and fishing docks, group meeting halls, interpretive centers, museums, and historic inns.

Revenue Sources and Relationships

In November 1998, voters approved Measure 66 constitutionally dedicating 15% of the net proceeds of Oregon's lottery revenues to be deposited into a Parks and Natural Resources Fund, until the year 2014, when it will be re-referred to the voters. The 2005-07 legislatively adopted budget assumed $70 million Lottery Funds revenue would be generated for the State Parks and Recreation Department sub-account in the 2005-07 biennium. For 2005-07, these Lottery Funds represent 36% of total revenue in the Department's budget.

Park user fees represent 17% of the total budget. User fees are expected to generate $33 million in 2005-07 without a fee increase, $1 million more than in the 2003-05 biennium. The increase is the result of increased overnight camping and special site utilization (such as yurts, cabins, teepees, etc.) and projected revenues from new park operations (such as Hares Canyon State Park). The other major source of Other Funds revenue is from recreational vehicle (RV) registration fees. Changes in the 2003 legislative session resulted in RV registration fee increases beginning January 1, 2004. RV fees are shared 30% by the counties and 70% by the state. For 2005-07, the RV fee is expected to produce $36.9 million, $25.9 million for the state parks system and $11 million for transfer to counties, including $1.1 million for county opportunity grants. The Legislature also created a "salmon" license plate that has a premium surcharge above the standard license plate fees. The Governor's budget proposed to dedicate the proceeds from the sale of these plates to salmon habitat restoration needs. OPRD anticipates receiving over $683,412 in the 2005-07 biennium from the salmon license plate.

Other dedicated revenue sources include $4.8 million from the Oregon Department of Transportation State Highway Fund for roadways and rest area maintenance, $0.98 million from the Marine Board for boater facility maintenance and rehabilitation, and $7.4 million from the All-Terrain Vehicle fuel tax revenues. Assorted Other Funds from the Deschutes River boater pass, rental of park property, sale of publications, and other donations and miscellaneous sources are also collected. The Department also expects to receive $9 million federal funding from the Land and Water Conservation Fund – National Park Service ($4 million), Historic Preservation ($1.8 million), the Recreational Trails Program ($1.7 million, part of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: a Legacy for Users – SAFETEA-LU), and $1.5 million from miscellaneous other sources of federal funds for project grants.

Budget Environment

The Department is challenged to balance rates and fees for park users at an affordable level for a diverse population with rising costs of doing business. The constitutionally dedicated Lottery Fund revenues guarantee the Department a solid source of funding and recent economic forecasts predict steady growth. The Department's ability to maintain current services is dependent on the amount of revenue generated from these sources keeping pace with increases in the cost of doing business. Current services continue to invest in facility maintenance and repair, land acquisitions, and local park grants. Since 1999, the Department has invested over $118 million in maintenance, repair, and upgrades to existing state parks, acquired over 3,600 acres of additional park land, and issued more than 160 local park grants.

The Department is working through a Habitat Conservation Plan to preserve beach access for recreation while protecting the snowy plover which 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 Legislature adopted House Bill 3502 transferring all properties, assets, and management of operations and maintenance of the Oregon State Fair to the Oregon Parks and Recreation Department. The Fair lacks sufficient operating revenue from its fair and exposition events to continue operating as an independent department. By merging the Fair with the Oregon Parks and Recreation Department, the Legislature believes the Fair will be better managed due to the Department's experience with managing state property, heritage programs, providing entertainment, and collecting revenue. In addition, Parks has the resources to provide operational support to the Fair. It is also believed that the mission of the Oregon Parks and Recreation Department as detailed in ORS 390.010 to promote festivals, fairs, and heritage programs is consistent with the functions of the Oregon State Fair.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $184.7 million total funds and 560.82 FTE is $37.7 million or 26% and 36.38 FTE more than the 2003-05 legislatively approved level and $18.4 million or 11% more than the Governor's recommended budget. The adopted budget provides resources to:

- staff four new parks: Hares Canyon, Fort Yamhill State Heritage Area, Thompson's Mills State Heritage Site, and Crissey Field State Recreation site;
- implement the Ocean Shore Management Plan and Habitat Conservation Plan;
- focus on managing natural resource issues through the use of salmon license plate revenues;
- increase facility investments;
- expand heritage conservation through property surveys, larger museum grants, and planning for the Oregon sesquicentennial; and
- incorporate management, operation and maintenance of the Oregon State Fair.

Specific details are discussed under each program unit.

OPRD – Administration

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Lottery Funds	9,959,142	9,861,807	10,258,262	10,404,352
Other Funds	10,883,692	12,846,164	14,878,228	14,512,940
Federal Funds	0	20,111	21,576	21,450
Total Funds	**$20,842,834**	**$22,728,082**	**$25,158,066**	**$24,938,742**
Positions	86	86	87	88
FTE	79.31	79.72	80.85	81.23

Program Description

The Administration program includes four divisions:

- ***Directors Office*** (5.38 FTE) consists of five positions including the Director, Assistant Director for Administration, an Executive Assistant, internal auditor, and support staff. The Office is responsible for overall agency management; support of Commission activities; coordination with the Governor, Legislature, and other government entities; and development of broad policy direction. The Director's office works with the Historic Preservation Advisory Committee, the Oregon Heritage Commission, the Recreational Trails Advisory Council, and the non-governmental, non-profit Oregon State Parks Trust.

- ***Personnel and Safety Services*** (8.00 FTE) supports the Department on all personnel and labor relations including recruitment, training, and collective bargaining. The Division provides safety services through risk management, workers' compensation, safety awareness, and property and visitor liability.
- ***Financial Services*** (19.00 FTE) is responsible for the biennial budget development and execution; coordination of Secretary of State audits, centralized accounting, payroll, contracts and procurement, recreation grants, and fleet management.
- ***Information Services*** (14.00 FTE) provides planning, development, and support for the Department's business applications including the installation, standardization, and operation of the Department's desktop and laptop computers, network and internet/intranet connections, geographic information system, and operation of the automated reservation system. It also provides technical management of the Department's financial interface to the Statewide Financial Management System.
- ***Reservations Northwest*** (26.85 FTE) is a reservation booking service that started operations in January 1996. The call center books reservations for 27 Oregon state parks and 20 Oregon state special facility areas. The reservation system allows customers to reserve campsites by telephone or Internet up to 9 months in advance. The system also gives customers the ability to make arrangements to stay at multiple locations throughout Oregon. The Reservations Northwest staff also support the Parks Information Center, which provides information on availability of campgrounds and facilities, volunteer programs, special events, publications, ATV, and other services provided by the Department.
- ***Public Services*** (8.00 FTE) is responsible for marketing, beach safety programs, park brochures, and coordination of media relations.

The funding for these programs is from park user fees and Lottery Funds.

Budget Environment

The Parks and Recreation Commission hired a new Director on October 21, 2004. The Department is highly decentralized. Parks operate in every region of the state. The Administration Program Unit provides the department's centralized business functions. The budget also includes the department-wide state government service charges. The Department successfully converted from the Department of Transportation TEAMS accounting system to the Statewide Financial Management Application.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $24.9 million and 81.23 FTE is $2.2 million or 9.7% and 1.51 FTE more than the 2003-05 legislatively approved expenditure level and $0.2 million or 0.9% less than the Governor's recommended budget. The adopted budget recognizes $0.1 million for two additional months of rent for the new North Mall Office Building; a reduction of $0.1 million to shift contingency dollars to the Operations Program; a reduction of $1.1 million in one-time costs associated with moving to the North Mall Office Building, ongoing costs for development of the Geographic Information System, and Financial Management System project costs.

The adopted budget includes $0.4 million total funds to add one permanent Information Systems 6 position and one permanent Information Systems 4 position for operations and maintenance of the Geographic Information System and property and facility management systems (2.00 FTE). In addition, one limited duration Human Resource Specialist 1 position (1.00 FTE) is added to improve recruitment and worker's compensation claim management, funded with Other Funds. The Legislature added $80,000 Lottery Funds for a limited duration Principal Executive Manager F for nine months (0.38 FTE) to oversee the transition of the State Fair into the Department. The adopted budget also adds $0.35 million to update the reservation system by converting and installing new servers, systems, and database software. One-time costs for this project are about 47% of the total and will be paid from Lottery Funds. User fees will pay ongoing costs. The Legislature approved $0.1 million Other Funds to replace existing revolving funds with a petty cash fund for small purchases recognizing this as a one-time technical requirement to be phased out in the 2007-09 budget. Additionally, the Legislature approved a technical adjustment of $0.2 million to pay additional costs associated with converting several 56K systems to T-1 telephone lines to better utilize features of the Financial Management System at 13 park locations.

The adopted budget is reduced by $0.5 million total funds to accommodate technical adjustments for changes to the PERS rate, Attorney General charge, Department of Administrative Services assessments, and Secretary of State Audit charges. The remaining changes in the budget reflect a net increase of $1.8 million total funds applying the standard inflation rate for services and supplies and state government service charges. Of this increase, $1.5 million is for state government service charges primarily due to an increase in workers' compensation costs. This biennium is the first time in over 10 years that the budget has included a full biennial charge for these costs. Cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, pension bond costs, and merit increases are $0.9 million total funds.

OPRD – Heritage Conservation

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Lottery Funds	1,298,158	2,104,752	2,499,853	2,916,249
Other Funds	222,733	282,503	475,278	474,214
Federal Funds	1,723,144	2,047,920	1,805,813	1,800,512
Total Funds	**$3,244,035**	**$4,435,175**	**$4,780,944**	**$5,190,975**
Positions	17	18	18	18
FTE	14.67	16.50	18.00	18.00

Program Description

The Heritage Conservation Division (18.00 FTE) consists of three primary programs: The State Historic Preservation Office (SHPO), the Oregon Heritage Commission, and the Oregon Commission on Historic Cemeteries.

- ***The State Historical Preservation Office*** (SHPO), which consists of 16 positions (16.00 FTE), manages and administers all federal and state programs for historic and archeological resource planning and preservation. The program also assists with the development and interpretation of historic and cultural resources in the park system. Staff administers the federal grant-in-aid program and seven other federal programs under the National Historic Preservation Act. SHPO also manages two state programs: the Archeological Permit program and the Special Assessment of Historic Properties program.
- The ***Oregon Heritage Commission*** (1.00 FTE) is the primary organization for coordination of the state's heritage activities. The Commission, created in 1995, consists of nine voting and eight ex-officio members. The Commission is charged with establishing and implementing an Oregon Heritage Plan for the purpose of coordinating heritage conservation and avoiding duplication among various interest groups. The Commission coordinates statewide anniversary celebrations, encourages heritage tourism, maintains an inventory of state-owned cultural properties, and coordinates celebrations during the fourth week of Asian American Heritage Month.
- The ***Oregon Commission on Historic Properties*** (1.00 FTE) is one of the few commissions of its type in the United States. It is charged with the preservation of tribal and pioneer-era cemeteries throughout Oregon. It provides grants, education, and technical assistance. The Department Director appoints commissioners.

Revenue Sources and Relationships

Approximately 20% of the Department's Federal Funds are received through the State Historic Preservation Office. About a third of the Federal Funds are provided to local governments in the form of grants to operate local historic preservation programs. Grants are awarded on a reimbursable basis and require at least a 50% state match. Owners of property on the National Register can also apply for a fifteen-year property tax freeze through SHPO. Other revenue for these programs comes from special assessment application sales and Lottery Funds.

Budget Environment

Implementation of the adopted Oregon Heritage Commission plan is dependent on availability of resources. The *Heritage Needs Assessment*, published in 1998, indicates that $40 million is needed to fund specific projects. It is expected that the plan will reduce duplication and promote efficiencies in the conduct of state heritage activities.

The State Historic Preservation Office workload is driven by the number of applicants for listings on the National Register, applicants for the grant-in-aid program, archaeological permits, tax incentives, and by the number of federal projects requiring review annually (3,000/year in 2003-05) for potential impacts on historic and cultural resources.

The Division has also been supporting the Lewis and Clark Bicentennial activities and has initiated planning activities for the 2009 Oregon Sesquicentennial.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $5.2 million is $0.8 million total funds or 18% and 1.50 FTE higher than the 2003-05 legislatively approved expenditure level and $0.45 million or 9.5% higher than the Governor's recommended budget level. The adopted budget recognizes a reduction of $0.23 million to phase out four limited duration positions related to a federal grant for historic preservation activities and $0.3 million Lottery Funds to phase out grants related to the Lewis and Clark Bicentennial Celebration.

The adopted budget adds $0.6 million Lottery Funds to make permanent two limited duration positions approved in 2003-05 to continue relational database work currently underway and to address increases in archaeological work. In addition, two limited duration positions are approved to continue to assist with efforts to meet federal historic preservation requirements and to support professional staff. Also approved is the addition of 0.50 FTE to the Cemetery Commission coordination position to address workload increases in the cemetery preservation grants program, regional workshops, a traveling historic cemeteries exhibition, and the purchase of "registered historic cemetery" signs.

An additional $0.15 million Other Funds and $0.27 million Lottery Funds is approved for professional service contracts to coordinate and plan the 2009 Oregon Sesquicentennial Commemoration; $50,000 Lottery Funds for professional services to evaluate Historic Properties Commission remaining artifacts and to complete an inventory of state-owned cultural properties; and $50,000 Lottery Funds to change the museum grant program into a competitive grant program doubling the current program level. An increase of $0.15 million Lottery Funds is approved to add back expenditure limitation from the 2003-05 biennium for the Lewis and Clark Grant that will be paid in 2005-07 and $50,000 Lottery Funds for a contract payment to the University of Oregon on an archaeological survey to be completed in the 2005-07 biennium. The Legislature also approved a reduction totaling $60,000 for changes to the PERS rate, Department of Administrative Services assessment, Attorney General rate, and Secretary of State audit rate. The remaining budget changes reflect applying the standard inflation rate for services and supplies and state government service charges at a net decrease of $10,000 total funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and scheduled merit increases at $60,000 total funds.

OPRD – Grants

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Lottery Funds	5,076,582	7,897,910	7,999,831	8,998,751
Other Funds	7,914,198	8,169,056	8,404,984	8,389,271
Federal Funds	2,348,658	3,861,010	3,993,282	3,992,326
Total Funds	**$15,339,438**	**$19,927,976**	**$20,398,097**	**$21,380,348**
Positions	9	9	9	9
FTE	9.00	9.00	9.00	9.00

Program Description

The Grants program is responsible for direction and management of the Department's major grant programs. These programs include the All-Terrain Vehicle (ATV) permits program, the Land and Water Conservation Fund, the Local Grant Program, the Recreational Trails Grant Program, and the Recreational Vehicle Grant Program. Funding for these programs is from ATV permit fees, recreational vehicle registration fees, Lottery, Other, and Federal Funds.

Budget Environment

The number of applicants seeking grant program funds drives workload levels. There continues to be a high degree of interest in the Local and Federal Grants program funds. Funding from the National Park Service Land and Water Conservation Fund is expected to remain at current levels. The Local Grant program was increased by $3 million to a total of $8 million for 2003-05. The Legislature's budget increases this amount in 2005-07 by $500,000. Other grant program funding appears to be stable for 2005-07.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $21.4 million is $1.45 million, or 7.3%, higher than the 2003-05 legislatively approved expenditure level and $1 million or 4.8% more than the Governor's recommended budget. The Legislature approved an increase of $0.5 million Lottery Funds for the Local Park Grant program; an increase of $0.5 million Lottery Fund for payment to the City of Keizer for a grant approved in the 2003-05 biennium that will be paid in 2005-07; and a reduction of $20,000 total funds for PERS rate reductions. The remaining increases reflect applying the standard inflation rate for services and supplies and state government service charges at $0.36 million total funds; and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases at $0.11 million total funds.

OPRD – Property Acquisitions

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Lottery Funds	4,000,000	7,000,000	7,000,000	7,500,000
Total Funds	**$4,000,000**	**$7,000,000**	**$7,000,000**	**$7,500,000**

Program Description

The Property Acquisitions program is responsible for direction and management of all real property functions of the Department. The program was increased by $3 million to a total of $7 million for the acquisition and development of new park properties in the 2003-05 biennium. The Department acquired a total of 3,103 acres of property through direct purchase and donation during the biennium.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget reflects a $0.5 million increase from the 2003-05 legislatively approved expenditure level and Governor's recommended budget level. There are no positions budgeted in this program.

OPRD – Operations

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Lottery Funds	9,366,881	12,229,349	12,289,608	12,508,691
Other Funds	46,305,415	51,658,252	53,668,150	56,733,738
Federal Funds	271,469	1,582,652	1,651,823	1,650,130
Total Funds	**$55,943,765**	**$65,470,253**	**$67,609,581**	**$70,892,559**
Positions	639	656	673	674
FTE	400.70	407.22	415.26	416.13

Program Description

The Operations program has responsibility for daily operation of the state park system. Six activity areas make up the Operations program:

- ***Assistant Director for Operations*** (2.00 FTE) consists of the Assistant Director and two support staff to provide overall direction for Operation program activities.
- ***Recreational Programs*** (5.00 FTE) plans, develops, and directs services to enrich visitor experiences by providing oversight for volunteer services, park interpretive programs, and the Recreational Trails program.
- ***Field Operations*** (387.63 FTE) is directly responsible for statewide operations of state parks. Management and maintenance responsibilities include insuring the safety of the public and protection of natural resources and facilities. Park Operations are divided into six geographic areas based on the number of park facilities and visitation. Park Operations employees – rangers and seasonal park aides – maintain park buildings and grounds, operate registration services, collect fees, enforce park rules, and provide information. Other duties include maintenance of trail systems, Willamette Greenway sites, and the Deschutes River Scenic Waterway Recreation Area.
- ***Resource Management*** (9.00 FTE) provides technical expertise and support to field staff on resource management issues and prepares natural resource management plans for individual park areas; manages ocean shoreline state recreation areas; reviews applications and issues permits for construction, fill, and removal; monitors activities and enforces beach use laws; coordinates with other governmental agencies

planning for ocean shore use and protection, emergency services, hazardous waste cleanup, and public safety; manages scenic river waterways; administers the Lower Deschutes River Management and Willamette Greenway programs; and reviews applications and issues permits for state scenic waterways.

- ***Forest Management*** (4.00 FTE) plans and conducts all timber management on state park property, coordinates timber sales and monitors replanting, identifies hazardous and unhealthy trees, oversees removal, trains forestry interns, manages wildlife and habitat programs, and protects threatened and endangered species on state park properties.
- ***Land Management*** (3.00 FTE) administers the Department's land acquisition and concession programs; manages leases of park land for agricultural use; manages the state recreational trails program; and provides technical assistance to field staff regarding trail development in state parks.
- ***Planning*** (5.50 FTE) creates plans for development, protection, and public enjoyment of state park properties; identifies natural, cultural, and scenic resources, opportunities, and constraints; directs the master planning process; and provides direction on planning and development of sites and facilities.

Budget Environment

Growth increases in Oregon's population and economy has increased the demand on current resources and facilities and created a need for new parks and recreational programs. In 1995, the Department implemented a program to promote use of state park campgrounds in off-prime seasons and increase camping revenues. The Department added yurts, cabins, and other promotional activities during this same period.

Additional personnel were provided to meet the growth in demand for visitor services that has resulted from the increased usage. Over 40 million visitors a year come to Oregon State Parks, making them among the most heavily used parks in the nation. Statistics to support this statement include: Oregon parks rank 28th nationally in state park acres per 1,000 population; Oregon ranks 2nd nationally in number of state park visitors (413) per acre; visitors per state park acre ratio of 411:1 far exceeds the national average of 71:1; and Oregon ranks 6th in the nation in the number of campsite rentals per year.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $70.9 million is $5.4 million or 8.3% higher than the 2003-05 legislatively approved expenditure level and $3.3 million or 4.9% more than the Governor's recommended budget. The adopted budget:

- Eliminates $1 million Lottery Funds and $2.5 million Other Funds to reflect the one-time cost in 2003-05 for development of the Hares Canyon State Park.
- Eliminates three positions (2.34 FTE) and shifts personal services savings to services and supplies so contract services can be utilized to manage the Wolf Creek Inn restaurant.
- Adds $0.3 million Other Funds to establish a Natural Resource Specialist 3, a Program Technician 2, and an Engineering Specialist 1 (2.50 FTE) to address increases in Facility Investment Program workloads.
- Adds $0.7 million Other Funds for 14 new positions (5.31 FTE) in four new parks and $0.6 million Lottery Funds for one-time start-up costs.
- Increases $0.3 million Other Funds, $10,000 Lottery Funds, and adds three positions (3.00 FTE) to increase public awareness of rules and regulations at coastal state parks and beaches, to improve beach safety awareness, and to increase awareness of ways to mitigate human impact on habitat and wildlife.
- Increases $0.34 million Other Funds to establish a salmon restoration project grant program utilizing revenues from the special salmon license plates.
- Increases $0.12 million Lottery Funds to provide funding to the Department of Forestry for two seasonal interpretive positions and two interns for the Tillamook Interpretive Center.
- Adds $0.11 million Other Funds and a full time permanent Parks Manager 3 position (.87 FTE) to provide salary, services and supplies, and capital outlay to accommodate the transfer of land and the position to Parks from the Department of Transportation for the Ophir Rest Area.
- Converts $3.8 million Other Funds Nonlimited expenditures to an expenditure limitation for park rentals and sales, real estate transactions, purchases from grants and donations, and concessionaire and entrepreneurial ventures in parks, such as rental of kayaks and selling firewood and fire starters.
- Adds $0.2 million Lottery Funds for payment to the Water Resources Department to recognize the cost of permitting activities in Scenic Waterways.

The Legislature also approved a reduction of $0.9 million total funds to reflect decreases in PERS rates and Department of Administrative Services assessments. The remaining changes reflect applying the standard inflation rate for services and supplies and state government service charges for a net reduction of $0.46 million total funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases for a net increase of $3.78 million total funds, including a 0.49 FTE reduction.

OPRD – Facility Investments

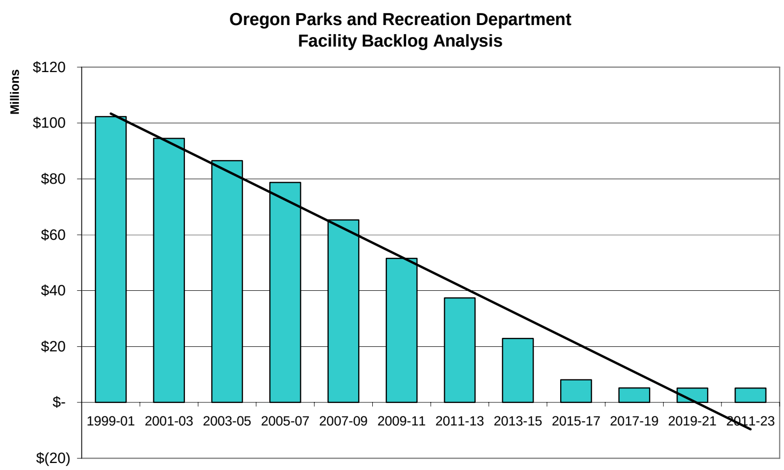
	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Lottery Funds	18,513,186	18,080,140	32,256,264	37,503,570
Other Funds	1,461,538	3,615,358	3,720,403	3,720,297
Federal Funds	524,104	1,465,000	1,500,160	1,500,160
Total Funds	**$20,498,828**	**$23,160,498**	**$37,476,827**	**$42,724,027**
Positions	15	12	17	17
FTE	13.45	12.00	16.50	16.50

Program Description

The Facility Investments includes the following two activity areas:

Parks and Prisons (3.00 FTE) provides labor, materials, and products for state parks through partnerships with state, county, and local correction and youth crew programs. Crews work on various maintenance and development tasks such as recreation trails, cabin construction, yurt foundations, and boat docks in the parks. The Department of Corrections inmates also provide products such as picnic tables, fire rings, nursery stock, signs, cabin furniture, and computer assisted design work.

Facility Investments (13.50 FTE) provides engineering design, survey, and construction oversight for statewide park development projects focused on reducing the backlog of repairs and deferred maintenance. The section also develops standards and construction plans that comply with building codes to meet requirements for land use, climates, soils, purposes, and visitation levels.



Beginning In 2005-07, $20M will be invested per biennium until 2001-15, then $8M to zero out backlog and pick up ongoing reinvestment of approximately $5M/biennium. Assumes 2.5% biennial inflation; $5M/biennium ongoing reinvestment to keep from creating backlog.

Budget Environment

Repair needs continue to compound as buildings age and use increases. Ongoing investments in repairs and renovations from Lottery Funds are planned increase to $20 million per biennium to reduce the backlog to a manageable level by the year 2014.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $42.7 million is $19.6 million or 84.5% more than the 2003-05 legislatively approved expenditure level and $5.2 million more than the Governor's recommended budget. The adopted budget reflects an adjustment reducing the cost of debt service by $5,238 Lottery Funds; an increase of $10,000 total funds reflecting application of the standard inflation rate to services and supplies; an increase of $0.3 million total funds for cost adjustments to unemployment assessments, overtime, temporaries, shift differentials, and merit increases; and a reduction of $80,000 Lottery Funds to keep expenditures of $15 million level for facility improvements that was initiated in 1999.

The Legislature approved a reduction of $40,000 total funds to reflect decreases in the PERS rate and Department of Administrative Services assessments. The adopted budget also:

- adds $8 million to provide funding for Phase 2 development of Hares Canyon State Park in Washington County;
- adds $0.1 million Lottery Funds and one limited duration transportation engineer (1.00 FTE) to continue project, construction, and contract management of the Hares Canyon development;

- adds four permanent positions in lieu of continuing four limited duration positions (3.50 FTE), shifting $0.4 million from services and supplies to personal services, resulting in a net decrease of $2,636 Lottery Funds;
- adds $5.5 million Lottery Funds to accelerate reduction in the backlog of maintenance and repair projects; and
- adds $5.8 million to defease the 1998 Lottery bonds as a result of an increase in the revenue forecast for lottery funds.

OPRD – Oregon State Fair

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds				7,881.618
Total Funds				**$7,881,618**
Positions				59
FTE				19.96

Program Description

The Oregon State Fair conducts an annual state fair that lasts up to 17 days and provides services for ongoing exposition activities including recreational vehicle and organization meetings, concerts, and consumer products and services shows. The purpose of the Fair is to provide information and encourage the growth and prosperity of all agricultural, stock raising, horticultural, mining, mechanical, artistic and industrial pursuits in the state. The Fair represents Oregon's agricultural, industrial, artistic, and cultural heritage. The Fair responds to the needs and interests of visitors, participants, exhibitors, concessionaires, vendors, and facility users.

Revenue Sources and Relationships

The Fair receives Other Funds revenue from grounds admission, commercial exhibit fees, ride and show admissions, parking, space rental fees, and food concessions, which is not sufficient to fully cover increases in fixed operating costs or to fund essential maintenance. The Fair lacks sufficient operating revenue from its fair and exposition events to continue operating as an independent department. The Legislature adopted House Bill 3502 abolishing the Oregon State Fair and Exposition Center, the Oregon State Fair Commission, and the position of Director of the Fair, transferring management, operations, and maintenance of the Oregon State Fair to the Oregon Parks and Recreation Department. The measure provided for all moneys and accounts to be continuously appropriated to the State Parks and Recreation Department. House Bill 3502 directs the effective date of the transfer as January 1, 2006 unless the director determines it expedient to transition at an earlier date. If the Fair demonstrates a need for revenue, Parks is directed to transfer sufficient revenue to cover the gap during the transition.

Budget Environment

Since 1997, the Oregon State Fair has experienced significant difficulty in meeting its operating and debt service requirements out of existing revenue. The Legislature determined that the best option is to combine the Fair with OPRD since the statute for OPRD already includes fairs and heritage programs as part of OPRD's mission and OPRD has the experience with managing state property, providing entertainment, and collecting revenue and has the resources to provide operational support to the Fair. Through budget notes, the Legislature directed the Department to immediately establish a work group to assist in the transfer of Oregon State Fair operations to Parks and report to the Emergency Board on the progress of the work group. The director is expected to complete operating and financial plans and monitor expenses during the transition period to insure accountability (noting that $600,000 of interest earnings on Lottery Fund proceeds is available for facility improvements as determined by the Director of OPRD). OPRD will need to determine if these funds should be used to offset Lottery Funds debt service requirements, or should be used for multipurpose Pavilion completion and related projects.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget provides $7.8 million Other Funds expenditure limitation and 19.96 FTE; roughly 12 months of operating costs. The Legislature provided the State Fair with expenditure limitation to continue operations from July 1, 2005 through December 30, 2005 providing maximum flexibility during the six-month transition to facilitate 2005 fair operations and transition costs. The Department is expected to seek an adjustment to its expenditure limitation and position authority from the Emergency Board following the transfer of the Oregon State Fair to insure sufficient resources to operate successfully.

OPRD – Oregon State Fair Debt Service

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Lottery Funds				4,235,235
Total Funds				**$4,235,235**
Positions				0
FTE				0.00

Program Description

This program pays the principal and interest on construction bonds. The 2001 Legislature added $10 million in lottery-backed bonding authority and increased the debt service from Lottery Funds to $2,611,346. The debt service cost for 2003-05 was $3.7 million. This cost increases to $4.2 million in 2005-07. The increase reflects the full debt service cost for all of the Lottery-backed bonds.

Revenue Sources and Relationships

Lottery Funds revenue from the Parks and Natural Resources Fund was identified by the 2005 Legislature to repay debt service on the capital construction and improvement bonds.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget funds the existing debt service on lottery-backed bonds using OPRD lottery funds.

OPRD – Nonlimited Expenditures

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds (NL)	3,174,407	4,316,065	3,866,065	0
Total Funds	**$3,174,407**	**$4,316,065**	**$3,866,065**	**$0**

Program Description

The Nonlimited program represents activities in park rentals and sales, real estate transactions, and purchases from grants and donations. The Nonlimited category is also used for concessionaire and entrepreneurial ventures in parks, such as rental of kayaks, and selling firewood and fire starters. By law, proceeds from the sale of parklands must be used for parkland acquisition or development.

Legislatively Adopted Budget

The Legislature determined that activities included in this program do not meet the criteria for non-limited authority. The Legislature transferred the $3.8 million Other Funds expenditure limitation to the Parks Operations Program.

Water Resources Department (WRD) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	22,083,182	19,086,885	19,502,806	20,562,623
Other Funds	4,002,424	7,721,123	8,243,164	6,525,415
Federal Funds	825,914	1,264,700	1,137,968	1,137,424
Other Funds (NL)	1,120,686	909,102	614,103	645,639
Total Funds	**$28,032,206**	**$28,981,810**	**$29,498,041**	**$28,871,101**
Positions	154	141	138	140
FTE	152.15	140.21	136.00	138.00

Agency Overview

The Water Resources Department (WRD), guided by its seven-member Commission, sets water policy for the state and issues and protects water rights. By law, all surface and groundwater in Oregon belongs to the public. The agency mission is to "serve the public by practicing and promoting wise long-term water management" through the restoration and protection of stream flows and watersheds and by directly addressing Oregon's water supply needs. Agency clients include the general public, water right holders and applicants, irrigation districts, well owners and constructors, drinking water suppliers, property buyers and sellers, environmental groups, and government agencies.

Budget Environment

Continued growth in population and industry will intensify demands on scare water resources throughout the state. Storage, groundwater sources, improvements in water use efficiencies, water right transfers, and cooperation between agencies, water users, and interest groups will be increasingly important in meeting future water needs. The Endangered Species Act and other environmental regulations have also brought new challenges and have raised the complexity of water allocation decisions.

WRD – Administrative Services Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	2,694,096	2,963,856	2,763,628	2,599,993
Other Funds	441,032	132,842	439,869	444,963
Total Funds	**$3,135,128**	**$3,096,698**	**$3,203,497**	**$3,044,956**
Positions	12	11	11	11
FTE	11.50	10.50	9.50	9.50

Program Description

The Administrative Services Division manages the business and administrative operations of the agency by providing human resource, accounting, payroll, contracting, facilities management, risk management, and training services. The Division is responsible for budget preparation and execution, and coordination of transportation and telecommunications for the Department. The Division also provides management oversight for the Water Development Loan Program and administrative support (accounting, human resources, budgeting, and financial reporting) for the Oregon Watershed Enhancement Board.

Revenue Sources and Relationships

The Division is primarily funded with General Fund, but receives some Other Funds revenue from charges for services and sales of publications and surplus property.

Budget Environment

The Division worked to secure new office facilities for the agency. The 2003-05 budget included funding for the agency's move and higher rent at the new North Mall state office building. The agency is now paying rent for an additional 8,500 square feet of space.

Legislatively Adopted Budget

The adopted budget represents a 5% decrease from the 2005-07 Governor's recommended level. The total funds decrease was caused by reductions in state government service assessments and rates and an across-the-board 3%

reduction in all General Fund services and supplies expenditures. A $60,125 General Fund reduction was taken that reduces a support position providing customer service by 0.50 FTE. The adopted budget added $291,240 Other Funds expenditure limitation for a limited duration position (0.50 FTE) to oversee increased contracted services through legislation giving the agency receipts authority. House Bill 2551 (2003) allows the Department to contract for work to process water right applications when an applicant is willing to pay the actual costs to move their application out of regular processing.

WRD – Field Services Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	8,812,861	6,458,042	6,915,868	8,144,215
Other Funds	319,408	3,713,163	3,664,761	2,128,050
Federal Funds	74,699	0	119,088	118,544
Total Funds	**$9,206,968**	**$10,171,205**	**$10,699,717**	**$10,390,809**
Positions	67	62	64	64
FTE	66.28	62.00	63.50	63.50

Program Description

The Field Services Division administers all water laws, including dam safety and well construction standards, through a regulation and enforcement program. The Division regulates water use in order to protect senior water rights for both in stream and out-of-stream purposes. The Department organized the state's 20 watermaster districts into five regions for more efficient use of field personnel. Field staff includes region managers, watermasters, technicians, and locally-funded assistants who are responsible for dam safety inspections, enforcing water distribution among water right holders, processing water right transfers, hydrologic data gathering, well construction inspections, well monitoring, water right record maintenance, and responses to other requests from outside and within the Department. In addition, field liaisons work with Watershed Councils, municipal water suppliers, local governments, and irrigation districts to explain Commission and Department policies, review water management plans, provide information on water availability and water rights, and bring regional policy issues back to the Department.

Revenue Sources and Relationships

Field Services Division activities are primarily supported by the General Fund. Revenue from Start Card fees (well drilling) comprises about 30% of the Division's Other Funds. Additional Other Funds sources include interest earnings and revenue from the U. S. Geological Survey and Bureau of Reclamation for contracted services. Federal Funds from the Bureau of Reclamation are used for various grants to irrigation districts for mapping and other projects.

Budget Environment

As the demands for water to support economic development, agriculture, restoration of natural fish population, and other uses increase, the need for accurate and complete information on the location, supply, and quality of water sources within the state intensifies. The Department's emphasis on water management and additional statutory obligations are generating additional workload and demands for field enforcement activities.

Field activities are largely dependent on the state's watermasters and their relationships to local communities. Counties are required to provide office space for the state watermasters and are asked to provide clerical support and assistant watermasters. Due to local government budget constraints, the amount of assistance provided to the state's watermasters by local partners has declined in recent years. As of July 2004, 10 assistant watermasters and 10 other staff (mostly clerical) were funded locally compared to 12 assistant watermasters being funded two years previously. This represents a significant decrease from a high of 37 locally-funded assistant watermasters in 1981.

The Field Services Division is responsible for processing water right permit transfers. Final decisions are made on an average of 243 transfer applications per year. However, an average of 290 new transfer applications has been received annually over the past five years, with 307 new applications filed in 2003. This difference in the number of final approvals of transfer requests and the number of requests being filed has led to the creation of a backlog. As of July 2004, there was a backlog of 782 transfer applications awaiting final decisions.

Legislatively Adopted Budget

The adopted budget represents a 10% increase from the 2003-05 legislatively approved level. The recommended budget includes $6.9 million General Fund, a 7% increase from the 2003-05 adopted level. These increases are caused in part by personal services increases related to PERS and health benefits, pension obligation bond debt service, and inclusion of merit increases for those eligible.

The legislatively adopted budget includes the following changes:

- Reversed a shift recommended by the Governor of $1.6 million using federal Pacific Coastal Salmon Recovery Fund (PCSRF) monies received by the Oregon Watershed Enhancement Board to fund positions and related services and supplies supporting the Oregon Plan for Salmon and Watersheds which were previously General Fund supported. The shift was reversed and General Fund was restored for the activities due to concerns expressed by the federal granting authority, NOAA Fisheries, over the appropriateness of using the PCSRF funds for the Department identified expenditures as they did not appear clearly linked to supporting recovery efforts of federally listed endangered salmonids.
- $140,000 General Fund was shifted to Lottery Funds from the Oregon Parks and Recreation Department (OPRD) for work the Water Resources Department does related to the Scenic Waterways Program which is administered by OPRD. A total of $200,000 in the Department's budget related to costs incurred when working on Scenic Waterways Program affected activities was shifted to Lottery Funds.
- $217,572 General Fund and $14,372 Other Funds was reduced to reflect reductions in state government service assessments and rates and an across-the-board 3% reduction in all General Fund services and supplies expenditures.
- $146,507 General Fund was reduced eliminating funding for the Willamette Basin Reauthorization Study, which is on hold pending federal agency action on Endangered Species Act consultation. The reduction also eliminated a position working on finalizing water rights certificates in the North Central Region requiring permit holders to pay costs themselves.
- $235,558 Other Funds expenditure limitation was added to continue two limited duration positions (2.00 FTE) needed to address the backlog of water right transfers.
- $119,204 Federal Funds expenditure limitation was added to continue a limited duration position (1.00 FTE) working on stream flow data in the east region.
- $130,748 Other Funds expenditure limitation was added to continue a limited duration position (1.00 FTE) working as an assistant watermaster in the south central region funded through contracts with counties.
- $131,151 Other Funds expenditure limitation was added to continue a limited duration position (1.00 FTE) that works on requests to allocate conserved water, reviews water conservation and management plans, and processes requests for instream water right leases.

WRD – Technical Services Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	5,506,351	5,467,015	5,319,175	5,493,555
Other Funds	1,767,441	2,268,137	2,334,793	2,301,298
Federal Funds	751,215	995,000	1,018,880	1,018,880
Total Funds	**$8,025,007**	**$8,730,152**	**$8,672,848**	**$8,813,733**
Positions	42	37	36	36
FTE	41.66	37.00	36.00	36.00

Program Description

The Technical Services Division is responsible for managing data and technical analyses of the state's surface and ground water. The Division supports both current and long-term water management needs by collecting, analyzing, and applying information on groundwater and surface water resources. Technical Services consists of Engineering Services, Measurement Services, Enforcement/Well Construction, Information Services, and the Groundwater/Hydrology Section. Programs include hydrologic analysis, groundwater investigations, surface water availability, hydrographics, dam safety, stream gauging, geographic and water rights information systems, well construction and enforcement, water use reporting, and coordination with other agencies on surface and groundwater issues.

Revenue Sources and Relationships

General Fund supports the majority of Technical Services Division activities. Revenue from Start Card fees (well drilling) provides nearly half of the Division's Other Funds. Other Funds sources also include interest earnings and revenue from the U. S. Geological Survey and Bureau of Reclamation for contracted services. Federal Funds from the Bureau of Reclamation are used for various grants to irrigation districts for mapping and other projects.

Budget Environment

As the demands for water to support economic development, agriculture, restoration of natural fish population, and other uses increase, the need for accurate and complete information on the location, supply, and quality of water sources within the state intensifies. The Department's emphasis on water management and additional statutory obligations is generating additional workload and demands for technical services activities.

Legislatively Adopted Budget

The adopted budget represents a 1.6% increase from the 2005-07 Governor's recommended level. This is caused by the restoration of an information systems program position the Governor's budget had eliminated. The adopted budget did include a $369,828 General Fund reduction created through the elimination of a water use reporting position (1.00 FTE) and reduced funding for ground water investigations. The budget shifted $60,000 General Fund to Lottery Funds from the Oregon Parks and Recreation Department (OPRD) for work the Water Resources Department does related to the Scenic Waterways Program which is administered by OPRD. The adopted budget also added $111,067 Other Funds limitation for a Start Card position (1.00 FTE) to continue work on the well log database that is funded by start card fees paid when wells are started, altered, or abandoned.

WRD – Water Rights and Adjudications Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	2,452,402	1,963,426	2,331,705	2,393,674
Other Funds	1,305,282	1,315,565	1,457,909	1,311,665
Federal Funds	0	269,700	0	0
Total Funds	**$3,757,684**	**$3,548,691**	**$3,789,614**	**$3,705,339**
Positions	24	23	19	22
FTE	23.71	22.71	19.00	22.00

Program Description

The Water Rights and Adjudication Division is responsible for evaluating both instream and out-of-stream water right applications and issuing new water right permits and certificates. Besides the actual permitting process, the Division also administers water rights related programs such as water right certification, permit administration, water right transfers, Native American water right negotiations, adjudication of pre-1909 and federal reserved water rights, and hydroelectric licensing. The Division is also responsible for providing public information and customer service, responding to public inquiries, and distributing the notice of applications as well as water right program and policy development.

The Hydroelectric Section has the lead responsibility for Oregon's hydroelectric water right and licensing program. Approximately 164 currently authorized licensed hydroelectric projects pay annual fees to support the coordinated programs in the Departments of Water Resources, Fish and Wildlife, and Environmental Quality.

The Division continues its efforts in the Klamath Basin General Stream Adjudication, a complex situation involving claims for individual, tribal, and federal water rights along with many resource and supply issues. The Department has received more than 5,650 legal contests to 712 claims. The Department continues to schedule contested case hearings for all contests not resolved through an alternative dispute resolution process. Adjudication staff assists with hearings, accomplish field surveys, and work with claimants to resolve issues related to disputed claims. As agreements are reached and as circuit courts issue decrees regarding the stream basin water rights, the Division prepares and issues the associated water right certificates.

Revenue Sources and Relationships

The Water Rights/Adjudication Division receives General Fund support for program functions conducted in the public interest such as processing instream water right applications. The primary Other Funds revenue sources include water right application fees, water right transfer fees, and hydroelectric licensing fees.

The 1999 Legislature provided General Fund totaling $1,077,737 to continue water rights determinations in the Klamath Basin Adjudication and the 2001 Legislature continued this effort with $485,959 additional General Fund. The 2003-05 budget included approximately $400,000 General Fund and two limited duration positions to continue activities associated with the Klamath Basin Adjudication.

Budget Environment

Legislation passed in 1995 (SB 674) revised the water rights application process and enabled the Department to eliminate a persistent backlog of applications. As part of the new process, applicants or the public can file protests and request a contested case hearing. The agency is using an alternative dispute resolution process in an effort to settle protests before taking the cases to the more costly hearing process. Water right applications are expected to remain stable for 2003-05; however, as less water is available for appropriation, the application review process is becoming more complex. The agency anticipates roughly 100 protests for the biennium. The alternative dispute resolution process successfully resolves approximately 94% of the protests, thereby greatly reducing the need for expensive contested case hearings.

Legislatively Adopted Budget

The adopted budget represents a 4.4% increase from the 2003-05 legislatively approved level. The Governor's budget included a fund shift of $137,152 General Fund to federal Pacific Coastal Salmon Recovery Fund (PCSRF) monies to support an instream water rights position which the Legislature reversed due to concerns expressed by the federal granting agency over this proposed use of PCSRF funding. The adopted budget included a total of $673,259 General Fund on a one-time basis to support two limited duration positions and Attorney General costs associated with continuing the Klamath Basin Adjudication of pre-1909 water rights claims. Reductions in the adopted budget included $110,195 General Fund created through the elimination of a position (1.00 FTE) which provided customer service for persons walking in to the Department Headquarters in Salem.

WRD – Director's Office

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	2,093,758	1,959,546	2,172,430	1,931,186
Other Funds	0	3,235	22,518	22,267
Total Funds	**$2,093,758**	**$1,962,781**	**$2,194,948**	**$1,953,453**
Positions	7	7	7	6
FTE	7.00	7.00	7.00	6.00

Program Description

The Director's Office is responsible for the oversight of all policy-related functions of the agency. The Office coordinates the development of administrative rules, provides citizen response and information services, supports the Water Resources Commission activities, develops legislative proposals, and provides oversight of agency activities related to the Oregon Plan for restoration of salmon and watersheds.

Revenue Sources and Relationships

With the exception of small amounts of miscellaneous Other Funds revenue from publication and copy fees, the Director's Office is supported by the General Fund.

Budget Environment

The Director's Office was created to provide additional internal controls and improve performance in key areas and projects affecting the entire agency. The Office has performed a central role in the Klamath Basin Adjudication. The Department began its alternative dispute resolution program in 1995 to reduce reliance on the Attorney General's office in contested cases and to negotiate effective outcomes for contested matters avoiding formal hearing or further litigation.

Legislatively Adopted Budget

The adopted budget represents an 11% decrease from the 2005-07 Governor's recommended level. This decrease is caused largely by the elimination of a fiscal manager position (1.00 FTE) and $198,262 associated General Fund that the Governor's budget recommended be transferred in from the Administrative Services program. The position was intended to serve as a policy coordinator to replace a Principal Contributor 2 policy position on loan to the Governor's Natural Resource Office during 2003-05. The policy position again became available for use by the Department after the Governor's budget was completed, making the transfer in of an unused position unnecessary and made the elimination of that position possible. The adopted budget also eliminated $186,044 General Fund as recommended by the Governor that supported an Intergovernmental Affairs position that worked with tribal governments on water rights issues.

WRD – Water Development Loan Program

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	523,714	275,000	0	0
Other Funds	169,261	288,180	323,314	317,172
Other Funds (NL)	1,120,686	909,102	614,103	645,536
Total Funds	**$1,813,661**	**$1,472,283**	**$937,417**	**$962,811**
Positions	2	1	1	1
FTE	2.00	1.00	1.00	1.00

Program Description

The Water Development Loan Program was established by the Legislature in 1977 as a general obligation bond program to finance irrigation and drainage projects. The loan program was expanded in 1982 and 1988 through constitutional amendments approved by voters to also include community water supply, fish protection, and watershed enhancement projects. To date, the Water Development Loan Program has reviewed 320 loan applications and funded 181 loans. Of the approved loans, 176 were for irrigation and drainage projects; the five remaining loans were for the development of community water supply systems. The last application for a loan from the Water Development Loan Fund was submitted in December 1990.

The Loan Program issued state general obligation refunding bonds in 1991 for $6.9 million that were used to pay off existing outstanding bonded debt at higher interest rates. Bonds have not been issued to finance new water development projects since 1984 and no new loan applications have been received since 1990.

Revenue Sources and Relationships

The limited Other Funds expenditures are for administrative costs, including the program's one staff, agency loan management, and contracts for financial services. These costs are financed from sinking fund interest earnings. Nonlimited expenditures include debt service, bond sale costs, and spending authority for any bond sales. A General Fund appropriation has been used in prior biennia to supplement Other Funds revenue to maintain solvency in the program by covering administrative costs and debt service shortfalls.

Budget Environment

The state retains responsibility for all administrative costs and for any debt service shortfalls until the loans are retired. The Water Development Loan Program has experienced cash flow difficulties from defaulted loans and a class action lawsuit filed in December 1991. The Legislature provided General Fund appropriations of $2.6 million for 1993-95, $2.5 million for 1995-97, and $1.9 million for 1997-99 to maintain Loan Fund solvency. In 1999, the Legislature recommended $550,000 General Fund payments for the ensuing five biennial periods to ensure program solvency. The 2001 Legislature appropriated the recommended $550,000 General Fund, although this amount was reduced by $20,000 during 2002 special sessions. The 2003 Legislature approved a reduction in the General Fund provided as partial coverage of debt service needs, from the $550,000 per biennium target level established in 1999 to a total of $275,000.

Legislatively Adopted Budget

The adopted budget represents a decline of over 30% from the 2003-05 legislatively approved level. The reason for this decline is the elimination of all General Fund support for debt service payments. Debt service will now be paid using Other Funds from loan repayments. The Department is exploring the possibility of calling the remaining bonds.

Oregon Watershed Enhancement Board (OWEB) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	1,036,753	0	0	0
Lottery Funds	30,734,280	30,408,498	43,403,113	49,565,099
Other Funds	1,536,855	2,377,089	2,283,412	2,283,412
Federal Funds	18,398,527	46,978,858	27,271,273	29,309,479
Total Funds	**$51,706,415**	**$79,764,445**	**$72,957,798**	**$81,157,990**
Positions	28	23	26	27
FTE	25.96	22.50	26.00	26.38

Agency Overview

The Oregon Watershed Enhancement Board (OWEB) was established in 1999 by the legislation implementing Ballot Measure 66, which established the framework for the full allocation of the measure's constitutionally dedicated lottery revenue. Ballot Measure 66, passed by the voters in November 1998, amended Section 4, Article XV of the Oregon Constitution to dedicate 15% of net lottery proceeds to be split between state parks and salmon, watershed, and habitat restoration. OWEB was designated as the single state agency charged with administration of the salmon and watershed portion of the dedicated lottery revenues. OWEB consists of 11 voting members, including five voting members from state natural resource agency boards and commissions and six public members appointed by the Governor and confirmed by the Senate. OWEB is also authorized to include up to six additional non-voting members, including the director of Oregon State University's agricultural extension service and representatives from five federal land and natural resource agencies.

HB 3225 (1999) created a Parks and Natural Resources Fund to receive the dedicated lottery revenues and established two accounts, the Parks Subaccount for park purposes and the Restoration and Protection Subaccount for salmon and watershed purposes. Ballot Measure 66 required that at least 65% of the revenue for salmon and watershed restoration be used for capital expenditures. In order to maintain accountability, HB 3225 defined "capital expenditures" and the Watershed Improvement Grant Fund was designated to receive these funds. The bill also established a Watershed Improvement Operating Fund to receive the 35% of lottery revenues able to be used for non-capital expenditures.

OWEB – Operations

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	1,036,753	0	0	0
Lottery Funds	5,958,629	5,138,221	8,281,597	7,685,099
Other Funds	1,536,855	2,377,089	2,283,412	2,283,412
Federal Funds	18,398,527	46,978,858	27,271,273	29,233,918
Total Funds	**$26,930,764**	**$54,494,168**	**$37,836,282**	**$39,202,429**
Positions	28	23	25	26
FTE	25.96	22.50	25.00	25.38

Program Description

The agency's operations are funded through the Watershed Improvement Operating Fund (WIOF) which receives 35% of the Measure 66 dedicated Lottery Funds. The fund was created to facilitate the tracking and accounting of lottery revenues for the required purposes. Use of the revenue in the WIOF is authorized for the operational expenses of OWEB; activities of state and local agencies and other public entities related to the restoration and protection of native salmonid populations, watersheds, fish and wildlife habitats, and water quality; and watershed improvement grants that are not capital expenditures such as funding for education and technical assistance.

Revenue Sources and Relationships

The addition of slot machine style gaming by the Oregon Lottery Commission significantly increased the amount of Lottery Funds revenue forecasted to be available for watershed improvement and salmon recovery activities during the 2005-07 biennium. The close-of-session lottery forecast for the 2005-07 budget (May 2005) assumed $69.8 million Lottery Funds revenue will be generated for the Restoration and Protection Subaccount in the 2005-07 biennium which represents a significant increase from prior biennia created largely by inclusion of an estimated $9 million in additional revenue due to the authorization of slot machine style gaming. In addition, $2.9 million of Lottery Funds for non-capital expenditures and $5.4 million of Lottery Funds for capital expenditures remained unallocated and unexpended at the end of the 2003-05 biennium and are therefore available for expenditure during the 2005-07 biennium. Inclusion of these carryover amounts increases the total Measure 66 Lottery Funds available for expenditure in 2005-07 to a total of $78.1 million. Based on the constitutional split between operations and capital expenditures, $27.3 million of this total will be available for non-capital expenditures during the 2005-07 biennium.

Federal Funds are derived primarily from National Oceanic and Atmospheric Administration - Fisheries, an agency within the U.S. Department of Commerce, which administers the Pacific Coastal Salmon Recovery Fund (PCSRF). PCSRF monies were authorized by Congress in 2000 and are for salmon habitat restoration, stock enhancement, and research. Congress approved $13.1 million for Federal Fiscal Year (FFY) 2004 during the interim. This amount included a Congressional earmark of $1.1 million for fish marking equipment. In April 2003, OWEB received $8.3 million in expenditure limitation authority by the Emergency Board for the FFY 2004 appropriation. This left approximately $3.6 million uncommitted at the end of 2003-05. In late November 2004, Congress approved FFY 2005 funding of $13 million, including another $1 million earmark for fish marking equipment. With this appropriation there will be approximately $16 million of uncommitted PCSRF Federal Funds immediately available for expenditure during 2005-07. The federal grant amount for FFY 2006 and beyond is not known and no expenditure limitation was included in the adopted budget. If, and when, a Congressional appropriation is made, OWEB can request expenditure authority from the Emergency Board.

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. These funds are used primarily to fund road related fish passage projects.

Budget Environment

One of the fundamental challenges of the Oregon Plan is the coordination of actions by a variety of federal, state, and local entities to restore and manage watershed health. Since the Oregon Plan was founded largely on the principles of local involvement and volunteerism, OWEB provides an important role by distributing funding for projects, offering technical assistance, and making information available. There is some uncertainty over the continued availability of PCSRF monies from the federal government. Continuing federal budget deficits could constrain discretionary spending in the future and result in reduced federal funding for salmon recovery.

Legislatively Adopted Budget

The adopted budget for Operations represents a 28% decrease from 2003-05 legislatively approved levels. This change is due, in large part, to removal of 2001-03 carryover Federal Funds from the Pacific Coastal Salmon Recovery Program included in the 2003-05 adopted budget and removal of $8.3 million PCSRF for the FFY 2004 appropriation approved by the Emergency Board in April 2004 and included in the 2003-05 legislatively approved budget totals.

The legislatively adopted budget for the Operations program includes the following changes:

- $8.5 million Federal Funds was added to accommodate Pacific Coastal Salmon Recovery Fund (PCSRF) Federal Funds used for fund shifts in the Departments of Agriculture, Fish and Wildlife, and Environmental Quality. These fund shifts generate a like amount of General Fund savings.
- $2.8 million operations Lottery Funds and $1.6 million Federal Funds was used to fund the non-capital grant program for projects not eligible for funding using Ballot Measure 66 capital Lottery Funds such as monitoring, watershed education, and technical assistance. If additional PCSRF monies become available during the biennium OWEB will request that the Emergency Board included all or some of these monies in the non-capital grant program through the authorization of additional Federal Funds expenditure authority.
- $1.7 million PCSRF Federal Funds was added to supplement the base budget funding for Watershed Council administrative support. Watershed Councils have received about $2.4 million operations Lottery Funds in base support in the past. The Legislature shifted $1.4 million of the base support to PCSRF Federal Funds and reduced the base support by $0.2 million to match a reduction in state support for Soil and Water Conservation Districts who receive their funding through the Department of Agriculture. Total funding

provided by the Legislature for the operation of Watershed Councils totaled $0.8 million operations Lottery Funds and $3.1 million PCSRF Federal Funds.

- $3.5 million Federal Funds limitation was added for carryover expenditure limitation to accommodate grants made during 2003-05 using PCSRF monies that had not yet been completed.
- $230,113 operations Lottery Funds was added to continue a Grant Program Manager (PEM E) position added in 2003-05 as limited duration. The package also added $137,040 Federal Funds from the administrative allowance on PCSRF grants to support a limited duration Information Systems Specialist 5 position (1.00 FTE) for database management and development of applications needed to meet federal reporting requirements.
- $750,000 PCSRF Federal Funds was added to accelerate completion of recovery plans for ESA listed salmon and steelhead. This work will be completed in cooperation with NOAA Fisheries. This is an enhancement to the current costs associated with the federal decision to list a number of salmon and steelhead stocks in Oregon under the federal Endangered Species Act.
- $195,083 Federal Funds and 2 limited duration positions (2.00 FTE) were added to establish an accountant position for processing small grants and an Office Specialist 1 position. Both positions were funded with the administrative allowance on PCSRF grants.
- $114,448 PCSRF Federal Funds was added to support a limited duration Performance Analyst and Reporting Specialist position to serve as dedicated technical staff reporting to NOAA Fisheries on newly established federal quarterly reporting requirements.
- $205,000 Lottery Funds was added to support the Independent Multidisciplinary Science Team (IMST). This increases the total funding for IMST operations to $614,600 operations Lottery Funds. This additional money will be used to add months for research analyst positions, increase Team member time, and increase Team member compensation from $75 to $80 per hour. IMST funding for 2003-05 totaled $600,000. The Governor had recommended adding $547,000 for additional IMST support, but the Legislature reduced this by $342,000 with the understanding that OWEB could request more limitation from the Emergency Board during the interim with a report on IMST activities undertaken to date.
- $100,000 Lottery Funds was added for the Lower Columbia River Estuary Project (LCREP). This increases the total funding for LCREP to $304,800 Lottery Funds. These monies are used as Oregon's share of match required to receive federal funding for habitat restoration and education efforts in the Columbia River region. Washington State also provides match for this effort, which was initiated in 1995.

The following table shows the 2005-07 allocations of all PCSRF Federal Funds and Measure 66 Lottery Funds. Included in these totals, the adopted budget uses $2.6 million of Federal Funds from the Pacific Coastal Salmon Recovery Fund and $10.4 million of Ballot Measure 66 Lottery Funds to support a variety of salmon recovery and watershed restoration activities in the Departments of Fish and Wildlife, Environmental Quality, and Agriculture that had been supported with General Fund in previous biennia. These actions made $13 million General Fund available to address other budget needs.

2005-07 M-66 Lottery and PCSRF Federal Allocations

	M-66 LF Operations	M-66 LF Capital	PCSRF
Available Resources May '05 M-66 forecast and 03-05 unallocated	**27,326,728**	**50,749,655**	**15,780,793**
ODFW	2,060,974	5,050,940	5,718,984
OSP/Fish&Wildlife	5,421,826	774,207	0
DEQ	3,876,542	0	814,293
OWEB	8,340,870	41,300,000	7,277,041
Agriculture	7,621,030	3,623,710	1,967,233

OWEB – Capital Construction Projects

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Lottery Funds	24,337,120	24,221,497	34,621,516	41,455,561
Total Funds	**$24,337,120**	**$24,221,497**	**$34,621,516**	**$41,455,561**
Positions	0	0	1	1
FTE	0.00	0.00	1.00	1.00

Program Description

Capital Construction Projects are funded through the Watershed Improvement Grant Fund (WIGF). The WIGF was an existing fund used by the Governor's Watershed Enhancement Board prior to the establishment of OWEB to support on-the-ground projects and other eligible expenditures under the Oregon Plan. With passage of Ballot Measure 66 and its implementing legislation (HB 3225), the funding source for the WIGF changed. Ballot Measure 66 required that 65% of the dedicated lottery revenues be used for capital expenditures, but failed to define the term. HB 3225 defined capital expenditures to mean projects that restore, enhance, or protect fish and wildlife habitat, watershed functions, native salmonid populations, or water quality or expenditures for personal property of a nonexpendable nature used in the enforcement of fish, wildlife, and habitat protection laws and regulations.

Revenue Sources and Relationships

The close-of-session lottery forecast for the 2005-07 budget (May 2005) assumed $69.8 million Lottery Funds revenue would be generated for the Restoration and Protection Subaccount in the 2005-07 biennium. In addition to this amount, $8.2 million of Lottery Funds from revenue in excess of the amount included in the close-of-session forecast remained unallocated at the end of the 2003-05 biennium, and is available for expenditure during the 2005-07 biennium. Inclusion of carryover increases the total Measure 66 Lottery Funds available for expenditure in 2005-07 to a total of $78.1 million. Based on the constitutional 35/65 split between operations and capital expenditures, $50.7 million of this total dedicated Lottery funding is available for capital expenditures during the 2005-07 biennium.

Of the $50.7 million available for capital expenditures, the adopted budget provided $41.3 million for grant project funding left to the discretion of OWEB. The remaining $9.4 million is distributed to other agencies, including the Department of Agriculture ($3.6 million) for protection of riparian and wildlife habitat through weed and invasive species control, the Department of State Police ($0.8 million) for vehicle and other equipment expenses related to fish and wildlife enforcement activities, and the Department of Fish and Wildlife ($5 million) for the continuation and enhancement of cooperative fish screening, fish by-pass device, and fish passage programs.

Budget Environment

The ability of OWEB to be effective in promoting and implementing programs to restore, maintain, and enhance Oregon watersheds is partially dependent on the cooperation of other state natural resource agencies and on the capacity of local conservation efforts to identify, design, and develop projects in a timely manner. OWEB has two grant cycles annually for consideration of capital project funding.

Legislatively Adopted Budget

The adopted budget for OWEB Capital Construction Projects totals $41.3 million, an increase of 70% from the 2003-05 approved levels. This increase is caused by higher forecasts for lottery revenue resulting from the addition of slot games and the ending of one-time funding provided to ODFW for construction of a Hatchery Research Center. The adopted budget is 19.3% higher than the Governor's recommended level for 2005-07 because the Governor did not have enough time to add lottery funds limitation for the increase in revenue due to the introduction of slot gaming. OWEB receives six-year capital expenditure limitation for capital Lottery Funds. The adopted budget also added $155,561 of Ballot Measure 66 operations and federal PCSRF monies to fund a limited duration position that will work on validation of restoration projects funded with Ballot Measure 66 capital Lottery Funds. This position will validate if projects are completed as described, functioning as intended, and actually producing the outcomes expected when funded, and will help refine best practices for similar types of restoration projects.

OWEB – Research and Development

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Lottery Funds	438,531	1,048,780	500,000	500,000
Total Funds	**$438,531**	**$1,048,780**	**$500,000**	**$500,000**

Program Description

The Restoration and Protection Research Fund (RPRF) was created by the 1999 Legislature in HB 3225. The fund is to be used for funding research and other activities related to the restoration and protection of native salmonid populations, watersheds, fish and wildlife habitats, and water quality, including but not limited to research, monitoring, evaluation, and assessment related to the Oregon Plan. All interest earnings on the Restoration and Protection Subaccount, the Watershed Improvement Operating Fund (WIOF), and the Watershed Improvement Grant Fund (WIGF) are credited to the Restoration and Protection Research Fund.

Revenue Sources and Relationships

Revenue for the Restoration and Protection Research Fund is derived from interest earnings on the other OWEB funds, including the operating and grant funds. Approximately $1.6 million is estimated to be available in the fund for research projects in 2005-07.

Budget Environment

During deliberations on the implementation of Ballot Measure 66 and the continuation of the Oregon Plan, the Legislature noted that a funding gap existed for research activities not specifically tied to any individual grant or on-the-ground project. The Restoration and Protection Research Fund was established to create a funding source to address these issues. However, the Attorney General has advised OWEB that expenditures of interest earned on the WIOF and WIGF are constrained in the same manner as expenditures from each of these funds are constrained. This means only interest on the Operation Fund can be used for expenditures not tied to a specific capital project.

During the 2001-03 interim, the Emergency Board provided OWEB a total of $0.8 million expenditure limitation for a study of fish deformities in the Newberg pool of the Willamette River and a Department of Forestry study on the effectiveness of state required forest practices. The 2003-05 legislatively adopted budget included about $0.4 million to complete the study of Willamette River Toxins and continue the Hinkle Creek Paired Watershed study on the effectiveness of Oregon's forest practices regulations. The adopted budget also included $650,000 for continuation of the Conservation Hatchery Improvement Program and allocated $1.2 million on a one-time basis directly to the Department of Fish and Wildlife to convert the Fall Creek Hatchery into a Hatchery Research Center. The Hatchery Research Center will provide valuable insight into the interaction of hatchery reared salmonids with wild fish and investigate methods of raising fish that will mitigate any negative impacts on wild fish populations.

Legislatively Adopted Budget

The adopted budget includes $500,000 carry forward funding for continuation of the Conservation Hatchery Improvement Program using unexpended project funds initially provided for expenditure in 2003-05. Limitation for additional projects could be approved by the Emergency Board during the interim.

TRANSPORTATION

Department of Aviation (Aviation) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	11,446,996	13,990,208	7,074,411	6,604,588
Federal Funds	0	0	10,510,000	10,510,000
Total Funds	**$11,446,996**	**$13,990,208**	**$17,584,411**	**17,114,588**
Positions	16	16	16	16
FTE	16.00	16.00	16.00	16.00

Agency Overview

The 1999 Legislature created the Department of Aviation as a stand alone agency to advocate for the safe operation, growth, and improvement of aviation in Oregon. Its goals include developing aviation as an integral part of Oregon's transportation network, including encouraging aviation-related economic development and increasing commercial and general air services in Oregon. The seven member State Aviation Board, appointed by the Governor, represents aviation interests from the public and private sectors. The Board provides policy direction to the Department.

Sixteen staff persons support four programs: 1) Operations; 2) Search and Rescue; 3) Capital Improvements; and 4) Capital Construction. Staff conduct aviation safety and public education programs, safety inspections, and assist local governments with guidance, information, and technical support regarding airport ordinances, layout, land use laws, grant and entitlement programs, pavement management, and airport master plans. In addition, the Department operates 28 state airports and registers all pilots and nonmilitary aircraft based in Oregon.

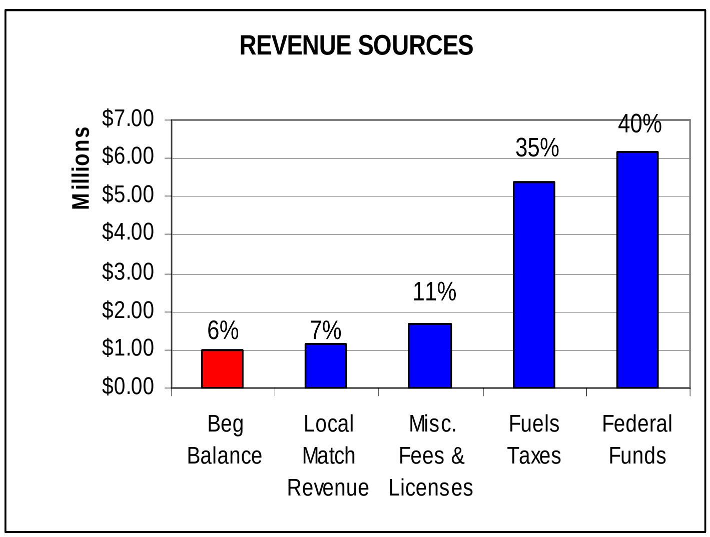
The Department administers three funding programs: 1) Federal Aviation Administration (FAA) grant programs, the Airport Improvement Program (AIP), and the FAA General Aviation (GA) Entitlement Program; 2) Pavement Maintenance Program; and 3) the state's own grant program, Financial Aid to Municipalities (FAM).

Revenue Sources and Relationships

The Department is supported entirely by Other Funds. Total estimated revenue for 2005-07 is $15.4 million. The revenue is made up of about 35% fuels tax, 40% Federal Funds, and 6% beginning fund balance, with the remaining 18% from other revenue sources, such as registration fees, leases, search and rescue, and local match revenue.

The jet fuel tax remains at $0.01 per gallon, as approved by the 1999 Legislature. Of the $0.01 tax, one half goes to the Department's operating budget and the other half is dedicated to pavement maintenance for all public owned and public use airports. The aviation fuel tax remains at $0.09 per gallon, as approved by the 1999 Legislature. Of the $0.09 tax, $0.03 goes to the Department's operating budget and $0.06 is dedicated to pavement maintenance. The fuel taxes generated $5.1 million for the 2003-05 biennium. Over $5.4 million is projected to be generated in 2005-07.

Funds from the FAA AIP provide grants for capital construction projects and system planning for state-owned and public-use airports. The AIP grants require a 10% state or local match. The Aviation Investment and Reform Act (AIR 21 Bill) adopted by Congress (GA Entitlement Program) provides $150,000 per year for three years awarded to eligible airports. Oregon has 47 eligible airports, 19 of which the Department has administered the GA Entitlement Program for during 2002-03. Eligibility is based on a federal formula; therefore, the state does not have to compete for the funds. The funds provide improvements to airport security, pavement, and lighting and require a 10% match.



The Pavement Maintenance Program for Core System Airports is funded by the State Aviation Fuel Tax revenue. Airport sponsors participate with local matching funds. The fund's purpose is to help reduce airport pavement maintenance backlog. Staff provides maintenance on a three-year revolving geographical basis.

Financial Aid to Municipalities (FAM) is the Department's grant program. Funds are awarded at a maximum of $10,000 and may be used for federal grant matches. The FAM funds must be spent in a two-year period or the funds are no longer available and are reallocated in the next biennium.

The Department registers and collects fees from about 6,700 pilots, deducts for administrative costs, and passes the dedicated funds to the Oregon Emergency Management Search and Rescue. The registration fee is $8 for initial registration (good until the pilot's birthday), and $16 for renewals, which are for a two-year period. Approximately 4,900 aircraft are registered with the Department. Fees are based on the class of the aircraft. The Department also annually licenses 25 aircraft providers for a fee of $250 each. These fees are used to fund operations.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget provides $17.1 million total funds and 16.00 FTE. This represents an increase of $3.1 million or 22.3% from the 2003-05 legislatively approved budget and $0.5 million or 2.7% less than the Governor's recommended budget. The adopted budget reflects increases of $3.4 million for policy packages with remaining changes related to applying the standard inflation rate for services and supplies and state government service charges, and cost adjustments for unemployment assessments, pension bond payments, overtime, temporaries, shift differentials, and merit increases. Specific details are discussed under each program unit.

Aviation – Operations Program

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	7,939,546	7,624,029	6,479,946	6,010,434
Federal Funds	0	0	1,260,000	1,260,000
Total Funds	**$7,939,546**	**$7,624,029**	**$7,739,946**	**7,270,434**
Positions	16	16	16	16
FTE	15.50	15.50	15.50	15.50

Program Description

The Operations Program is responsible for the following six service areas:

- ***Airport Services*** (3.00 FTE) manages more than 200 leases and other property agreements; oversees inspections, planning, engineering, and construction on development projects; coordinates tenant relations for state-owned airports; and applies for and administers the Federal AIP grants.
- ***Airport Maintenance*** (2.00 FTE) maintains state-owned airports to federal and safety standards including routine and preventive maintenance such as mowing, obstruction removal, pavement preservation, and navigational aid maintenance.
- ***Aircraft and Pilot Registrations*** (0.50 FTE) involves registering 6,700 pilots and 4,900 aircraft annually.
- ***Statewide Services*** (5.00 FTE) leads and manages the Department; develops statewide aviation policy and solutions to aviation problems (noise, airport sites, funding); fosters strong relationships and partnerships; manages agency budget and finances; provides public information and outreach services; maintains an aviation lending library; and provides support services.
- ***Airport Operations*** (1.00 FTE) is responsible for airport safety inspections on state-owned and other Oregon public airports; investigates proposed airport and heliport sites; licenses and registers airports and heliports; provides technical safety advice on facilities siting and feasibility issues.
- ***Planning*** (4.00 FTE) develops and implements the Oregon Aviation Plan and related policies; conducts continuous aviation system planning; provides technical assistance on airport planning and development; administers grant and aid programs for airport development; comments on land use and zoning requests that may impact civil aviation; reviews proposed development for safety hazards to aviation; and works with partner communities and agencies to improve the level of airline services.

Budget Environment

The budget environment has changed for the Department in that it has lost 25% of its staff due to retirements and staff turnover. Considerable history, experience, and knowledge left with the retirees. The Department is expecting to gain new insight and flexibility to meet the new demands and scrutinize programs for improvements. The State Aviation Board is beginning to aggressively pursue aviation issues and provide strategic direction for the Department.

The terrorist attacks of September 11, the rising costs of new aircraft and fuel, dissatisfaction with commercial airline services, and community interest in local air transportation for access to urban and recreational areas are all driving the trend for increased general aviation activity. Other budget drivers include:

- the ability to transfer airport ownership to local communities for support and maintenance;
- an increased focus on alternate connections and air travel options;
- complaints and conflicts over aviation issues, in particular, airport noise levels; and
- Oregon companies' need for rapid and efficient transport of manufactured goods between smaller communities.

The Department is facing aging facilities infrastructure; in particular, pavement at public use airports constructed during World War II and the deterioration of the Department's one public building constructed in 1955. The 1999 Legislature foresaw the problem with public use airport pavement and created the Statewide Airport Pavement Maintenance Program. However, the condition of the Salem aviation building has not been addressed.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget provides $7.3 million Other Funds and 16 positions (15.50 FTE). This represents a decrease of $0.35 million or 4.6% from the 2003-05 legislatively approved budget and $0.5 million less than the Governor's budget. A technical adjustment shifts Other Funds expenditures to Federal Funds for system planning that is funded by federal formula grants and received directly from the Federal Aviation Administration; the shift is made in the amount of $1.3 million for no net increase or decrease in the Department's budget. The adopted budget is decreased $0.65 million Other Funds to phase out excess expenditure limitation in Special Payments and decreased $7,656 Other Funds to reflect estimated savings from the "smart buy" initiative to create savings among state agencies by leveraging the state's purchasing power. The remaining increases relate to applying the standard inflation rate for services and supplies adjusted by the Legislature to reflect reductions in statewide service charges and assessments, at $0.1 million Other Funds; and cost adjustments for unemployment assessments, pension bond payments, overtime, temporaries, shift differentials, and merit increases of $0.2 million Other Funds.

The Legislature did not approve policy packages totaling $0.45 million to fund grants for regional air taxi service, youth aviation careers, and maintenance of the Department's aircraft. The Legislature instructed the Department to complete a thoughtful review of general aviation in the state and develop a master plan consistent with Oregon statute that will guide the use of aviation resources in management, advocacy, and investment decisions and report to the Emergency Board in the interim or the next Legislative Assembly. Additionally, the Legislature discussed the usage of the Department's aircraft and whether repairs would result in an increase in or preservation of the value of the aircraft. The Legislature instructed the Department to conduct a cost/benefit analysis of ownership against charter use of aircraft and report to the Emergency Board during the interim or to the next Legislative Assembly.

Aviation – Search and Rescue Program

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	152,050	100,177	107,623	107,312
Total Funds	**$152,050**	**$100,177**	**$107,623**	**107,312**
FTE	0.50	0.50	0.50	0.50

Program Description

The Search and Rescue program unit accounts for and distributes net revenues from pilot registration fees to Oregon State Police, Office of Emergency Management (OEM) to coordinate all air search and rescue efforts statewide including searches for lost people and overdue aircraft. OEM also develops and trains search and rescue volunteers working closely with the U.S. Air Force, Civil Air Patrol, volunteer pilots, county sheriffs, the U.S. Coast Guard, and other branches of the military during air searches.

Budget Environment

The Search and Rescue Program collects pilot registration fees, deducts administrative costs, and distributes the funds to the OEM. Funds are restricted to aerial search and rescue activities. The Department accounts for 0.50 FTE to provide the administrative function of registering pilots and collecting fees.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget provides $0.1 million Other Funds for the Search and Rescue Program. This represents an increase of $7,135 or 7.1% over the 2003-05 legislatively approved budget and $311 less than the Governor's recommended budget. The adopted budget is increased by $2,861 Other Funds for applying the standard inflation rate of 2.4% for services and supplies adjusted by the Legislature to reflect reductions in statewide service charges and assessments; and cost adjustments of $4,274 Other Funds for unemployment assessments, pension bond payments, overtime, temporaries, shift differentials, and merit increases.

Aviation – General Aviation Entitlement Program

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	0	6,016,000	486,842	486,842
Federal Funds	0	0	9,250,000	9,250,000
Total Funds	**$0**	**$6,016,000**	**$9,736,842**	**$9,736,842**

Program Description

This program provides for the state administration of the federal General Aviation Entitlement grant program.

Revenue Sources and Relationships

The primary source of revenue for this program is through dedicated federal grants awarded by the FAA under the General Aviation Entitlement program. Federal funds and local community match funds pass through the Aviation's budget to fund this program.

Budget Environment

There are 46 airports in Oregon eligible for the federal funds. The Department serves as grant sponsor to coordinate and administer the distribution of these entitlement funds to Oregon's smaller eligible airports. Each of the airports can be allocated up to $150,000 per year and annual allocations can be banked for up to three years for a maximum of $450,000. The Department projects 23 airports will complete projects during the biennium.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget provides $9.7 million Total Funds, representing an increase of $3.7 million or 62% above the 2003-05 legislatively approved budget. The adopted budget specifically adds $3.4 million Federal Funds and $0.2 million Other Funds to reflect increased availability of General Aviation Entitlement Funds through the Federal Aviation Administration. A technical adjustment shifts Other Funds expenditures to Federal Funds for the aviation entitlement program that is funded by federal formula grants and received directly from the Federal Aviation Administration; the shift is made in the amount of $5,852,388 for no net increase or decrease in the Department's budget. The remaining increases relate to applying the standard inflation rate for services and supplies and for state government service charges, at $0.1 million Other Funds.

Aviation – Capital Improvement Program

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	144,468	250,000	0	0
Total Funds	**$144,468**	**$250,000**	**$0**	**$0**

Program Description

This program provides for airport improvement projects that are less than $500,000 and can be accomplished in one biennium. Funding is 90% Federal Funds and 10% Other Funds.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget reflects no capital improvement projects for the 2005-07 biennium.

Aviation – Capital Construction Program

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	3,210,932	2	0	0
Total Funds	**$3,210,932**	**$2**	**$0**	**$0**

Program Description

This program provides for the development and improvement of state-owned airports for community access, development, and emergency use.

Revenue Sources and Relationships

The primary source of revenue for this program is dedicated federal grants awarded by the FAA under the AIP. Ninety percent of eligible land and construction costs are paid through Federal Funds. The 10% match may be provided through the Department's FAM grant program.

Budget Environment

The state competes with other Oregon airports for a share of the Airport Trust Fund for state-owned airport improvements. The FAA requires potential capital improvement projects be submitted for consideration of inclusion in the FAA Capital Improvement Program five-year plan. The Department is typically notified of airport improvement when projects are programmed for funding as they move up on the FAA's Capital Improvement Program five-year plan priority list. The FAA prioritizes projects based on criteria and availability of funds. When the state is notified that a project is programmed for funding, it is required to provide plans, specification development, and proceed with bid and contractor selection. The state can then request funding for construction and recovery of engineering and administration costs. The Department has identified over $23 million in federally eligible projects for the years 2003 through 2009.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget reflects no capital construction projects for the 2005-07 biennium. The Department expects to finalize plans to co-locate the Salem office building with the Oregon Military Department's National Guard Army Aviation Facility and report to the Emergency Board during the interim.

Department of Transportation (ODOT) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	17,113,741	3,914,616	9,026,167	8,626,167
Lottery Funds	10,108,962	21,145,902	33,187,224	22,162,072
Other Funds	1,629,496,788	2,504,907,029	2,540,943,950	2,608,580,793
Federal Funds	50,560,257	69,297,154	66,600,703	64,780,422
Other Funds (NL)	152,696,986	94,014,523	208,967,153	17,663,632
Total Funds	**$1,859,976,734**	**$2,693,279,224**	**$2,858,725,197**	**$2,721,813,086**
Positions	4,856	4,693	4,687	4,650
FTE	4,693.62	4,585.68	4,589.58	45,62.87

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 reduced use of the automobile in congested areas and increased emphasis on alternative modes of transportation. The Department is under the direction of a Director and five-member Oregon Transportation Commission, all of whom are appointed by the Governor, and confirmed by the Senate.

Revenue Sources and Relationships

The bulk of the Department's revenues originate from motor fuel taxes, licenses, and fees that are constitutionally dedicated and Bond Revenue that is supported by increases in licenses and fees. The State Highway Fund is shared among ODOT, counties, and cities. Out of $3.9 billion to be collected for 2005-07, $660 million is projected to accrue to other state agencies and local governments, leaving $3.2 billion available for expenditure on transportation programs. The most recent revenue forecast projects gross highway fund collections to increase by about 6.4% from the 2003-05 estimates. Total state motor fuel tax receipts are forecast to increase 4.2%, as the slow, but steady, recovery in Oregon's economy is expected to continue. Notwithstanding the recent run-up in oil and gasoline prices, gas and particularly diesel consumption have remained comparatively buoyant in CY2004. The consensus outlook for oil prices over the next two years is for a return to lower, more fundamentally based levels. Despite elevated price levels in oil and gasoline, fuel consumption has not markedly deteriorated. The biggest risk in the motor fuels outlook is the more indirect effect of higher hydro-carbon prices pushing the economy into a prolonged soft spot or possibly a downturn, and thereby reducing travel demand.

There has been a dramatic impact on forecast revenues stemming from the passage of HB 2041 ("OTIA III") in the 2003 legislative session. The major fee and tax increases created under HB 2041 span the range of title and registration fee increases by Driver and Motor Vehicle Services (DMV) to higher weight-mile tax rates and registration fees for heavy vehicles under the Motor Carrier Transportation Division. OTIA III augments the initiatives from OTIA I and II from 2001 legislation and represents a significant commitment to improving Oregon's highway, road, and bridge infrastructure. Passage of HB 2041 reflects strong recognition of the fundamental role that transportation infrastructure plays in the overall and long-term vitality of Oregon's economy. In addition, such a major stimulus to job creation in the construction sector, coupled with attendant ripple effects on related economic activities, is a key step toward helping to sustain the state's economic recovery over the intermediate term.

Weight-mile fuel tax rates were increased uniformly by 9.9% as a partial result of the OTIA III legislation. Over and above the tax increase, freight hauling has been unusually robust in the current recovery, spearheaded principally by efficiency gains from industry consolidation coming out of the recession and from capacity constraints occurring in the rail freight sector. The 2005-07 forecast for all motor carrier activities combined increases by about 8.2% from 2003-05 levels. DMV revenues are forecast to rise 8.6% in the 2005-07 biennium over 2003-05. This stems principally from title fee and vehicle registration fee increases contained in the HB 2041 law, but several other DMV transactions under the DMV are affected, as well. The incremental revenues generated by the new legislation are largely pledged to specifically support debt service on the indebtedness authorized under OTIA III in order to quickly address bridge repair and replacement.

The Transportation Operating Fund was established by the 2001 Legislature (HB 3882) to pay the expenses of statutorily required or authorized activities that may not be funded with State Highway Fund monies. Among the revenues deposited in the Transportation Operating Fund are fuel tax revenues collected on sales of fuel for non-road uses, if a claim for a refund is not filed. The Department of Administrative Services and ODOT oversee surveys conducted by Oregon State University to estimate the amount of taxes paid on motor vehicle fuels for non-road uses. Based on the most recent survey and current demographic information, it is estimated that approximately 17 million gallons of fuel is used per year in this category for non-road uses. After accounting for valid refund claims, about $8.1 million in the 2005-07 biennium is expected to be available for non-highway uses. These revenues can be used for expenses ineligible for payment from constitutionally restricted Highway Funds.

Federal appropriations from the Federal Highway Trust Fund, authorized by the Transportation Equity Act for the 21st Century (TEA-21) are received and reported as Other Funds. The total amount of Federal Funds in this category for the 2005-07 biennium is over $539 million. Federal Funds received and reported as federal revenue are grants or direct revenue for specific programs such as transit and rail projects. The state currently receives about $300 million a year in federal highway funds; local transit districts around the state receive millions of federal dollars for transit stations, bus purchases, light rail, and operating assistance each year. The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) was enacted August 10, 2005, authorizing the Federal surface transportation programs for highways, highway safety, and transit for the 5-year period 2005-2009. As a result of congressional action to reauthorize and increase Federal-Aid Highway funding to states, the Legislature expects the Department to request additional expenditure authority for projects and Public Transit. Federal Funds make up about 21% of ODOT's budget.

The Department receives $20 million in Lottery Funds to make bond installment payments for the Westside Light Rail Line, construction of which is now complete. The Westside Light Rail bonds are scheduled to retire in 2011. The 2001 Legislature authorized the sale of $35 million in Lottery Bonds to participate in the South Metro Commuter Rail Project during the 2001-03, 2003-05 and 2005-07 biennia. The first bonds will be sold in the 2005-07 biennium with no debt service payments until 2007-09. In 2003 the Legislature authorized the sale of $2 million in bonds to capitalize the Short-Line Premium Credit Account, and the sale of $8 million in bonds for Industrial Spur projects. Lottery Funds allocated to pay the debt service on these bonds are estimated at $2.2 million. The General Fund is used to partially fund passenger rail service in the Willamette Valley. The following table summarizes the Department's major sources of revenue.

OREGON DEPARTMENT OF TRANSPORTATION MAJOR SOURCES OF REVENUE			
Revenue Source	**2003-05 Estimated**	**2005-07 Legislatively Adopted**	**Percent of Total Revenue**
Beginning Balance	$453,280,606	$348,705,882	9.23%
General Fund	$3,914,616	$8,626,167	0.23%
Federal Revenue	$68,004,521	$64,780,422	1.71%
Federal Revenues as Other	$851,264,420	$539,393,852	14.28%
Other Funds:			
Charges for Services	$52,270,238	$1,955,965	0.05%
Drivers' Licenses	$78,586,673	$82,378,886	2.18%
Interest Income	$15,766,963	$15,701,881	0.42%
Lottery Funds	$21,143,267	$33,186,430	0.88%
Motor Vehicle Fuels Tax	$818,175,061	$844,257,323	22.35%
Other Licenses and Fees	$64,978,582	$75,493,019	2.00%
Other State and Federal	$19,667,348	$15,953,953	0.42%
Revenue Bonds	$345,572,000	$743,782,016	19.69%
Sales Income	$16,736,755	$20,107,175	0.53%
Vehicle Licenses	$375,817,879	$417,118,694	11.04%
Weight Mile Tax & Fees	$418,198,777	$454,977,406	12.04%
Transportation Operating Account	$7,900,000	$8,100,000	0.21%
Transfers In (Revenue, etc.)	$56,437,682	$103,448,591	2.74%
Subtotal Revenues	**$3,667,715,388**	**$3,777,967,662**	100.00%
Transfers to Other Agencies	($65,298,560)	($71,935,984)	
Transfers to Cities and Counties	($580,529,120)	($588,405,719)	
Revenues Available for Expenditure	**$3,021,887,708**	**$3,117,625,959**	

Budget Environment

Oregon's population growth rate, stronger employment, and E-commerce continue to increase traffic congestion and demands for maintenance, pavement preservation, Driver and Motor Vehicle services, and Motor Carrier Transportation activities. At current funding levels, ODOT predicts critical transportation needs will not be met during the next 20 years. The state's aging transportation infrastructure is more costly to operate and maintain. One-fourth of the state's bridges have exceeded their design life of 50 years. Other variables influencing the agency's budget include higher demand for use of trucks to ship products to market; environmental regulations, which add to the cost for design and construction requirements; and extreme weather conditions that cause unexpected emergency repair costs.

The Oregon Transportation Commission identified road and bridge repair, preservation, and maintenance as its highest priority for the 2005-07 biennium. Local governments face equally critical transportation issues. Pressure on property taxes and local general funds, combined with no increase in state funding other than the Oregon Transportation Investment Acts (OTIA), have reduced local community resources for transportation. The Legislature adopted a plan to provide new revenue to finance $1.9 billion in highway user tax bonds for bridge repair and modernization projects over eight years. For the 2005-07 biennium, $701 million in bonds will be issued for bridges and modernization projects.

The agency General Fund component partially funds the Willamette Valley Passenger Rail. A portion of the budget that had been previously General Fund was offset by adjusting the budget to reflect the use of Other Funds from the Transportation Operating Account ($8 million) for the Motor Voter Program, Transportation Growth Management, Special Transportation Program, Passenger Rail, DMV Drug Testing Program for Commercial Driver License holders, Safety Education Program, and Transportation Demand Management.

The state is in the process of consolidating the data centers of twelve state agencies. ODOT is one of the twelve agencies affected. For the 2005-07 biennium agencies will make payments to the data center in amounts equivalent to the expenditure limitation that will no longer be necessary for direct expenses within the budget. A charge back model is expected to be in place for the 2007-09 biennium. The 2005-07 legislatively adopted budget reflects phasing out 26 positions (16.83 FTE) and a shift of $8.6 million from personal services, services and supplies, and capital outlay to State Government Service Charges to be paid to the State Data Center. An adjustment to the Department's budget in future biennia will be necessary once the implementation plan has been finalized.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $2.7 billion total funds is increased $28.5 million or 1% from the 2003-05 legislatively approved expenditure level and includes 4,650 positions (4,562.87 FTE). The adopted budget is $137 million or 4.8% less than the Governor's recommended budget. The adopted budget emphasizes a priority for highway construction projects including $701.5 million supported by highway user bonds, $539 million from federal revenues, and $150 million from other highway funds for highway construction projects. The Legislature adopted Senate Bill 71 authorizing $100 million in lottery-backed revenue bonds and $1.8 million Lottery Funds for related debt service costs for transportation projects including improving public transportation, the aviation system, the rail network, and marine and ports with an emphasis on projects that will facilitate the movement of people or freight between roads and air, water, and rail transportation. The Legislature deferred including an expenditure limitation until details of the project selection process are defined. The Legislature expects ODOT to request expenditure authority from the interim Emergency Board once a process has been established. The adopted budget continues support for senior and disabled transit operations and equipment. In addition, the adopted budget includes $8.6 million General Fund for high-speed rail and buses. Specific details are discussed under each program unit.

ODOT – Highway Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	1,268,598,840	2,032,800,306	2,023,471,267	2,012,521,884
Total Funds	**$1,268,598,840**	**$2,032,800,306**	**$2,023,471,267**	**$2,012,521,884**
Positions	2,660	2,557	2,560	2,728
FTE	2,554.25	2,494.73	2,485.25	2,674.75

Program Description

The purpose of the Highway Division is to design, build, maintain, and preserve quality highways, bridges, and related system components. The Highway Division derives its mission and activities from a comprehensive set of long-range multi-modal transportation system plans and policies developed and maintained under the direction of the Oregon Transportation Commission. The plans cover highways, mass transit, ports, freight and passenger rail, bike lanes, and pedestrian needs. The Statewide Transportation Improvement Program (STIP*)* is a project funding and scheduling document developed through a planning process that involves local and regional governments, transportation agencies, and the interested public. It is updated every two years through a public hearing process. ODOT is responsible for delivering projects associated with OTIA, as well as other STIP projects. Enacted by the Legislature in 2001-2003, OTIA authorized bonding to fund modernization projects, pavement preservation, and bridge repair and replacement.

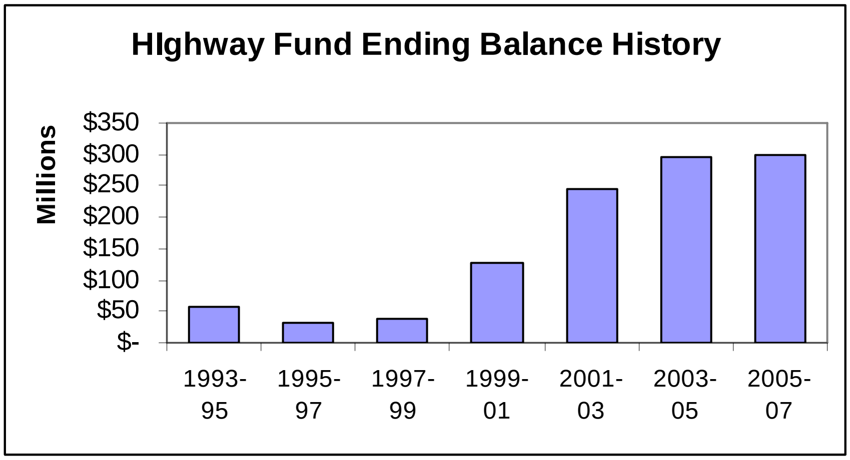
Organizationally, the Highway Division is administered through the five regional offices and the headquarters office. In the past, the agency had completed most engineering and design work in-house while contracting with private companies for the actual construction of projects. During the 2003-05 biennium, the Highway Division reorganized to contract out most engineering and design work, as well as construction. To facilitate the implementation of this new business model and to ensure efficient project delivery, more than 300 Technical Services headquarter staff have been redeployed in the five Highway regions. In addition, the newly created Oregon Innovative Partnerships Program has begun to identify possible projects for long-term public-private partnership and to solicit information and statements of interest from potential private sector partners. Agency staff perform much of the maintenance and preservation work for which ODOT is responsible. The categories of the Highway Division budget are Maintenance, Preservation, Bridge, Safety, Operations, Modernization, Special Programs, Local Government, and Utility Permits.

Revenue Sources and Relationships

Highway programs are supported by state, federal, and local funds. The majority of the federal funds available for highway programs are Federal Highway Administration funds, primarily derived from federal SAFETEA-LU funds. State funds include fuel tax receipts, weight mile taxes, vehicle registration, and highway user revenue bonds. Local funds are provided by cities and counties for projects funded by the local entity in whole or in part, as well as projects for which the local entity is paying ODOT to do some or all of the project work. The following table shows how funding levels have changed since 1999-2001. The 2005-07 legislatively adopted budget includes a total of $701.5 million bond financing for the three OTIA programs; $127.9 million for OTIA I, $93.3 million for OTIA II; and $480.2 million for OTIA III.

Funds	1999-2001 Actual	2001-03 Actual	2003-05 Estimated	2005-07 Legislatively Adopted
Beginning Balance	$ 22,094,248	131,731,496	245,723,085	294,769,876
Federal as Other	523,640,872	578,997,272	803,343,611	492,356,866
State Other	714,361,985	743,033,733	814,620,841	822,707,514
State Revenue Bonds	58,515,056	226,190,078	300,000,000	701,532,827
Total Funds	**$1,318,612,161**	**$1,679,952,579**	**$2,163,687,537**	**$2,311,367,083**

In addition, the 2005-07 legislatively adopted budget includes $294.8 million in highway funds that were unspent in the 2003-05 biennium. Based on history, the ending balance appears to be building over time which may be an indication that current revenue is not being managed aggressively. This would indicate that more highway improvement projects could be undertaken during the biennium to maximize the use of revenues. The Legislature directed the agency through a budget note to review the projected ending cash balances and report to the Emergency Board during the interim on actions taken to align project pay-outs with current revenue streams including accelerating projects where appropriate.



Budget Environment

The Highway Division budget includes the portion of the 2004-07 STIP to be expended during the 2005-07 biennium. Federal regulations require that the STIP include only projects for which the state can reasonably expect adequate funding. OTIA authorized ODOT to issue a total of $2.4 billion in bonds for modernization, preservation, and bridge projects, including $300 million to be distributed as grants to local governments. In addition to OTIA projects, the 2004-07 STIP contains over $1.3 billion in traditionally funded projects and programs. Approximately 64% of the funding for these additional projects ($829 million) comes from federal sources. State highway funds contribute $391 million, with the remainder comprised of local government funds.

ODOT operates and maintains nearly 8,100 miles of highways in every corner of Oregon. The highway system is as diverse as the state itself. It ranges from six-lane, limited-access freeways with metered entrances to graveled rural highways. Oregon's economy depends on a sound highway system. Local, regional, and national industries - including agriculture, timber, tourism, and technology – rely on our transportation infrastructure. Commercial trucks rely on state highways for both short and long haul freight movements. State highways make up less than 9% of total road and street miles in the state, but carry 60% of the traffic – more than 57 million vehicle miles per day. More people are driving more cars for more miles. Roughly 70% of commuters drive alone to and from work. Congestion is worsening, especially on urban freeways. Despite a 23% increase in miles traveled over the past decade, Oregon's road mileage has grown by only 3.7%. 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. State highway fund sources (gas tax, weight-mile taxes, and vehicle registration fees) have not, with the exception of investments authorized by OTIA, increased in more than a decade. State and federal fuel tax revenues supporting highway programs have failed to keep pace with needs.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $2 billion Other Funds is $20.3 million less than the 2003-05 legislatively approved expenditure level and $10.9 million less than the Governor's recommended budget. The adopted budget reflects $399.3 million in increased spending for highway construction projects as a result of scheduled contractor payments to be made during the 2005-07 biennium.

Bond proceeds totaling $332 million for local bridges and STIP projects are the largest reduction in the Highway program budget. An additional $123.6 million is reduced, reflecting the one-time payment for projects. Other reductions include $13.8 million in fund shifts, technical adjustments, revenue reductions, and program reductions for the Oregon "Smart Buy" initiative. Increases in the Highway program consist of policy packages totaling $3.1 million, increases for salary and merit increases totaling $13.2 million, and the standard inflation totaling $33.1 million. Specific budget changes are described in the individual Highway Division program units.

ODOT – Highway/Maintenance and Emergency Relief

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	282,729,134	304,072,015	305,522,632	299,114,039
Total Funds	**$282,729,134**	**$304,072,015**	**$305,522,632**	**$299,114,039**
Positions	1,354	1,211	1,215	1,406
FTE	1,288.31	1,175.47	1,177.90	1,368.90

Program Description

The purpose of the Highway Maintenance and Emergency Relief program is to maintain, repair, and extend the service-life of the 8,067-mile state highway system. Program activities include surface patching and bridge repair; upkeep of roadway shoulders, drainage, landscape, and rest areas; snow removal; sanding of roads; emergency repairs to roadways following natural disasters; and maintenance of ODOT buildings and equipment. Maintenance projects may include the replacement of necessary safety materials (such as road signs) but do not generally include reconstruction. Department personnel perform much of the Highway Maintenance work, in contrast with construction and engineer/design work, which is primarily contracted out to private companies. The ODOT Wireless Group is also supported with Highway Maintenance funds. The Wireless Group performs operational, maintenance, engineering, construction, and customer support work for the ODOT two-way radio and microwave networks, the network wireless LAN infrastructure, and Intelligent Transportation Systems (ITS) wireless support. The Maintenance program also provides testing and inspecting roadway materials; purchasing equipment and fleet vehicles; repairing equipment in the field and in shops located in Salem, Bend, and La Grande; selling and distributing fuel; operating storerooms; designing and manufacturing signs; and traffic signals.

Budget Environment

ODOT estimates it would need an additional $41 million per year to fully meet maintenance needs. The Highway Maintenance budget has experienced steady upward pressure as Oregon's highways age and the vehicle miles traveled on them increase. The Department routinely surveys all roads, bridges, and connecting surfaces under its maintenance jurisdiction and grades their condition. Increased traffic volume has caused faster than expected deterioration and driven up the costs of maintenance work sites. Inflation in the price of materials used to maintain and preserve the state's roadways is another significant cost driver. New environmental regulations and restrictions require costlier practices and materials. An aging highway system demands larger, more expensive, and more complex maintenance projects. Lacking sufficient funding, roads have not been maintained in the condition called for in the Department's planning statements. Deferring necessary preservation projects further increases future maintenance needs.

Future maintenance costs are estimated on the basis of current expenditures and assume that current maintenance practices will continue into the future. This assumption does not consider the intensification of maintenance activities required by the system's increasing use and age or by catastrophic natural events. Preventive maintenance that would minimize potential damage from natural disasters is restricted by limited resources. The Federal Highway Administration Emergency Relief program supplements state resources in case of damage to the Federal Highway System caused by a natural disaster. Application for these federal funds requires a declaration of emergency by the Governor and damage must generally exceed $700,000 from a single event.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $299.1 million Other Funds is $4.9 million less than the 2003-05 legislatively approved expenditure level and $6.4 million less than the Governor's recommended budget. The adopted budget includes 1,406 positions (1,368.9 FTE) which is 195 positions (193.43 FTE) more than the 2003-05 legislatively approved expenditure level. The increase in positions is the result of shifting 192 positions from the Non-limited Operations and Support Services programs into the Maintenance Program. The primary changes are adjustments that reflect $16 million Other Funds reduction for pavement preservation, increases in employee compensation and merit increases totaling $6.2 million, $5 million for inflation and state government service charges, and $1.5 million Other Funds reduction for technical adjustments and program reductions. The approved budget includes an enhancement to add $1.5 million for maintenance yard retrofits required by the Environmental Protection Agency and a reduction of $80,000 Other Funds to transfer surplus property to Oregon State Parks and Recreation. The Legislature did not approve a proposal for $4.6 million to transfer ownership of the Transportation Building on the Capitol Mall to the Department of Administrative Services (DAS). The Legislature concluded that transferring ownership to DAS was not cost neutral requiring either the State Highway Fund to bear the increased cost of renovation or Uniform Rent payers. The Legislature also indicated that the priority to insure substantial progress is demonstrated on the OTIA construction program before considering facility improvement projects.

ODOT – Highway/Preservation

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	274,532,713	334,171,047	231,497,827	231,195,773
Total Funds	**$274,532,713**	**$334,171,047**	**$231,497,827**	**$231,195,773**
Positions	229	234	219	220
FTE	228.34	233.75	219.00	220.00

Program Description

The Preservation program rehabilitates existing roadways and facilities to extend their service life. Preservation projects add useful life to the highway system without increasing capacity. The program strives to conduct resurfacing treatments at the most cost-effective time in the life cycle of a pavement, which typically entails resurfacing at eight- to fifteen-year intervals. This approach allows highways to be resurfaced while they are still in "fair or better" condition and require only relatively thin paving. Costs escalate as road conditions deteriorate into the "poor" category. To sustain the most cost-effective pavement program, the 1999 Oregon Highway Plan established a long term goal of having 90% of state highway miles in fair or better condition.

Budget Environment

In 1976, the first year pavement condition information was collected by ODOT, Oregon's highways were in poor condition with only 51% of state highway miles rated "fair or better." In 1984, a Preservation program was established in the STIP to improve long-term pavement condition. Pavement condition peaked at 83% "fair or better" in 1993. Conditions then declined to 78% "fair or better" in 1999, as resurfacing costs increased and fewer miles could be treated. For the last ten years, STIP preservation funding has been relatively constant (after adjusting for inflation). Funding from other sources, as well as changes in the manner in which funds are applied, has helped to improve pavement conditions. ODOT altered its preservation strategy for some low traffic volume highways in 1999 by switching to thin, maintenance-only treatments. While these treatments typically have shorter life and must be applied more frequently than conventional preservation treatments, this strategy reduced the resurfacing cost per mile and is largely responsible for improvements in statewide pavement conditions. This improvement is reflected in the 2003 pavement condition rating of 84% "fair or better." However, this improvement is a short term phenomenon and pavement conditions will decline through 2010 as these thinner treatments wear out. Preservation projects funded with OTIA I and II bond proceeds also improved pavement conditions, although higher volume and higher classification highways did not receive OTIA funds. To make the best use of available funds, preservation treatments over the last several years have primarily focused on highways with lower per-mile resurfacing costs. Keeping up with deteriorating pavement conditions has become increasingly difficult as the Department completed most of these lower cost projects. Highways in poor condition which need extensive rehabilitation or which require costly upgrades to meet current standards are typically too expensive to include in the STIP in the current fiscal environment. Many of these highways are in high volume urban areas. Until additional funds become available, these highways will receive only patching and a disproportionate level of maintenance funds will need to be devoted to keeping them drivable.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $231.2 million Other Funds is $103 million less than the 2003-05 legislatively approved expenditure level and $0.3 million less than the Governor's recommended budget. The adopted budget is adjusted to reflect a reduction of $107.6 million for projected timing of contractor payments for STIP projects during 2005-07. The adopted budget is also reduced by $1.9 million to reflect the transfer of 12 positions to other divisions within ODOT, representing the realignment of resources to facilitate implementation of OTIA. The adopted budget adds $5.5 million for inflation and state government service charge assessments; $1.3 million for employee compensation and benefit increases; and reduces $0.45 million to reflect adjustments in assessments and charges by the Department of Administrative Services, PERS rates, Attorney General hourly rates, and a technical adjustment in vacancy savings.

ODOT – Highway/Bridge

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	143,313,181	340,089,069	534,676,620	533,585,745
Total Funds	**$143,313,181**	**$340,089,069**	**$534,676,620**	**$533,585,745**
Positions	134	159	157	150
FTE	133.55	153.25	157.00	150.00

Program Description

The Bridge program is responsible for preserving more than 2,600 bridges, tunnels, and culverts on the state highway system. There are three generations of bridges in Oregon: those built prior to the 1950s, those built between 1950 and 1970, and those built since the 1970s. Only those bridges built since the 1970s were constructed using current capacity and seismic standards. Program activities include repairing structural deterioration; repairing and replacing bridge decks; raising bridges to increase vertical clearance; major bridge painting; repairing and preventing streambed scouring near bridges; protecting bridges from earthquake damage; repairing and protecting bridges from corrosion damage; upgrading electrical and mechanical systems in movable bridges; and safety improvement work, such as upgrading bridge railings and widening bridges.

Budget Environment

The Oregon Transportation Commission, the Governor, and the Legislature have increasingly prioritized Oregon's bridge program. In 2003, the Legislature passed HB 2041, which provided $1.3 billion for the replacement and repair of bridges on state highways. More than 300 state bridges are included in the OTIA III State Bridge Delivery Program. This program will redress problems at bridges that need to be open to heavy and oversized truck traffic; load-restricted bridges; Interstate 84 and Interstate 5 bridges; and other key transportation links critical for freight mobility. In spite of this significant investment in state bridges, there remain a large number of bridges that are nearing the end of their expected life and need repair or replacement. Twenty-three percent of state-owned bridges are more than 50 years old and require extensive rehabilitation and/or replacement. Bridge projects are more costly and variable than highway work of comparable length. ODOT estimates that needs related to structurally deficient bridges are funded at $68 million per year less than needed to keep pace with normal wear and tear. At $75 million per year ODOT, can address 35 of the 75 bridges that need to be replaced or rehabilitated annually. ODOT estimates that 16 to 18 bridges will require emergency repair annually.

In 2002, ODOT contracted with Oregon State University to study the cracking in the particular type of bridges that were identified as needing to be repaired or replaced in order to continue to move freight throughout the state. Results of the study indicate that most of the cracked bridges will continue to function without further load restrictions over the next six to eight years as repairs or replacements are made. The study provides a new tool for analyzing the cracked bridges that will result in costs savings by repairing bridges previously identified for replacement and causing less disruption of traffic. Already, repair rather than complete replacement has been determined to be an adequate solution for some bridges identified for replacement. The overall backlog of deficient bridges on state highways totals nearly $5 billion. ODOT expects an updated bridge options report detailing the increased breadth of the bridge repair program enabled by the new analysis tool to be completed in October of 2005.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $533.6 million Other Funds is $193.5 million or 56.9% higher than the 2003-05 legislatively approved expenditure level and $1 million less than the Governor's recommended budget. The adopted budget is adjusted by an increase of $185.3 million Other Funds to reflect anticipated contractor payments in the 2005-07 biennium. The adopted budget also reflects transferring $0.67 million Other Funds and four positions (4.00 FTE) to the Highway Operations Program resulting from the realignment of resources to facilitate implementation of OTIA. The adopted budget adds $0.13 million Other Funds to continue one of five limited duration positions for the Access Management Program as a permanent full-time position (1.00 FTE). The remaining changes in the program budget are adjustments to reflect applying standard inflation rates for services and supplies and state government service charges of $7.9 million Other Funds, cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases of $1.1 million Other Funds, and a reduction of $0.26 million to reflect adjustments in assessments and charges by the Department of Administrative Services, PERS rates, Attorney General hourly rates, and a technical adjustment in vacancy savings.

ODOT – Highway/Safety

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	51,591,077	52,272,043	54,378,719	54,473,792
Total Funds	**$51,591,077**	**$52,272,043**	**$54,378,719**	**$54,473,792**
Positions	45	43	37	38
FTE	42.96	42.25	36.50	37.50

Program Description

The Highway Safety Program identifies sections of state highway with the highest number of fatal and serious injury crashes and takes steps to improve safety on those roadway segments. ODOT uses a management system called the Project Safety Management System (PSMS) to improve decision-making and safety on Oregon's highways. The Safety Priority Index System (SPIS) is used to identify highway locations with high crash histories. The Safety Investment Program (SIP) prioritizes segments of highway for corrective action based on a history of fatal and serious injury crashes. SIP indicates where safety investments should be incorporated into preservation projects. Crash patterns are analyzed to determine the optimal corrective actions that can be undertaken by the Department, and corrections are selected based on estimated best return. Corrections often include the addition of passing lanes, roadway realignments, turning refuges, shoulder widening, rumble strips, guardrail additions, sign changes, pedestrian islands, or access control measures. Currently, there are over 622 high crash locations identified on the state highway system and approximately 1,700 miles of roadway with a significant number of fatal and severe injury crashes.

Budget Environment

Increases in population have created more traffic, which in turn has created more congestion and consequently an increased number of crashes. Highway Safety funds target high crash locations. Corrective actions are often combined with preservation projects, although stand-alone safety projects may address specific crash types or high crash locations. To free up funds for safety improvements in the maximum number of critical areas, preservation projects with no significant history of crashes may be scaled down to minimum design standards.

In 2003, 508 reported traffic fatalities occurred. Oregon's highway death rate has risen to 1.46 people killed per 100 million vehicle miles traveled. The ODOT Safety Division and the Oregon Transportation Commission have set a goal to reduce this fatality rate to 0.99 per 100 million vehicle miles traveled by 2010. This equates to lowering the statewide fatality count to 370 by 2010.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $54.5 million Other Funds is $2.2 million or 4.2% more than the 2003-05 legislatively approved expenditure level and $90,000 more than the Governor's recommended budget. The adopted budget reflects applying standard inflation rates for services and supplies and state government service charges of $1.1 million Other Funds; cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases of $0.17 million Other Funds; and an increase of $1.4 million Other Funds to reflect anticipated contractor payments in the 2005-07 biennium. The adopted budget also reflects transferring $0.6 million Other Funds and four positions (4.00 FTE) to the Highway Operations Program reflecting the realignment of resources to facilitate implementation of OTIA. The Legislature increased the budget by $90,000 Other Funds to continue one of five limited duration positions for the Access Management Program as a permanent full-time position (1.00 FTE) and to reflect adjustments in assessments and charges by the Department of Administrative Services, PERS rates, Attorney General hourly rates, and a technical adjustment in vacancy savings.

ODOT – Highway/Operations

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	49,411,635	38,833,815	45,689,821	45,637,976
Total Funds	**$49,411,635**	**$38,833,815**	**$45,689,821**	**$45,637,976**
Positions	119	118	103	104
FTE	113.08	114.83	102.04	103.04

Program Description

Highway Operations includes planning, development, and implementation of improvements to relieve or prevent traffic congestion and to improve safety. Programs include Intelligent Transportation Systems (ITS); transportation system management, such as interconnected traffic signal systems, new traffic signals, ramp metering, and electronic variable message signs; illumination; rock fall and slide repairs; and demand management, which includes ride share, van pool, and park and ride programs. Operational projects like these are one way to maximize the efficiency of the state highway system with limited funding, while also improving system safety and reliability.

Budget Environment

A growing population and limited funding have increased the state's reliance on system efficiency tools, like those mentioned above, to manage congestion and improve safety. ODOT estimates current funding is $20 million less than needed to replace signs, signals, and lighting; to conduct work to prevent slides and rock falls; and to deploy technological solutions that will ease congestion and improve safety. Highway Operations activities are prioritized through the use of several tools, including the Rockfall Hazard Rating System, Statewide ITS Strategic Plan, Regional ITS Deployment plans, and the Information Technology Tactical Plan. Enhanced prioritization tools are currently under development.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $45.6 million Other Funds is $6.8 million or 17.5 % more than the 2003-05 legislatively approved expenditure level and $50,000 less than the Governor's recommended budget. The adopted budget adds $8 million Other Funds to reflect anticipated contractor payments in the 2005-07 biennium. The adopted budget adds 7 positions transferred from other divisions and transfers 20 positions to other divisions reflecting the realignment of resources to facilitate implementation of OTIA, reducing the budget by $2.48 million Other Funds and 13.00 FTE. The adopted budget adjusts the base budget to phase out the entire Access Management Fee and restores the reduction in a policy package as part of the agency's fee bill for ratification by the Legislature. The Legislature eliminated the fee in Senate Bill 1101 but retained $0.4 million Other Funds and 2.00 FTE to administer the program. The remaining changes in the program budget are adjustments to reflect applying standard inflation rates for services and supplies and state government service charges, increasing the budget by $0.66 million Other Funds and adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases of $0.64 million Other Funds. The Legislature increased the budget by $50,000 Other Funds to continue one of five limited duration positions for the Access Management Program as a permanent full-time position (1.00 FTE) and to reflect adjustments in assessments and charges by the Department of Administrative Services, PERS rates, Attorney General hourly rates, and a technical adjustment in vacancy savings.

ODOT – Highway/Modernization

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	163,622,956	254,901,811	453,955,664	453,831,831
Total Funds	**$163,622,956**	**$254,901,811**	**$453,955,664**	**$453,831,831**
Positions	200	175	156	157
FTE	191.26	174.50	155.75	156.75

Program Description

The Highway Modernization program designs and builds highway improvements that add capacity to accommodate current or projected traffic growth. This includes adding traffic lanes for passing, climbing, turning, accelerating, and decelerating; building new road alignments or facilities, including bypasses; realigning or widening existing roads; and widening bridges to add travel lanes.

Budget Environment

Modernization needs are calculated by combining current traffic conditions with projections of future highway demand. Since 2001, ODOT has shifted its emphasis from modernization to preservation of roads and bridges. Several modernization projects programmed in the STIP after 2001 were placed on hold. The proposed expenditure limitations include projects already underway; projects in the 2004-07 STIP; and state matching funds for federal projects earmarked through the Surface Transportation Program. From 2000 through 2002, funding levels were at the statutory minimum of approximately $102 to $108 million per biennium, meeting only 12% of the need for increased capacity. With OTIA bond proceeds now directed to the program, the 2005-07 recommended budget increases modernization funding by about 180%. OTIA funds will allow the contracting out of approximately 110 modernization projects. In order to meet the 20-year need identified in the Oregon Highway Plan, approximately $440 million per year will need to be provided. While the influx of revenue from OTIA bond proceeds will assist in meeting this need in the short term, long-term funding levels remain far below what is needed to meet the challenges of providing an adequate transportation infrastructure for Oregon's growing population.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $453.8 million Other Funds is $199 million or 78% higher than the 2003-05 legislatively approved expenditure level and $0.12 million less than the Governor's recommended budget. The adopted budget is adjusted by an increase of $195 million Other Funds to reflect anticipated contractor payments in the 2005-07 biennium. The adopted budget also reflects transferring $2.86 million Other Funds and 18 positions (18.00 FTE) to the other Highway divisions, reflecting the realignment of resources to facilitate implementation of OTIA. The remaining changes in the program budget are adjustments to reflect applying standard inflation rates for services and supplies and state government service charges of $5.7 million Other Funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases of $1.2 million Other Funds. The Legislature increased the budget by $0.17 million Other Funds to continue one of five limited duration positions for the Access Management Program as a permanent full-time position (1.00 FTE) and to reflect adjustments in assessments and charges by the Department of Administrative Services, PERS rates, Attorney General hourly rates, and a technical adjustment in vacancy savings.

ODOT – Highway/Special Programs

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	152,725,559	161,504,203	178,261,235	175,265,289
Total Funds	**$152,725,559**	**$161,504,203**	**$178,261,235**	**$175,265,289**
Positions	541	594	617	618
FTE	525.84	576.91	602.06	603.56

Program Description

A number of smaller special programs play unique roles in Oregon's Highway Program. Positions associated with these programs are often budgeted in other Highway program areas and reimbursed for services performed in these categories. These payments are in turn used to backfill program staff with contracted work for current services. In activity areas where no FTE are assigned, the work makes up a small portion of the duties for multiple positions, and varies from year to year. Special program activities include:

- ***The Oregon Plan for Salmon and Watersheds*** identifies how various agencies will restore threatened or endangered salmon species and meet the requirements of the Clean Water Act. Projects include construction of highway culverts, opening tide gates, and other improvements to help fish populations impacted by ODOT projects.
- ***Environmental Services*** ensures ODOT's compliance with the National Environmental Policy Act and more than forty other environmental laws and regulations covering air quality, acoustics, archaeology, cultural resources, energy, hazardous materials, biology, threatened and endangered species, wetlands, water quality, and visual impacts.

- ***The Pedestrian and Bicycle Program*** (2.00 FTE) ensures ODOT's compliance with state laws requiring reasonable expenditure of highway funds on footpaths and bicycle trails. The program administers a local assistance grant program for improvements to pedestrian and bike paths.
- ***The Winter Recreation Parking Program*** (7.46 FTE) oversees snow removal and parking enforcement at designated winter recreation area parking locations. Sno-Park permit sales fund this program.
- ***Snowmobile Facilities*** develops and maintains snowmobile facilities, including the purchase of land and the enforcement of registration, operation, and equipment requirements. Registration fees and fuel taxes attributed to snowmobile use fund this program.
- ***Civil Rights*** (7.00 FTE) manages ODOT's federally mandated affirmative action program.
- ***The Surplus Property Unit*** (10.00 FTE) leases and sells property acquired by ODOT for highway construction projects when the property no longer has a present or future use to the Department.
- ***The Rights-of-Way for Other Agencies Unit*** recovers costs associated with providing department staff trained in right-of-way acquisition to local agencies who lack the necessary staff. Department staff help local agencies obtain the necessary right-of-way for construction projects, and reimbursement costs are recovered from project funds.
- ***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.
- ***Administration*** (51.2 FTE)***, Materials Testing Lab*** (22.75 FTE)***, and Indirect Services*** (111.77 FTE) conduct activities that serve a common or joint purpose benefiting more than one project or program. Therefore, their work cannot be effectively charged to individual projects or programs. Activities include management, supervision, and administrative control of the agency; awards programs; contract negotiations; training and education; work planning; service contracts; crew team and safety meetings; quality assurance; and quality control. Office expenses and facilities costs are also covered with these funds.
- ***Highway Deputy Directors, Highway Finance Office, and Office of Project Delivery*** (72.14 FTE) include support staff (2.00 FTE) for the Highway program Executive Deputy Director; financial support staff (23.00 FTE) for budget, funds, and grant tracking, financial coordination for regions, report writing, and financial analysis; and headquarters project delivery staff (47.14 FTE) responsible for ensuring efficient and consistent statewide delivery of all transportation projects.
- ***Innovative Private Partnerships*** (3.50 FTE) develops transportation projects for solicitation of private sector proposals for partnership and to respond to proposals initiated by private firms and units of government.
- ***Project Delivery*** (46.02 FTE) staff, located primarily in the five regional offices, focus on work needed to develop construction projects for eventual contracting.
- ***Other Special Programs*** fund miscellaneous expenses such as work on bridges, facilities, and roads of historical interest, safety rest areas, district office facilities work, independent wetland mitigation, and some tourist signing.
- ***Highway Management*** (15.3 FTE) performs work related to speed zone studies, signal timing, and traffic investigations, including crash sites.
- ***Transportation Operation Centers and COMET*** (46.42 FTE) includes the dispatch centers in Regions 1, 2, 3, and 4. The dispatch centers monitor traffic and road conditions, operate Intelligent Transportation Systems (ITS) equipment (e.g., signs, highway advisory radio, etc.), enter incidents into traveler information systems, and coordinate incident response and maintenance communications within ODOT and with other agencies. The incident response program (COMET in Region 1) includes a fleet of vehicles that patrol congested corridors and keep traffic flowing by removing accidents, stalled vehicles, and debris from the road.
- ***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.
- ***Systems Management*** (129.00 FTE). Through the realignment process, Systems Management will focus their work efforts to overall management of the highway system. This includes program level responsibility for Asset Management, Continuous Improvement (i.e., Quality Assurance/Quality Control, technical performance measures) and ensuring the technical excellence of the Highway Division project delivery staff. To date, the plan for identifying highway system assets is in the final stages of development. The program level Quality Assurance plan is in place, with a pilot of the overall plan currently underway. Additionally,

plans are being implemented to ensure that core, advanced, and expert training and development is identified and offered according to a predictable schedule.

- ***Traffic*** (79.00 FTE) covers the traffic function in both Regions and Technical Services. The work that is done supports the operation of the system. Activities include speed zones, non project traffic analysis, and traffic safety. This will isolate the Traffic function from the Indirect and support function of the Construction program. There is also a component of traffic that is closely aligned with project delivery and will allocate resources to that function.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $175.3 million Other Funds is $13.8 million or 8.5% more than the 2003-05 legislatively approved expenditure level and $3 million less than the Governor's recommended budget. The adopted budget provides $2.8 million Other Funds for increases in employee compensation and merit increases; applies the standard inflation rates for services and supplies and state government service charges of $3 million Other Funds; and adds $9.6 million Other Funds to reflect adjustments in STIP project payments. The adopted budget adds 61 positions (58.29 FTE) from other highway programs for a $10.6 million increase in personal services. The increase is offset by a decrease of $10.8 million Other Funds for the transfer of 27 positions to other ODOT divisions, reflecting the realignment of resources to facilitate implementation of OTIA. The budget is also reduced by $1.9 million to reflect anticipated savings from the Oregon "Smart Buy" initiative and adjustments in assessments and charges by the Department of Administrative Services, PERS rates, Attorney General hourly rates, and a technical adjustment in vacancy savings.

The Legislature did not approve the following policy option packages proposed in the Governor's recommended budget:

- An increase of $0.6 million Other Funds to ratify raising the annual snow park fee from $15 to $20 and raising the 3-day permit fees from $7 to $9.
- A revenue transfer of $5.2 million for Capital Construction projects.
- An increase of $1.5 million and 2.00 FTE to enhance the usability of a transportation trip planner developed jointly between the Departments of Transportation in Oregon and Washington. The project is contingent on federal grant funding that is not currently available.

The Legislature added $0.4 million Other Funds and 3.50 FTE to reflect adjustments in positions between Central Services, Motor Carrier Transportation, and Special Programs. In addition, the Legislature approved a temporary Road User Fee to accommodate the pilot program established by the 2003 Legislature to evaluate alternate fuel tax initiatives. Since the revenue from the fee replaces a like amount of fuel tax, no increase in expenditure limitation is required. The Legislature also approved the establishment of an Unsolicited Proposal Fee to support private sector consulting contracts to do work associated with the unsolicited proposal program increasing the budget by $70,000 Other Funds.

ODOT – Highway/Local Government Programs

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	149,066,069	542,538,381	214,932,553	214,899,208
Total Funds	**$149,066,069**	**$542,538,381**	**$214,932,553**	**$214,899,208**
Positions	15	23	23	23
FTE	14.88	22.52	23.00	23.00

Program Description

The purpose of the Local Government Programs unit is to work in a cooperative venture with cities, counties, and regional planning agencies to ensure priority transportation needs are met. ODOT provides federal revenues and reimbursements to local governments for surface transportation, local bridges, congestion mitigation, transportation enhancements, and planning. The Legislature has mandated that a portion of state gas tax revenues be distributed among cities with populations of less than 5,000. ODOT shares a portion of its federal funds with counties and cities outside the Portland metropolitan area with populations greater than 5,000. The Portland metropolitan area receives funding through a separate federal appropriation dedicated to Transportation Management Areas.

Budget Environment

Local governments face the same critical transportation issues as the state. Pressure on property taxes and local general funds, combined with flat state funding, have left local communities with fewer resources for transportation. ODOT's Local Government Fund Exchange program allows local governments to exchange $1 of their federal fund allocation for 94 cents in state highway funds. This exchange helps local agencies avoid complicated state and federal contracting regulations and ensures that all federal funds are expended within required timelines. The amount of funds available for exchange is determined annually by ODOT. Local governments may need to accumulate funds over several years to pay for large projects.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $214.9 million Other Funds is $327.6 million or 60% less than the 2003-05 legislatively approved budget and $30,000 less than the Governor's recommended budget. The adopted budget is reduced $332.1 million Other Funds to reflect the one-time payment to local governments for bridge projects and adjustments for contractor payments for STIP projects anticipated during 2005-07. The remaining changes in the program budget are adjustments to reflect applying standard inflation rates for services and supplies and state government service charges of $4.1 million Other Funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases increasing the budget by $0.57 million Other Funds. The adopted budget transfers one position to Special Programs, resulting in a reduction of $0.2 million and 1.00 FTE. The budget is also reduced by $30,000 to reflect adjustments in assessments and charges by the Department of Administrative Services, PERS rates, Attorney General hourly rates, and a technical adjustment in vacancy savings.

ODOT – Utility Permits

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	1,606,516	4,417,922	4,556,196	4,518,231
Total Funds	**$1,606,516**	**$4,417,922**	**$4,556,196**	**$4,518,231**
Positions	0	12	12	12
FTE	0.00	12.00	12.00	12.00

Program Description

The purpose of the Utility Permits program is to issue permits to utility companies that need to conduct activities on state highway rights-of-way.

Budget Environment

Historically, ODOT has used State Highway Funds to support the cost of issuing and administering utility permits. In January 2001, following a review of the use of Highway Fund revenues, the Oregon Attorney General advised ODOT that costs associated with issuing utility permits do not represent an appropriate use of State Highway Funds. The 2001 Legislature authorized ODOT to charge a utility permit fee and directed the Department to adopt rules establishing a fee schedule. The schedule was adopted in January 2002. A lawsuit challenging the permit fees is currently pending.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $4.5 million Other Funds is $0.1 million or 2.3% more than the 2003-05 legislatively approved expenditure level and $40,000 less than the Governor's recommended budget. The expenditure limitation is increased by the standard inflation rate of 2.4% increasing the budget by $90,000 and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases increasing the budget by $50,000 Other Funds. The Legislature reduced the budget $40,000 to reflect adjustments in assessments and charges by the Department of Administrative Services, PERS rates, Attorney General hourly rates, and a technical adjustment in vacancy savings.

ODOT – Driver and Motor Vehicles Services

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	116,947,247	121,316,715	131,335,757	129,927,024
Federal Funds	0	0	0	245,934
Total Funds	**$116,947,247**	**$121,316,715**	**$131,335,757**	**$130,172,958**
Positions	904	861	862	862
FTE	857.60	824.13	827.13	826.88

Program Description

Driver and Motor Vehicles (DMV) licenses and registers over 6.8 million drivers and motor vehicles and enforces motor vehicle-related laws. There are 64 DMV offices statewide serving more than 13,000 walk-in customers each day. In addition, DMV personnel process more than 10 million transactions and respond to over 1.8 million phone inquiries each year. Law enforcement agencies access DMV computer information files more than 41,000 times each day, and businesses and individuals make about 4 million DMV record requests each year.

Revenue Sources and Relationships

DMV is supported from fees levied for the various services it provides. Passenger vehicle registration fees are the largest single revenue collected, followed by driver licenses, and truck and trailer licensing fees. Together these revenues represent 97% of total estimated 2005-07 DMV gross revenue collections ($526 million). Revenue in excess of amounts needed to cover DMV operating costs is subject to city, county, and state distribution. Approximately 48% of the revenues collected are projected to be transferred to the State Highway Fund.

Budget Environment

During the 2003-05 biennium, DMV focused on improvements to driver safety programs, theft identification, workload, automation, and privatization initiatives. In 1999, the Legislature directed DMV to study the effects of aging on driving and report recommendations to the 2001 Legislature. As a result, the 2001 Legislature adopted HB 3071 requiring health care providers to report at-risk drivers to DMV. During 2001-03, DMV began working with health care providers that are required to make reports to DMV of at-risk drivers to develop administrative rules to implement the legislation. In 2003-05, DMV has continued to develop a comprehensive approach to managing the identification and testing of impaired drivers and evaluate the effectiveness of driver improvement programs. The role of DMV in providing identity documents is increasing as a result of the escalation in identity theft crimes and the 2001 terrorist attacks. National efforts at uniformity for driver licenses and identity cards will require DMV to be connected to national databases and may require the collection of biometric data on drivers. Both initiatives will require resources not currently funded. The number of transactions DMV processes has remained fairly flat over the last three years. This is projected to continue into the 2005-07 biennium. This is the result of the statewide economic downturn, along with the implementation of legislation that reduced the frequency of transactions by lengthening the term of driver licenses and new vehicle registrations.

In addition, the Legislature adopted Senate Bill 640 which requires biometric data to verify identity for driver's licenses, permits, or identification cards issued by the Department of Transportation Driver and Motor Vehicles Division. The measure increases the fee for driver's licenses, permits, and identification cards by $3 to cover the costs of implementing the measure.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $130.2 million total funds is $8.8 million or 7.3% more than the 2003-05 legislatively approved expenditure level and $1.2 million less than the Governor's recommended budget. The adopted budget is adjusted to reflect a category shift from debt service to special payments for an energy loan, an adjustment to fund two new service and supplies accounts for information systems, and an adjustment for the centrally funded fleet replacement program reducing the budget by $60,000 Other Funds. In addition, the adopted budget phases out $1.85 million Other Funds for one-time expenditures related to information systems projects completed during 2003-05 and adds $0.37 million for information systems projects planned for the 2005-07 biennium.

The adopted budget increases expenditures by $1.2 million Other Funds for temporary services to enhance and maintain service levels during seasonal workload increases and other workload surges. An increase of $0.57 million Other Funds is approved for bank card merchant fees resulting from growth in E-government transaction processing; and an increase of $0.53 million Other Funds to cover the higher cost of digital photo licensing. The Legislature increased the budget $0.37 million to reflect the transfer of three Training and Development Specialist positions from Central Services (2.75 FTE) and increased the budget by $0.3 million to implement Senate Bill 640 relating to security measures for documents issued by ODOT. In addition, the Legislature increased the budget by $0.25 million Federal Funds to provide an expenditure limitation for a federal grant to electronically verify the validity of social security numbers received for driver licenses. A request to apply for the grant was approved by the Legislature in April 2005. Two packages totaling $1.1 million for HAZMAT Endorsement background fingerprinting and new school bus driver endorsements were withdrawn by the agency.

The remaining changes in the program budget are adjustments to reflect applying standard inflation rates for services and supplies and state government service charges of $4 million Other Funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases of $4.6 million Other Funds. The Legislature reduced the budget $1.4 million to reflect adjustments in assessments and charges by the Department of Administrative Services, PERS rates, Attorney General hourly rates, and a technical adjustment in vacancy savings.

ODOT – Motor Carrier Transportation

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	41,541,960	42,973,756	46,722,690	45,834,160
Federal Funds	4,457,197	6,126,511	4,473,919	4,463,932
Total Funds	**$45,999,157**	**$49,100,267**	**$51,196,609**	**$50,298,092**
Positions	338	320	320	319
FTE	338.00	320.00	320.00	319.00

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 issues 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.

Revenue Sources and Relationships

Revenue from weight-mile taxes, commercial vehicle registrations, and permits provide the primary resources to support this division. All revenue in excess of the amount required for carrying out the regulatory and safety programs, approximately 89% of revenue collected, is transferred to the State Highway Fund. Over $4.2 million in Federal Funds is projected to be received in the 2005-07 biennium for commercial vehicle safety enforcement efforts under the Motor Carrier Safety Assistance Program (MCSAP). MCTD coordinates the work of Oregon State Police, which receives $1.6 million of the funds each year, as well as city police, county sheriffs, and county weighmasters who work under non-compensated agreements. The MCSAP program requires a 20% state match, but because current program expenditures contribute to the match there is no financial outlay from the state.

Budget Environment

Current revenues are needed to maintain existing program activities. Reductions in budget would force cuts in staffing levels and a deterioration of service delivery considering MCTD's minimal capital outlay and services and supplies budgets. MCTD's effectiveness to enforce weight regulations to control heavy truck damage to pavement and bridges could also be impacted. In the past 9 years, MCTD has reduced its original work force by 24% while managing to operate all programs and absorb workload increases. When the division became part of the Department in January 1996, it had 345 FTE stationed throughout the state. The work force grew in 2001 when the Motor Carrier Audit Section moved from the Central Services Division to the Motor Carrier Division, adding 57 FTE and $7 million to the budget. Since 1996, the division reallocated one position and abolished 81 positions. It currently employs 320 FTE. MCTD periodically conducts surveys to gauge customer satisfaction. A 2004 survey found customers are very happy with staff and service: 34% strongly approve of services, 49% approve, 3% disapprove, and 1% strongly disapprove (13% offered no opinion).

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $50.3 million total funds is $1.2 million or 2.4% more than the 2003-05 legislatively approved expenditure level and $0.9 million less than the Governor's recommended budget. The adopted budget is decreased $1.8 million Federal Funds and $70,000 Other Funds and reduces months on six positions for a total decrease of 0.40 FTE to balance to current available federal revenues. The adopted budget is adjusted by an increase of $0.8 million Other Funds to reflect anticipated contractor payments in the 2005-07 biennium. The adopted budget adjusts the base budget to phase out the entire Pack and Load Registration and Authorized Mover Fee program and restores the reduction in a policy package which was ratified by the 2005 Legislature. The Legislature restored $70,000 Other Funds and 0.40 FTE. The fee was authorized in SB 471 by the 2003 Legislature. The adopted budget also adds $0.4 million Other Funds to increase information technology professional services to support and enhance the Motor Carrier Transportation E-Government systems.

The remaining changes in the program budget are adjustments to reflect applying standard inflation rates for services and supplies and state government service charges of $0.9 million Other Funds and $0.1 million Federal Funds; a reduction of $0.3 million to reflect anticipated savings from the Oregon "Smart Buy" program; an adjustment reducing the budget by $30,000 Other Funds to reallocate expenditure limitation for the centrally held fleet replacement limitation; and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases of $1.9 million Other Funds and $50,000 Federal Funds. The Legislature reduced the budget $0.74 million total funds to reflect adjustments in assessments and charges by the Department of Administrative Services, PERS rates, Attorney General hourly rates, and a technical adjustment in vacancy savings.

ODOT – Transportation Development

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	55,230,657	61,109,738	163,126,686	60,973,814
Federal Funds	149,358	176,302	187,080	186,248
Total Funds	**$55,380,015**	**$61,286,040**	**$163,313,766**	**$61,160,062**
Positions	234	224	214	214
FTE	223.76	218.32	207.24	207.36

Program Description

Transportation Program Development operates through four program areas:

- ***STIP Development*** (21.00 FTE) coordinates identification and prioritization of the Department's four-year Statewide Transportation Improvement Program (STIP) development process. The STIP is updated every two years with ongoing public, local government, and stakeholder involvement. This program area identifies projects using pavement, bridge, and safety condition assessment tools.
- ***Technical Assistance and Coordination*** (6.79 FTE) is provided to local governments on periodic comprehensive plan reviews, Transportation System Plan reviews, and to Metropolitan Planning Organizations (MPO), and Area Commissions on Transportation (ACT). This program area also maintains data and shares transportation-related information with federal, state, and local agencies through the Technology Transfer Center.
- ***Statewide and Regional Studies*** (68.38 FTE) guide and support short- and long-range planning for Oregon's transportation system and administer the statewide Planning and Research Program that directs activities funded by the Federal Highway Administration. The Department adheres to a formal long-term process that produces and periodically updates a long-range strategy reported in the Oregon Transportation Plan (OTP). This program area is responsible for the Department's planning activities that focus on five areas of need: urban mobility, rural accessibility, freight transport mobility, safety, and finance. The goals, policies, and proposed actions are translated into specific projects and activities driving toward an integrated transportation system. Specific construction activities are described in the STIP. Other sources of information and criteria for this process are the federal highway funding authorization, federal clean air, water, and energy acts, state benchmarks, and land use planning goals. Analytical services related to facility

planning, transportation system studies, public transit services, and traffic analyses support the planning process.

- ***Transportation Analysis and Research*** (111.19 FTE) provides policy and economic analysis and forecasting, analyzes initiatives and issues, evaluates transportation needs and solutions, conducts strategic planning, researches new technologies, and coordinates opinion surveys. This program area also manages and analyzes transportation data to support planning, construction and maintenance, resource deployment, and funding allocations. Data collection and analysis include the bridge and pavement management systems, crash data, transportation inventory/classification, mapping/geographic information systems services, and traffic counting.

Revenue Sources and Relationships

General planning activities are funded from state and federal highway funds and federal planning grant moneys. Revenue transfers from the highway program, for example, support highway planning, system studies and monitoring, and data gathering.

Budget Environment

ODOT provides funds each year for local government planning activities including Metropolitan Planning Organization plans (MPO), local Transportation System Plans (TSP), and transportation growth management tools. Population growth is outpacing ODOT planners' abilities to fully participate in both state and local planning processes. Based on the 2000 U.S. Census, MPOs have been established in Corvallis and Bend and Transportation Management Areas (TMAs) have been established in Salem/Keizer and Eugene/Springfield. Transportation system analysis is constantly changing as questions are raised involving the interaction between land use, economics, and transportation.

The program focuses workload on expanding planning and policy matters related to the linkage of transportation and land use, local government transportation system plan reviews, and facility plan reviews. These work efforts affect the Department's ability to respond to the needs of local governments and provide the needed projects.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $61.2 million total funds is $0.13 million total funds or 0.2% less than the 2003-05 legislatively approved expenditure level and $102 million less than the Governor's recommended budget. The adopted budget is adjusted by reducing $2.6 million Other Funds to transfer 12 positions to other ODOT divisions, reflecting the realignment of resources to facilitate implementation of OTIA. An increase of $0.2 million Other Funds is approved as a special payment to the Office of the Governor to fund transportation activities of the Economic Revitalization Team. A reduction of $70,000 Other Funds and $2,011 Federal Funds is made to reflect anticipated savings from the Oregon "Smart Buy" initiative.

The Legislature approved the following policy packages:

- Correct a technical error in the 2003-05 budget by increasing the revenue transfer to the Department of Land Conservation and Development (DLCD) by $25,723. A similar package is included in the DLCD budget.
- Reclassify three employees currently working out of class. Two of the positions have no impact on the budget because there will be no change in current pay. The third position increases personal services by $8,874 and will be funded by a decrease in services and supplies.
- Transfer a Planner 3 position from the Rail Division to the Freight Mobility Section increasing the budget by $0.13 million Other Funds and 1.00 FTE.

Conversion of consultants to ODOT positions to implement new analysis tools and train staff was withdrawn by the agency resulting in a 0.88 FTE reduction to the Governor's recommended budget.

The Legislature did not approve a package to add $101.8 million Other Funds for the Connect Oregon initiative. Senate Bill 71 requires ODOT to establish a project selection process that includes a combination of loans and grants. The initiative provides lottery-backed revenue bonds to pay for transportation projects including improving public transportation, the aviation system, the rail network, and marine and port facilities with emphasis on projects that facilitate the movement of people or freight between roads and air, water, and rail transportation. The Legislature expects ODOT to request an expenditure limitation from the interim Emergency Board once a project selection process has been established.

The remaining changes in the program budget are adjustments to reflect applying standard inflation rates for services and supplies and state government service charges of $1.2 million Other Funds and $9,811 Federal Funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases of $1.5 million Other Funds and $2,978 Federal Funds. The Legislature reduced the budget $0.48 million total funds to reflect adjustments in assessments and charges by the Department of Administrative Services, PERS rates, Attorney General hourly rates, and a technical adjustment in vacancy savings.

ODOT – Public Transit Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	7,688,813	0	0	0
Other Funds	10,983,427	22,764,958	19,893,177	19,860,513
Federal Funds	20,108,138	27,018,434	33,052,475	31,031,412
Total Funds	**$38,780,378**	**$49,783,392**	**$52,945,652**	**$50,891,925**
Positions	13	14	15	14
FTE	13.04	13.50	14.50	13.50

Program Description

The Public Transit Division develops, encourages, and supports the use of transit, ridesharing, walking, bicycling, telecommuting, and other alternatives to driving alone. The Division operates six program areas:

- ***General Public Transit*** (4.34 FTE) provides general public transportation to rural areas, tribal governments, and cities with populations under 50,000. About 80% of its funds are distributed to cities, counties, other government units, and nongovernmental units through special payments.
- ***Inter-city Passenger Development*** (1.00 FTE) provides information, technical assistance, and management of grant resources for inter-city bus, rail, and air passenger services that are needed to connect Oregon communities. Emphasis is placed on improving connections between transportation modes and improving travel information systems.
- ***Special Needs Transportation Services*** (4.16 FTE) provides transportation designed to meet the needs of the elderly and people with disabilities. Programs include: 1) the Special Transportation Fund program distributing state cigarette tax, Environmental Quality Improvement Funds (EQIF), and Non-Highway Fuels Tax funds to local governments for transportation services benefiting elderly and disabled people; and 2) the statewide Elderly Persons and Persons with Disabilities Federal Grant Program, which funds the purchase of vehicles and other equipment for special needs transportation. Staff coordinate efforts with other state agencies, providers, and local government agencies to meet client transportation needs. Training and technical assistance are also provided to staff from small city and rural transit systems.
- ***Transportation Demand Management/Transportation Options*** (1.00 FTE) provides financial and technical support to rideshare programs throughout the state. The section develops policy and promotes alternatives to driving alone such as carpools, park and ride lots, flexible schedules, parking management, and telecommuting. Targeted information is also provided to commuters, business, and pleasure travelers.
- ***Public Transportation Planning*** (1.00 FTE) provides statewide transit policy and planning technical assistance and coordinates urban transit planning, local system planning, and multi-modal corridor planning.
- ***Division Administration*** (2.00 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 four Federal Transit Administration Programs from which the state receives formula grants:

- Section 5303 – Metropolitan Planning at approximately $1 million per biennium.
- Section 5310 – Elderly Persons and Persons with Disabilities Capital Program at approximately $2.2 million per biennium.
- Section 5311 – Rural and Small Urban Areas Program Grants for approximately $7.7 million per biennium.
- Section 5313b – Statewide Transit Planning at approximately $250,000 per biennium.
- In addition, the Division receives $13.5 million in flexible Federal Surface Transportation Program (STP) funds to improve transportation for the elderly and disabled ($10 million), to replace urban buses ($2 million), and for innovative marketing for transportation options ($1.5 million).

State funds make up the remaining 42% of the Division's revenue. Public Transit is allocated these funds from three main sources:

- Cigarette Tax – $8.65 million per biennium. Includes 3.45% ($.02 per pack) apportionment of all moneys received by the Department of Revenue from certain cigarette tax revenues.
- DMV Photo ID – $4.56 million per biennium. Includes any excess of fees collected from the distribution of ID cards by the DMV over the cost of running the program. This revenue is passed to local governments to support special needs transportation programs.
- Transportation Operating Fund (TOF) Non-Highway Fuels Tax – $6.01 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 public transit services for the elderly, people with disabilities, and rural communities for strengthened accessible public transportation. State budget reductions in community social service programs continue to challenge community transportation providers to help people get to health appointments, work, and other essential services.

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. There is no ongoing dedicated source of state funding to support urban transit systems. In 2003, the Legislature authorized $2 million additional support towards the estimated $18 million annual urban fleet replacement costs. Aging transit fleets throughout the state continue to need support for replacement vehicles, or the state risks losing the capital infrastructure to operate current services. Support to preserve the urban fleet helps providers to maintain service levels and protects the existing public investment in these successful systems. 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 2005-07 legislatively adopted budget of $50.9 million total funds is $1.1 million or 2.2% more than the 2003-05 legislatively approved expenditure level and $2 million less than the Governor's recommended budget. The Legislature approved the following policy packages:

- A reallocation of expenditures from special payments to services and supplies to reflect the increasing operational costs associated with increased program activities. The package shifts $60,000 Other Funds and $0.1 million Federal Funds to service and supplies categories.
- An increase of $4,472 Other Funds for Public Transit's share of Central Services Information Technology infrastructure upgrade.
- An increase of $8,492 Other Funds for Public Transit's share of increases to the Central Services intra-agency charges.

The Legislature did not approve a position (1.00 FTE) to enhance usability of a transportation trip planner developed jointly between the Departments of Transportation in Oregon and Washington or an increase of $2 million Federal Funds for mass transit vehicle replacements. Funding is contingent upon increased federal revenue that is not currently available. The Legislature expects ODOT to request an increase in expenditure limitation from the interim Emergency Board if federal funding becomes available during the interim.

The remaining changes in the budget reflect applying standard inflation rates for services and supplies and state government service charges of $0.55 million Other Funds and $0.64 million Federal Funds; a decrease of $80,000 Federal Funds to balance to current available federal grant funds; a reduction of $3,052 Other Funds and $6,289 Federal Funds to reflect anticipated savings from the Oregon "Smart Buy" initiative; and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases of $30,000 Other Funds and $10,000 Federal Funds. The Legislature reduced the budget $50,000 total funds to reflect adjustments in assessments and charges by the Department of Administrative Services, PERS rates, Attorney General hourly rates, and a technical adjustment in vacancy savings.

ODOT – Rail Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	9,262,878	3,914,616	9,026,167	8,626,167
Other Funds	13,901,646	62,263,136	11,357,395	54,239,700
Federal Funds	14,266,515	22,862,239	15,409,547	15,385,786
Total Funds	**$37,431,039**	**$89,039,991**	**$35,793,109**	**$78,251,653**
Positions	28	25	25	24
FTE	26.88	25.50	25.50	24.50

Program Description

The Rail Division ensures compliance with state regulations related to passenger and freight rail service programs. The Division operates the following program areas:

- ***Division Administration*** (3.50 FTE) provides leadership and support, defines state rail policies, and insures rail interests are adequately addressed.
- ***Railroad Safety*** (10.00 FTE) provides safety inspection services of tracks, locomotives, and rail cars, and insures compliance with regulations related to hazardous materials and railroad operating practices. Staff also inspects railroad sidings and yards to insure safety of railroad workers in and around railway walk areas, loading docks, and bridges. This section is also responsible for overseeing the safe operation of Tri-Met's light rail operation as mandated by the Federal Transit Administration.
- ***Crossing Safety*** (8.00 FTE) authorizes all changes at public highway railroad crossings, inspects all public crossings, enforces laws related to crossing blockages, and manages crossing safety improvement projects.
- ***Rail Planning, Projects and Operations*** (3.00 FTE) manages and markets inter-city passenger rail operations and related thruway Motor Coach Service; coordinates Oregon's partnership in the Pacific Northwest High Speed Rail Corridor; and manages railroad improvement projects associated with both passenger and freight rail operations. This program area also develops and implements freight and passenger rail plans and represents the state on railroad merger and abandonment and other rail service issues.

Revenue Sources and Relationships

The programs operate with dedicated federal ($19.6 million) and state ($49.2 million) revenue. Federal revenues include:

- Federal Railroad Administration (FRA) – $15.4 million. Includes both freight and High Speed Rail Corridor projects as made available by Congress. These project specific funds are used for engineering, design, construction, equipment purchases, and contracts.
- Federal Highway-Railroad Grade Crossing Hazard Elimination Funds (Sec. 130) – $4.2 million. Federal as Other Funds used for crossing safety projects.

State revenues include:

- Rail Gross Revenue Fee – $2.5 million. Paid by Oregon railroads based on their previous year's gross revenue. Funds can only be spent on rail safety and rail crossing regulations.
- Grade Crossing Protections Account (GCPA) – $1.3 million. Generated from driver license and vehicle registration fees. Used for crossing safety regulation and improvement projects at public railroad crossings.
- Lottery Bonds – $42 million. Second phase of south Metro Commuter Rail Project ($35M), Industrial Spur ($6M), Issuance costs ($.7M).
- General Fund – $8.6 million. Funds one roundtrip train daily between Eugene and Portland, with continuing service to Seattle and Vancouver, British Columbia, funded by the State of Washington.
- Transportation Operating Fund (TOF) Non-Highway Fuels Tax – $1.2 M. Helps fund one round trip train between Eugene and Portland.
- Other biennial revenues include $150,000 from interest, $100,000 from Crossing Blockage Penalties, $121,830 from Railroad Right of Way Lease Fees, and $114,736 from the Tri-Met Fixed Guideway Fee.

Budget Environment

The lack of stable funding for both the passenger rail and short-line service systems makes the future of rail service in Oregon uncertain. In past sessions, the Legislature has committed General Fund resources to supplement passenger rail service. However, the funds are scarce and relied upon by many of the state's programs, which puts the funding of passenger rail service in jeopardy each legislative session. In addition to committing General Fund for passenger rail services, the 2001 Legislature created the Short-Line Credit Premium account for financial assistance to the short-line railroads. The Legislature allocated $2 million in lottery bond revenue to this account in both the 2001 and 2003 sessions. These funds provide some much-needed rehabilitation resources to the struggling short-line railroads across the state. Growth in the transportation systems and the rail industry combined with heightened interest in freight mobility are stretching Division staff resources to provide adequate services for protecting the public from rail-related incidents, particularly in the rail planning and safety assessment areas.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $78.3 million total funds is $10.8 million total funds or 12% less than 2003-05 legislatively approved expenditure level and $42.5 million higher than the Governor's recommended budget. The difference is primarily due to the extension of one-time bond proceed expenditures, adding $35.2 million and $0.7 million of debt issuance costs related to the South Metro Commuter Rail, and carry-over of expenditure limitation for the Industrial Spur Program in the amount of $6 million. The adopted budget phases out $2 million related to the short-line projects, and $2 million related to industrial rail spur projects, and $0.67 million of donation funds for the Lewis and Clark Celebration Excursion Train. A reduction of $5.4 million Other Funds and $8 million Federal Funds is reflected in the budget to balance to available revenue. Expenditure decreases include reduced federal grant funds, one-time Environmental Quality Fund revenue received in the 2003-05 biennium, and revenue associated with the rail fixed guideway fees which are subject to legislative ratification.

The adopted budget also:

- Adds $4.6 million General Fund and $0.4 million Other Funds from the Transportation Operating Fund (TOF) or flexible federal transportation funds to restore funding for the Willamette Valley Passenger Rail Program, which was funded during the 2003-05 biennium with one-time funding from the Environmental Quality Fund to replace General Fund directed to other agencies.
- Adds $5,730 Other Funds for Rail Division's share of upgrades and components of Central Services information technology infrastructure project.
- adds $8,078 for Rail Division's share of Transit's share of increases to the Central Services intra-agency charges.
- Adds $0.45 million Other Funds to develop an integrated crossing and safety inspection management information system supported by revenues from the Rail Fund, Grade Crossing Protection Account, and Grade Crossing Improvement Account.
- Adds $0.4 million Other Funds and 2.00 FTE to restore revenue and expenditure limitation associated with the Rail Fixed Guideway Safety fee.

The remaining changes in the budget reflect applying standard inflation rates for services and supplies and state government service charges of $90,000 General Fund, $0.4 million Other Funds, and $0.5 million Federal Funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases at a reduction of $30,000 Other Funds. A reduction of $7,539 Other Funds and $1,385 Federal Funds is reflected in the adopted budget for anticipated savings from the Oregon "Smart Buy" initiative. The Legislature reduced the budget $90,000 total funds to reflect adjustments in assessments and charges by the Department of Administrative Services, PERS rates, Attorney General hourly rates, and a technical adjustment in vacancy savings.

ODOT – Transportation Safety Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	162,050	0	0	0
Other Funds	7,088,654	9,729,224	9,994,416	9,974,740
Federal Funds	11,533,804	13,057,617	13,421,348	13,410,776
Total Funds	**$18,784,508**	**$22,786,841**	**$23,415,764**	**$23,385,516**
Positions	24	24	24	24
FTE	24.04	24.00	24.00	24.00

Program Description

The Transportation Safety Division advocates transportation safety through statewide education, enforcement, and engineering. Major efforts focus on occupant protection, intoxicated driving, speeding, youthful drivers, pedestrians, bicyclists, motorcyclists, and employers. Safety programs are operated through over 550 safety grants and contracts awarded annually to local agencies, non-profit groups, the private sector, and service providers. The grants use state and federal funds; provide statewide public education and information programs; and reimburse public schools that provide Division-approved driver education programs.

Further duties involve the responsibility to:

- organize, plan, and conduct a statewide transportation safety program;
- coordinate general activities and programs of the several departments, divisions, or agencies of the state engaged in promoting transportation safety;
- provide transportation safety information and develop other measures of public information;
- cooperate fully with all national, local, public, and private agencies and organizations interested in the promotion of transportation safety;
- serve as a clearinghouse for all transportation safety materials and information used throughout the state;
- cooperate in promoting research, special studies, and analysis of problems concerning transportation safety; and
- make studies and suitable recommendations to the Legislature concerning safety regulations and laws.

Revenue Sources and Relationships

Approximately 60% of the Safety program funds are Federal Funds; the other 40% are other state funds.

Budget Environment

A number of factors influence the workload and performance of the Transportation Safety Division. These include traffic safety education and driver training, youthful driver restrictions, posted speeds, passenger safety, and driving under the influence of intoxicants. Recent turnover in senior staff for law enforcement, public safety, engineering, and roadway personnel have created the need for management level training and front line training. Upgrades to equipment and recent court cases have required training for this area to be revised and distributed.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $23.4 million total funds is $0.6 million or 2.6% more than the 2003-05 legislatively approved expenditure level and $30,000 less than the Governor's recommended budget. The adopted budget reflects applying standard inflation rates for services and supplies and state government service charges of $0.2 million Other Funds and $0.3 million Federal Funds; reduces $60,000 Other Funds for the centrally held fleet replacement program; and includes cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases of $0.1 million Other Funds and $80,000 Federal Funds. In addition, the adopted budget reflects a reduction of $10,000 Other Funds and $20,000 Federal Funds for anticipated savings from the Oregon "Smart Buy" initiative. The Legislature reduced the budget $30,000 total funds to reflect adjustments in assessments and charges by the Department of Administrative Services, PERS rates, Attorney General hourly rates, and a technical adjustment in vacancy savings.

ODOT – Board of Maritime Pilots

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	211,403	264,676	201,180	208,742
Other Funds (NL)	58,721	11,678	11,958	0
Total Funds	**$270,124**	**$276,354**	**$213,138**	**$208,742**
Positions	1	1	1	1
FTE	1.00	1.00	0.71	0.71

Program Description

The Board of Maritime Pilots is located within the Department of Transportation budget but is independent of the agency and the Oregon Transportation Commission. The Board is charged with the regulation, including examining, licensing, and investigating incidents or complaints, of navigation pilots on Oregon's four pilot-required areas. There are currently 67 licensed pilots under the regulatory authority of the Board.

Revenue Sources and Relationships

The Board is a self-supporting entity funded by license fees. Revenues for 2005-07 are estimated to be $215,300 based upon the payment of the $1,500 annual license fee by each of the 67 licensed pilots and from miscellaneous other revenues.

Budget Environment

Workload on licensing activities will be reduced throughout 2005-07 due declining revenues. License revenue is no longer sufficient to support current activities. A proposal to increase license fees may be requested to restore expenditures to the current activity level.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $0.2 million is $70,000 or 24.5% less than the 2003-05 legislatively approved expenditure level and $4,396 less than the Governor's recommended budget. The adopted budget is reduced by $66,320 and 0.29 FTE to reflect corrected beginning balances and updated 2005-07 revenue projections. The adopted budget applies standard inflationary increases for services and supplies and state government service charges of $5,024 Other Funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases of $211 Other Funds. The Legislature reduced the budget $4,396 total funds to reflect adjustments in assessments and charges by the Department of Administrative Services, PERS rates, Attorney General hourly rates, and a technical adjustment in vacancy savings. The Legislature also directed ODOT through a budget note to move the offices of the Board of Maritime Pilots to a Department facility in Salem in order to reduce costs and provide improved oversight.

ODOT – Central Services

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	103,902,036	111,029,970	123,050,693	122,494,616
Federal Funds	45,245	56,051	56,334	56,334
Total Funds	**$103,947,281**	**$111,086,021**	**$123,107,027**	**$122,550,950**
Positions	502	489	495	464
FTE	496.08	487.75	493.25	472.17

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*** (32.00 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*** (94.00 FTE) provides the Department with accounting and financial services including accounting, collections, budget, performance measures, and financial analysis.
- ***Human Resources*** (50.50 FTE) provides technical advice on personnel, safety and training issues, and manages the Department's human resource systems and processes. Human Resource staff work closely with operating divisions to identify options to meet staffing needs and more efficient ways of doing business.
- ***Civil Rights*** (4.00 FTE) is charged with administering 12 federal and state regulatory Civil Rights programs and handling compliance issues for the Department.
- ***Information Systems*** (238.67 FTE) includes planning, developing and supporting business application systems; technology infrastructure; and supporting telephone and electronic mail.
- ***Internal Audit Services*** (8.00 FTE) is responsible for assuring that effective management controls are in place and functioning properly to help management achieve its objectives.
- ***Support Services*** (40.00 FTE) provides a variety of services to all ODOT programs including purchasing and contract management, fleet management, and supply and reprographic operations.

Revenue Sources and Relationships

Central Services is supported by a combination of direct and indirect charges. Direct charges are applied where the service can be accurately measured, such as in computer charges and Highway Fuel Tax accounting. The bulk of the revenues, however, come from indirect charges that are assessed to each division primarily based upon its number of full-time equivalent positions.

Budget Environment

Workload in Central Services is driven by the workload factors affecting the Department as a whole. This includes factors such as the demographic changes in Oregon's population and economy, implementation of federal appropriation legislation, rapidly changing information technology, and efficient delivery of programs. Current revenues are insufficient to maintain current service levels for programs funded with Highway Fund revenue. The effect of staff reductions on service levels will make it more difficult to communicate with local property owners on construction projects; delay customer service; and slow workflow for Financial Services, Internal Audit, Information Systems, and Business Services.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $122.6 million total funds is $11.5 million or 10.3% more than the 2003-05 legislatively approved expenditure level and $0.5 million less than the Governor's recommended budget. The adopted budget eliminates $0.1 million Other Funds related to a federal grant for Transportation Community System Preservation and eliminates the start-up costs of $0.4 million Other Funds related to the Value Pricing Pilot Project. The adopted budget reflects the transfer of five positions (5.00 FTE) and adds $1.4 million Other Funds from Transportation Program Development as a result of the realignment of resources to facilitate implementation of OTIA. The Legislature approved the following policy packages:

- Reclassifying four positions that are currently receiving work out of class differentials due to increased responsibility, workload, and supervisory duties, and resulting in no budgetary effect in 2005-07.
- Adding $1 million to upgrade the anti-virus infrastructure, data storage capacity and tools, server lifecycle program and maintenance of the network, mainframe, server equipment, and associated software components of ODOT's information technology infrastructures.
- Adding $2.9 million to provide funding for information technology contractors to support current ODOT business systems and computing infrastructure.
- Transferring 26 positions (16.83 FTE) to the State Data Center to accommodate ODOT's share of the Consolidated Network Information Center (CNIC).
- Reducing $0.6 million Other Funds and five positions (4.25 FTE) to transfer two positions (1.50 FTE) to Special Programs and three positions (2.75 FTE) to Driver and Motor Vehicles.

The adopted budget applies standard inflationary increases for services and supplies and state government service charges of $4.2 million Other Funds and $1,345 Federal Funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases of $3.95 million Other Funds and adds 0.50 FTE as a result of an internal realignment of staff. The Legislature added $60,000 total funds to reflect adjustments in assessments and charges by the Department of Administrative Services, PERS rates, Attorney General hourly rates, and a technical adjustment in vacancy savings.

ODOT – Nonlimited

Debt Service and Loan Fund

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds (NL)	118,115,278	74,278,450	157,960,458	17,663,632
Total Funds	**$118,115,278**	**$74,278,450**	**$157,960,458**	**$17,663,632**

Support Services

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds (NL)	32,500,439	37,308,062	37,899,298	0
Total Funds	**$32,500,439**	**$37,308,062**	**$37,899,298**	**0**
Positions	161	151	150	0
FTE	161.00	151.00	150.00	0.00

Operations

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds (NL)	2,022,548	2,228,366	13,095,439	0
Total Funds	**$2,022,548**	**$2,228,366**	**$13,095,439**	**0**
Positions	14	15	42	0
FTE	14.00	15.00	42.00	0.00

Program Description

Nonlimited programs record revenues and expenses for transactions that are generally internal to the agency and serve operating programs that are subject to expenditure limitation. They are nonlimited because the level of activity is generally unpredictable. Nonlimited sections of the budget are Debt Service, Support Services, and Operations. Services within the budget include testing and inspecting roadway materials; purchasing equipment and fleet vehicles; repairing equipment in the field and in shops located in Salem, Bend, and La Grande; selling and distributing fuel; operating storerooms; designing and manufacturing signs; and traffic signals.

The Reimbursables Unit (38.00 FTE) has been moved in the 2005-07 Governor's budget from Highway Special Programs to Nonlimited Operations. This unit recovers costs when ODOT performs work on behalf of a third party. The work includes repair to damaged highway structures; services to public agencies, citizens, and businesses not associated with STIP projects; real estate sales or purchases associated with transferring staff; and the purchase and resale of favorably priced fuel to other state agencies.

Revenue Sources and Relationships

- ***Debt Service:*** Debt service in this program relates to highway construction bonds and loan disbursements from the Oregon Transportation Infrastructure Bank (OTIB). Debt service is paid from the State Highway Fund. Total debt service payments for highway construction bonds are estimated to be $147.8 million during the 2005-07 biennium. 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 2005-07 biennium are estimated to be $10 million.
- ***Support Services and Operations*** (192.00 FTE) Revenues are received from other divisions within the Department for facilities management, fleet operations, fleet repair, acquisition and distribution, testing and inspecting roadway materials, sign and traffic signal design and manufacturing, and quality assurance testing. Some services are sold to local agencies. Examples of services provided are facilities maintenance and construction, operation of truck and equipment repair facilities, inventory maintenance, and purchasing. These expenditures are limited in the division or agency receiving the service.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for Nonlimited Debt Service and Loan Fund of $17.6 million, is $56.6 million or 76% less than the 2003-05 legislatively approved expenditure level and $140.3 million less than the Governor's recommended budget. The Legislature determined that debt service is not an unpredictable expense and that the expenditure associated with the Other Funds Debt Service should be reclassified as an expenditure limitation. The Legislature transferred the Other Funds Debt Service and $0.1 million services and supplies expenditure to the Lottery Debt Service program unit, renaming it to "Debt Service" resulting in a reduction in this program unit of $147.8 million. The Oregon Transportation Infrastructure Bank (OTIB) remains in the Nonlimited classification. The Legislature approved an increase of $7.5 million in the OTIB to reflect approval of a loan to Clackamas County.

The Legislature also determined that the Nonlimited Support Services program and Nonlimited Operations program do not meet the criteria for non-limited authority. The Legislature eliminated the programs resulting in a reduction of $13.1 million Other Funds Non-Limited for Operations and $37.9 million Other Funds Non-limited for support services. The 192 positions (192.00 FTE) are transferred to the Highway Maintenance Program where expenditure authority is included in the base budget.

ODOT –Debt Service

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Lottery Funds	10,108,962	21,145,902	33,187,224	22,162,072
Other Funds	7,806,451	0	0	147,754,911
Total Funds	**$17,915,413**	**$21,145,902**	**$33,187,224**	**$169,916,983**

Program Description

Debt service in this program relates to highway construction bonds and the state's share of funding for the Westside Light Rail Project in the Portland metropolitan area, the South Metro Commuter Rail project in Washington County, Short-Line Railroad improvements, and Industrial Spur projects. Debt service is paid from the State Highway and Lottery Funds.

Revenue Sources and Relationships

Other Funds are derived from the sale of bonds, which are retired using allocations of State Highway and Lottery Funds.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget is $169.9 million, which is $148.7 million more than the 2003-05 legislatively adopted budget and $136.7 million more than the Governor's recommended budget. The increase reflects the transfer of debt service payments for highway construction bonds from the Non-Limited program. The adopted budget provides expenditure limitation for $20 million Lottery, $0.8 million Lottery Funds for the Short-Line Rail, and $1.4 million Lottery Funds for Industrial Rail Spur projects. No debt service is expected for the South Metro Commuter Rail project in the 2005-07 biennium. Total debt service payments for highway construction bonds are estimated to be $147.8 million during the 2005-07 biennium.

ODOT – Capital Improvements

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	2,284,466	2,529,970	2,590,689	2,590,689
Total Funds	**$2,284,466**	**$2,529,970**	**$2,590,689**	**$2,590,689**

ODOT – Capital Construction

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	1,000,001	2,600,000	9,200,000	2,200,000
Total Funds	**$1,000,001**	**$2,600,000**	**$9,200,000**	**$2,200,000**

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 transfers of State Highway Funds.

Legislatively Adopted Budget

The 2005-07 legislatively adopted Capital Improvement budget is $2.6 million, which is $60,000 more than the 2003-05 legislatively approved expenditure level. The increase reflects applying the standard inflationary increases for services and supplies and capital outlay. The adopted budget supports 46 identified facility improvement projects.

The 2005-07 legislatively adopted Capital Construction budget is $2.2 million, which is $0.4 million less than the 2003-05 legislatively approved expenditure level and $7 million less than the Governor's recommended budget. The Legislature approved funding Phase 3 of the Sylvan Maintenance Station estimated at $2.2 million. Construction bids on the four remaining Sylvan buildings indicated an increased cost from the Governor's recommended budget of $0.9 million to $2.2 million for the project. The Legislature did not approve $4 million for replacing buildings at the East Portland Maintenance Station, $4 million for Baker City Maintenance Station, and $0.2 million for planning and design of future projects, indicating that the legislative priority is to insure substantial progress is made on the Oregon Transportation Investment programs before considering facility construction projects.

CONSUMER AND BUSINESS SERVICES

Board of Accountancy – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	1,425,564	1,565,639	1,487,963	1,473,306
Total Funds	**$1,425,564**	**$1,565,639**	**$1,487,963**	**$1,473,306**
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 1,000 public accounting firms and 7,000 public accountants, most of them CPAs. The Board also licenses 300 CPAs to perform audits of state and local government agencies.

Revenue Sources and Relationships

The Board's Other Funds come primarily from business registration fees, biennial licensing fees, and examination fees. The American Institute of Certified Public Accountants changed the examination from twice a year to a year-around, online examination. This has resulted in reduced revenues and costs to the Board. Additionally, a small amount of revenue is gained through the selling of mailing lists. The revenue estimate of $1,352,000 for the 2005-07 biennium is $136,000 less than budgeted expenditures. The Board has built a sizable cash carryover balance which will supplant the reduced revenues.

Budget Environment

Examination applications and membership have stabilized and Board operating costs are more predictable. The Board expects a slight decline of new candidates in future years due to the higher educational requirements. Implementation of the computer-based CPA examination has had a negative impact on revenues. This also has reduced the time staff spends and other costs of administering the examination.

Legislatively Adopted Budget

The legislatively adopted budget contains no additions or reductions to Board programs other than the reduction for the change in CPA examinations. The budget continues all other Board services and reflects the reduced costs for state services that resulted from changes to internal service agency budgets.

Board of Chiropractic Examiners – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	848,146	916,244	1,003,043	991,183
Total Funds	**$848,146**	**$916,244**	**$1,003,043**	**$991,183**
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 (DC) and Certified Chiropractic Assistants (CCA) 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. The 2005-07 projected ending cash balance of $147,443 is the equivalent of approximately three and one-half months of operating costs. During the 2005-07 biennium, the agency plans to transition from an annual to a birth month licensing cycle. The transition is expected to stabilize cash flow and workload. The agency proposes to establish a new fee to cover the cost of nationwide criminal background checks for new Doctor of Chiropractic applicants.

Budget Environment

The agency licenses over 1,500 Doctors of Chiropractic and 600 Certified Chiropractic Assistants annually. The agency made significant improvement in performance measures related to complaint case resolution in 2003 and expects continued improvement.

Legislatively Adopted Budget

The Legislature approved a budget of $991,183 Other Funds, a 1.2% decrease from the Governor's budget, and 4.50 FTE. The budget was adjusted to reflect the following rate and assessment reductions: Public Employees Retirement System ($3,148), Department of Administrative Services ($2,313), Oregon State Library ($213), and Secretary of State Audits Division ($34). The budget also includes several line-items shifts to align the budget more closely with actual spending patterns.

The Legislature approved an increase to fund nationwide criminal background checks on new applicants ($7,592) and the reclassification of a part-time position with an offsetting reduction to Services and Supplies.

Board of Clinical Social Workers – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	462,801	488,074	579,239	567,514
Total Funds	**$462,801**	**$488,074**	**$579,239**	**$567,514**
Positions	3	3	3	3
FTE	2.50	2.50	2.50	2.50

Agency Overview

The mission of the Board of Clinical Social Workers is to protect the citizens of Oregon by setting a strong standard of practice and ethics through the regulation of clinical social workers. The Board oversees a voluntary licensing program for individuals who want to use the title "licensed clinical social worker." The Board is responsible for developing and enforcing ethical standards for licensed individuals; investigating complaints; and disciplining licensed individuals who violate ethical standards, Board rules, or state licensing laws. The seven-member board is appointed by the Governor and composed of four licensed clinical social workers and three public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from application and licensing fees. Other miscellaneous sources include late fees and publication sales. Fees were temporarily decreased in 1999-2001 to address a high ending cash balance. The fees remained at the reduced level through 2001-03 and were restored (to 1997-99 levels) in 2003-05. The current fee structure will not support agency operations through 2005-07 and provide an adequate ending cash balance. To address this problem, the agency proposes to increase fees. The proposal includes a $5 increase (9%) in the Certificate of Clinical Social Work Associate renewal fee and a $15 increase (20%) in the Licensed Clinical Social Worker renewal fee. With this fee increase, the projected 2005-07 ending balance represents approximately six months of operating costs.

Budget Environment

Although there have been modest annual increases in the number of licensees, the revenue generated from the increases has not kept pace with operating cost increases.

Legislative Adopted Budget

The Legislature approved a budget of $567,514 Other Funds, a 2% reduction from the Governor's budget, and 2.50 FTE. The budget was adjusted to reflect the following rate and assessment reductions: Public Employees Retirement System ($1,566), Attorney General ($2,842), Department of Administrative Services ($2,418), and Oregon State Library ($23).

The Legislature approved a small increase to address increased operating costs ($15,735) and the reclassification of two part-time positions ($14,518).

Construction Contractors Board – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	9,924,535	11,403,490	12,074,409	11,821,224
Total Funds	**$9,924,535**	**$11,403,490**	**$12,074,409**	**$11,821,224**
Positions	66	61	62	61
FTE	63.75	60.75	61.38	60.38

Agency Overview

The Construction Contractors Board provides services to homeowners, contractors, subcontractors, construction suppliers, bonding and insurance companies, and state and local building officials. The Board regulates the profession of construction contracting and provides consumer protection and dispute resolution services. The Board licenses construction contractors and subcontractors, provides consumer information and education, and resolves disputes. The Board investigates complaints, imposes fines for violations of Oregon laws, including failure to carry workers compensation coverage, and ensures that contractors meet statutory pre-licensing educational requirements.

Revenue Sources and Relationships

Approximately 93% of Board resources are expected to be received from contractor licensing and renewal fees in 2005-07. The remainder will be from miscellaneous fees and civil penalties. Because the rate of new licenses and license renewals is greater than anticipated, the revenue generated from the license fee increase implemented July 1, 2004 is expected to generate more revenue than is necessary to fund the approved level of operations and approximately six months of expenditures in ending balance. The Board will modify the license fee downward in order to not exceed the recommended ending balance of approximately $3 million.

Implemented January 1, 2004, a fee for filing claims represents a nominal revenue source. Instead, its relevance is that it signifies the volume of claims filed. During the 2003-05 biennium 5,200 claims were received, 39% fewer than were received in each of the two prior biennia. In 1999-2001 and 2001-03, approximately 8,500 claims were filed each biennium. Although the Board assumed approximately $155,000 in claim filing fees in 2003-05, actual fees paid through the end of the biennium totaled $95,000. The Board projects that the 2005-07 level will increase to $192,000, derived from approximately 3,800 filed claims.

Other fee restructuring in 2004 eliminated a fee charged to contractors who were late in their license renewal. This will result in a 2005-07 revenue reduction of approximately $100,000. At the same time, the renewal process is streamlined. Civil penalty collections are not expected to change materially from 2003-05; the Board projects $384,000 in civil penalties will be transferred to the General Fund in 2005-07.

Budget Environment

The essential scope of the Construction Contractors Board responsibilities continues to be licensing, enforcement, claims resolution, and consumer and contractor education. Implementation of a business competency test in July 2000 resulted in a 7% decrease in the number of licensees between 2000 and 2003. The number remained relatively static for the first half of the 2003-05 biennium. However, by the end of the biennium, the average monthly renewal rate was more than eight percentage points higher than the base on which 2003-05 revenues were projected. New licenses were also issued at a higher rate and the total number of licensees in June of 2005 was approximately 42,800, compared to 45,000 licensees in June 2000 and 41,800 in June 2004.

The 2003-05 ending balance was approximately $3.5 million, which was higher than projected and more than the Legislative Assembly recommended. Because of the increased rate of licensing and renewal activity which is projected to continue, the fee level set in July 2004 will be modified downward effective October 2005. Economic volatility, including construction trends, availability and cost of required liability insurance, the business competency test for new licensees, and consolidation of construction firms will continue to drive the need for the Board to balance its fee structure to cover the cost of operations and to maintain an appropriate, but not excessive, ending balance.

In addition to the historical variation in the number of licensees, workload implications and use of agency resources are affected by a variety of factors: 1) increased application of computer-based technology in business processes, and use of the Internet to provide consumer and contractor information resulting in a significant decrease in daily telephone inquiries since 2000; 2) enforcement actions pursued by the Board, which are different from claims, decreasing by approximately 11% between the 2001-03 and 2003-05 biennia; 3) program changes resulting from legislation that was not introduced on behalf of the agency; and 4) goals and expectations in meeting performance measurements in all areas of the agency's mission to protect the public's interest relating to improvements to real property through regulation of construction contractors and the promotion of a competitive business environment through education, contractor licensing, dispute resolution, and law enforcement.

Legislatively Adopted Budget

The 2005-07 budget of $11,821,224 reflects a 1.6% decrease from the Governor's recommended budget, and a 4.1% increase over 2003-05. Principal changes were from increases in consumer and contractor education activities, staffing and salaries, information technology asset replacement, and price list adjustments.

Upward reclassifications of several positions approved by the Department of Administrative Services, Human Resource Services Division, were funded. Five claims examiner positions in the Dispute Resolution Section were reclassified, and in the Information Systems Section, two Information Systems Specialist positions were reclassified. The Public Information Assistant in the Consumer Education program also was reclassified upwards and the additional resources for advertising were approved. However, the Legislature did not approve the addition of a new Administrative Specialist 2 position to the Contractor Education program. Instead, the Legislature requested that the agency review the existing two Education Section positions in the context of the implementation plan for the agency's Contractor and Consumer Education programs, and report to the Emergency Board on how the plan will be executed. If necessary to achieve the agency's goals and outcomes, the agency can request that the Emergency Board increase the agency's Other Funds expenditure limitation and position authority.

The agency's information technology package was reduced by $19,725 based on revised cost estimates for training and capital outlay, and Personal Services was reduced by $2,743 and Services and Supplies was reduced by $57,803 as a result of lower Public Employees Benefit Board charges, assessments by the Department of Administrative Services, State Library and Secretary of State, and Attorney General fees.

The Legislature also authorized the transfer of $350,000 Other Funds from the Construction Contractors Board to the Department of Consumer and Business Services in support of House Bill 2078. The measure established a nine-member Task Force on Construction Claims and the Department of Consumer and Business Services was directed to provide professional staff support for the study of actuarially sound insurance reforms, alternatives, and pricing. The task force is to report to the 2007 Legislative Assembly with recommendations for changes, if any.

Department of Consumer and Business Services (DCBS) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	160,704,993	173,324,865	179,434,083	177,519,614
Other Funds (NL)	299,947,054	386,534,154	442,487,607	442,487,607
Total Funds	**$460,652,047**	**$559,859,019**	**$621,921,690**	**$620,007,221**
Positions	1,111	1,088	1,069	1,081
FTE	1,098.50	1,076.95	1,060.42	1,068.47

Agency Overview

The Department of Consumer and Business Services (DCBS) is organized into four broad program areas that include central administration and three separate consumer-related regulatory functions:

- Central Support, including administrative support, information management, and policy direction.
- Regulation and Enforcement of Workplace Safety and Health, including the Workers' Compensation Board, the Workers' Compensation Division, and Oregon Occupational Safety and Health Administration (OR-OSHA).
- Financial and Insurance Regulation and Services, including the Insurance Division, the Division of Finance and Corporate Securities, and the Oregon Medical Insurance Pool.
- Regulation of Building Codes and other consumer services, including the Building Codes Division and the Office of Minority, Women, and Emerging Small Business. The 2001 Legislature established the Appraiser Certification and Licensure Board as a semi-independent state agency effective July 1, 2001.

Revenue Sources and Relationships

Over 500 dedicated fees, assessments, and charges support the operation of the DCBS. In addition, the Department is responsible for the management of a number of dedicated accounts within four separate operating funds: the Consumer and Business Services Fund; the Workers' Benefit Fund; the Funeral and Cemetery Consumer Protection Trust Fund; and the Oregon Medical Insurance Pool.

- The Consumer and Business Services Fund is the operating fund for the Department. Revenue sources include the Workers' Compensation Premium Assessment, which supports the workers' compensation-related programs of the Department, business licenses, and assessments and fees that support Building Codes, insurance, finance, and consumer services programs.
- The Workers' Benefit Fund is financed through the Workers' Compensation Cents per Hour assessments paid one-half by employers and one-half by workers. The current rate is 3.4 cents per hour, unchanged from 2001. For insurers and self-insured employers the assessment is 6.8% of earned premiums and 7% for self-insured employer groups. The Fund supports all of the injured workers programs, including the Handicapped Worker, Reemployment Assistance and Rehabilitation programs, and also includes reserves to ensure compensation for injured workers, such as the Non-Complying Employer reserve.
- The Oregon Medical Insurance Pool is funded with premiums collected from insured individuals and insurer assessments. The pool provides access to health care coverage for Oregonians excluded from the health insurance marketplace because of preexisting conditions.

Specific revenue sources include:

- Workers' Compensation Cents per Hour supports the Workers' Benefit Fund.
- Workers' Compensation Tax (Insurance Premium Assessments) supports workers' compensation programs. The total premium paid by employers continues to decline. Oregon had 12 consecutive years of decline in the premiums paid by employers, and two years of no increase, equaling a 57.4% cut in these costs since 1990 and resulting in cumulative savings of $10.1 billion to Oregon employers. Due to the reduced revenue base and the draw down of the ending balance, the tax rate was increased from 4.5% to 7.3% in 1998, and increased to 8% in 2002 to cover actual operating costs. This rate was unchanged in 2003. That rate had been anticipated to decline to 6.7%, but after the 2003 Legislature transferred $15.7 million from the primary operating fund for DCBS, which includes dedicated accounts for the Workers' Compensation Premium Assessment Account, the rate is set at 6.8% for 2005.
- Insurance Premium Assessments support Insurance Division programs.
- Business Licenses and Fees, which support regulatory programs such as Building Codes, Insurance Division, and the Division of Finance and Corporate Securities. The 2005-07 budget for Building Codes reflects reduced revenue.

- Insurance Taxes that are transferred to the General Fund.
- Federal Funds, which are expended as Other Funds, support Occupational Safety and Health programs and the Senior Health Insurance Benefits Assistance (SHIBA) program.
- Interest earnings, fines, assessments, and other revenues support various Department programs and are transferred to other agencies, such as the Office of Homeland Security to support the State Fire Marshal.

Nonlimited Accounts include the Workers' Benefit Fund, nonlimited reserves and payments for workers' compensation, Funeral and Cemetery Consumer Protection Trust Fund for payments of claims for prearranged funeral and endowment care defaults, and the Oregon Medical Insurance Pool third-party administrator and claim payments.

Budget Environment

Workload is driven by factors such as the demographic changes in Oregon's population, economic changes, changes in business practices including increased use of rapidly changing information technology, and health care needs and reform. This has also included, in recent years, absorbing administrative responsibility for a number of agencies, including Building Codes and the Office of Energy (until the Office was re-created as a separate agency by the 1999 Legislature). The 2001 Legislature added responsibility for enforcement of mortuary and cemetery regulation and established the Appraiser Certification and Licensure Board as a semi-independent state agency. The 2003 Legislature approved SB 468 that transferred $631,570 Other Funds from the Department of Transportation and established 2.78 FTE within the DCBS Building Codes Division effective May 1, 2005 to handle duties relating to titling and registration of manufactured structures.

The 2003 Legislature approved a budget of $559.9 million total funds, and 1,076.95 full-time equivalent positions (FTE) for DCBS. This represented a 12.4% decrease from the Governor's budget and a reduction of 3.00 full-time equivalent positions. Most of this reduction was a result of an adjustment of $69,656,993 in Nonlimited Other Funds in the Oregon Medical Insurance Pool program, based on revised Family Health Insurance Assistance Program (FHIAP) estimates.

Legislatively Adopted Budget

The 2005-07 budget for DCBS is an increase of $4.2 million (2.4%) Other Funds, and $55.95 million Nonlimited Other Funds, and a decrease of 7 positions (8.84 FTE) from the 2003-05 legislatively approved budget. The Legislature approved three policy bills that added $1.1 million Other Funds and 14 positions (8.55 FTE) to streamline workers' compensation hearings, revise workers' compensation medical examination requirements, and create building codes administrative regions. The Legislature also reduced the agency services and supplies budget by 3%, which is equivalent to adjustments made in other agency budgets. This adjustment was in addition to the reductions made to services and supplies in the Governor's budget. Other adjustments included reductions to state government and Attorney General rates, and the Public Employee Retirement System (PERS) rate.

The Legislature approved a policy package based on passage of a revenue bill, which restored positions cut in the Finance and Corporate Securities Division base.

An accounting shift transferred the expenditures for the Workers' Compensation Assessments Section from the Business Administration Division to the Workers' Compensation Division. This section provides accounting services for the Workers' Benefit Fund and the Premium Assessment Operating Account. Likewise, for accounting purposes, the Ombudsman for Injured Workers and the Small Business Ombudsman have also been transferred to the Workers' Compensation Division. Reporting relationships for these three program areas remain unaffected.

The state in is the process of consolidating the data centers of twelve state agencies. DCBS is one of the twelve agencies affected. The budget includes the transfer of 2 positions (.50 FTE). The Department's operating budget will be adjusted for related expenses once the implementation plan has been finalized.

DCBS – Central Support Services

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	31,085,233	32,963,602	31,856,765	31,299,496
Other Funds (NL)	1,258,240	819,522	260,290	260,290
Total Funds	**$32,343,473**	**$33,783,124**	**$32,117,055**	**$31,559,786**
Positions	197	192	169	**167**
FTE	193.50	191.13	167.17	166.67

Program Description

Central Support provides direction, leadership, and support services to the diverse divisions, offices, and boards within the Department. In addition, the Office of Regulatory Streamlining was established in the Director's Office under Executive Order 03-01 to facilitate state government's efforts to simplify business regulations. The office serves as a clearinghouse for best practices and resources related to streamlining, conducts research into methods to improve processes, and compiles information about successful streamlining practices.

The Director's Office accounts for 4% of Division expenditures and provides leadership, policy direction, general supervision of all programs, and liaison with other levels of government and the general public.

- Information Management Division accounts for 62% of Division expenditures and establishes DCBS information technology strategy and standards. The unit collects, stores, processes, analyzes, and reports agency information.
- Business Administration Division accounts for 24% of Division expenditures. The unit provides centralized purchasing and accounting services, collection services, payroll, purchasing, printing, ordering, mail inventory control, warehouse, and contract management services.
- Communication Services is 2% of Division expenditures, and provides outreach and information on rules, policies, and data (including interactive forms on the Internet) to the public and non-English speaking Oregonians.
- Personnel Services is 8% of Division expenditures, and provides human resources support to the agency.

Revenue Sources and Relationships

The Division is primarily funded with $31.9 million in Other Funds from revenue transfers within the Department's dedicated funds. Federal Funds of $250,000 from the U.S. Bureau of Labor Statistics and matching funds from Workers' Compensation Premium Assessments fund an annual survey of work-related and fatal injuries. The Department expends Federal Funds as Other Funds.

Budget Environment

Workload in the Division is driven, in part, by the workload factors affecting the Department as a whole, including demographic changes in Oregon's population, continued economic growth, changes in business practices, rapidly changing information technology, and health care needs and reform. This also has included, in recent years, absorbing administrative responsibility for a number of agencies, including the Building Codes Division and the Office of Energy, until the Office was re-created as a separate agency by the 1999 Legislature. The Division monitors agency workload and statistics and is working on outcome-measurement reporting.

Legislatively Adopted Budget

The budget is a decrease of $1,664,106 Other Funds, and $559,232 Nonlimited Other Funds, and a decrease of 25 positions (24.46 FTE) from the 2003-05 legislatively approved budget. This includes the 2 positions (.5 FTE) transferred as part of the data center consolidation noted above. Other adjustments included reductions to state government and Attorney General rates, and the PERS rate, and the accounting shift, as noted above, that transfers the expenditures (but not reporting relationships) for the Workers' Compensation Assessments Section, the Ombudsman for Injured Workers, and the Small Business Ombudsman to the Workers' Compensation Division. The Governor's budget included savings of $623,735 Other Funds in services and supplies, and the Legislature added an additional 3% reduction of $211,080 to this adjustment.

DCBS – Workers' Compensation Board

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	15,727,776	16,959,647	17,745,256	17,733,030
Total Funds	**$15,727,776**	**$16,959,647**	**$17,745,256**	**$ 17,733,030**
Positions	98	96	96	100
FTE	96.87	95.50	96.00	97.67

Program Description

The Workers' Compensation Board is responsible for adjudicating contested Workers' Compensation cases and Oregon Occupational Health and Safety Administration (OR-OSHA) citations, notices, and orders, and for reviewing administrative orders on appeal. The Board consists of five full time permanent members. Offices are located in Portland, Salem, Eugene, and Medford. The Board also conducts hearings in 8 other locations around the state.

Revenue Sources and Relationships

The primary revenue source for the Board is $17.7 million in Workers' Compensation Insurance Taxes. These taxes, assessed at 6.8% of earned premiums, are collected from SAIF, private, and self-insurers to be used for Department expenses, the Center for Occupational Disease Research, the Rehabilitation Reserve, and the Non-Complying Employer Reserve.

Budget Environment

The number of requested hearings and Board reviews in calendar year 1992 were 17,877 hearings and 2,230 Board reviews; in 1999 there were 11,828 hearings and 1,096 Board reviews; and in 2001 there were 10,139 hearings and 966 Board reviews. However, these numbers do not tell the entire story, since the scope and complexity of the cases filed with the Board have increased as litigants request hearings on issues related to the requirements of legislatively adopted workers' compensation reforms. Over the past biennium, the Board has responded to the reduced number of filings by reducing staffing by 22.00 FTE since 1995-97 (7.5 in 1997-99, 12.0 in 1999-2001, 1.0 in 2001-03, and 2.0 in 2003-05), with a corresponding reduction in the growth of program expenditures.

Legislatively Adopted Budget

The budget is an increase of $773,383 (4.6%) Other Funds and an increase of 4 positions (2.17 FTE) from the 2003-05 legislatively approved budget, which reflects substantive legislation that required that workers' compensation hearings be held no later than 120 after a postponed hearing date, with certain exceptions. The Legislature added $247,562 Other Funds and 4 limited-duration positions (1.67 FTE) to handle the temporary workload from this legislation. Other adjustments included reductions to state government and Attorney General rates, and the PERS rate. The Governor's budget included savings of $303,134 Other Funds in services and supplies, and the Legislature added a 3% reduction of $106,566 to this adjustment.

DCBS – Workers' Compensation Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	29,322,640	31,767,543	36,384,531	36,388,199
Other Funds (NL)	3,106,958	3,334,446	3,357,709	3,357,709
Total Funds	**$32,429,598**	**$35,101,989**	**$39,742,240**	**$39,745,908**
Positions	237	239	257	264
FTE	235.46	238.00	255.50	260.13

Program Description

The Workers' Compensation Division administers and enforces the provisions of the workers' compensation insurance coverage law and provides some education and consultative services. The Injured Worker Ombudsman receives, investigates, and resolves workers' compensation complaints. The Small Business Ombudsman assists small businesses in obtaining workers' compensation coverage, intervenes in premium determination problems, and provides educational programs to small businesses.

The Division has four program areas. The Division budget is operationally consolidated, but the estimated costs distributed among the programs are as follows: administration and policy (8%), dispute resolution (34%), compliance (34%), and operations (24%).

Revenue Sources and Relationships

The Division is primarily supported with $31.8 million in revenues from Workers' Compensation Insurance Taxes. The Division also receives $2.9 million in interest income as well as $1.7 million in other revenue that includes civil penalties on guaranty contracts. Ombudsman programs are funded with $1.5 million in Workers' Compensation Insurance Tax receipts.

Budget Environment

The 1990 reforms to the Workers' Compensation system stabilized the workload of the Division during the 1991-93 and 1993-95 biennia. However, appellate court decisions affected case processing and workload, and these decisions also led to the 1995 Workers' Compensation reforms. The 1995 Legislature expanded the Division's responsibilities to include development and maintenance of comprehensive medical fee schedules; promotion of reemployment incentives; medical treatment contested case hearings; and disputes related to palliative care, medical fees, and vocational disputes. The Legislature also increased penalties against noncomplying employers.

The Division's budget and position authority was increased to deal with requirements of reform. Workload fluctuated in the 1999-2001 biennium, with increases in the number of employers and covered workers, but decreases in claims and the number of resolved disputes. An audit of the functions of the Division conducted in 1998 found that caseload and workload standards, and other performance standards, were appropriate, and that the program is dealing with its workload appropriately.

The Division continues to pursue improvements in technology and work processes to deal with the workload. In 1999-2001, the Evaluation Unit and the Claims Examiner Certification process were eliminated. Hearing officers were transferred to the jurisdiction of the Employment Department as part of the Office of Administrative Hearings to establish a statewide hearings unit.

Since 1996, the number of employers and workers in the state has grown by 10.6% and 7.4%, respectively. The number of accepted disabling claims has declined by 27%. Formal disputes over benefits have declined 32% and the number of Preferred Worker contracts has declined 61%.

Legislatively Adopted Budget

The budget is an increase of $4,620,656 (14.5%) Other Funds, $23,263 Nonlimited Other Funds, and an increase of 25 positions (22.13 FTE) from the 2003-05 legislatively approved budget. Adjustments include the accounting shift, as noted above, that transfers the expenditures (but not reporting relationships) for the Workers' Compensation Assessments Section, the Ombudsman for Injured Workers, and the Small Business Ombudsman to the Workers' Compensation Division. The Legislature approved substantive legislation that added new provisions related to independent medical examinations. The Legislature added $525,608 Other Funds and 7 positions (4.63 FTE) for the workload from this bill. The Governor's budget included savings of $404,112 Other Funds in services and supplies and the Legislature added a 3% reduction of $155,438 to this adjustment.

DCBS – Oregon Occupational Safety and Health Administration

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	35,112,291	38,425,025	40,093,957	39,345,842
Total Funds	**$35,112,291**	**$38,425,025**	**$40,093,957**	**$39,345,842**
Positions	235	234	229	229
FTE	234.50	232.83	229.00	229.00

Program Description

The Oregon Occupational Safety and Health Administration (OR-OSHA) protects worker health and safety by administering the Oregon Occupational Safe Employment Act and enforcing the Federal Occupational Safety and Health Rules, under an agreement with Federal Occupational and Safety Health Act (OSHA). The main responsibilities are:

- Enforcement of job safety and health laws to assure safe and healthful working conditions for Oregon workers.
- Provision of technical training for employer and employee groups.
- Consultative safety and health services to private and public employers and employees.
- Promulgation of occupational safety and health regulations.

The Division has four program areas: Consultative Services and Education; Enforcement; Program Support; and Administrative Services. Consultative Services and Education is 37% of Division expenses and provides employers with information on OR-OSHA requirements and conducts site visits to assist employers in identifying and correcting possible violations. Enforcement is 43% of Division expenses, and is responsible for inspecting businesses and identifying violations as well as imposing fines and other penalties for violations. The remaining 20% of Division expenses is attributable to Program Support and Administrative Services, which provides services and support to operations.

Revenue Sources and Relationships

Projected 2005-07 revenue for the Division includes $31 million in Workers' Compensation Insurance Taxes, $11.5 million in Federal Funds (expended as Other Funds), and $3.2 million in OR-OSHA fines and forfeitures, most of which are transferred to the DCBS Fund to use for department-wide workers' compensation-related costs. Funds are also transferred to the Bureau of Labor and Industries to support workers' compensation-related investigations by that agency.

Budget Environment

The Division focuses on education, consultative and prevention services, and worksite inspections. As a result of these activities, Oregon continues to experience a decrease in occupational illness and injury. In 2003, the Division conducted 5,358 health and safety inspections, 2,064 safety and health consultations, and trained 26,290 Oregon workers and employers. The Division will maintain its consultative and loss prevention services at approximately 2,199 per year, including worker training.

The number of illnesses or injuries per 100 full time workers decreased from 8.7% in 1994 to 6.8% in 1998 to 6.3% in 2000 (the last year for which data was available). This reduction is a goal of the expanded activities by the Division to provide safety and health training and workplace inspections.

Legislatively Adopted Budget

The budget is an increase of $920,817 Other Funds, and a decrease of 5 positions (3.83 FTE) from the 2003-05 legislatively approved budget. Adjustments include reductions to state government and Attorney General rates, and the PERS rate. The Governor's budget included savings of $185,891 Other Funds in services and supplies and the Legislature added a 3% reduction of $215,355 to this adjustment.

DCBS – Nonlimited Accounts

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Workers' Benefit Fund				
Other Funds (NL)	186,550,823	210,485,395	199,108,232	199,108,232
Total Funds	**$186,550,823**	**$210,485,395**	**$199,108,232**	**$199,108,232**
Oregon Medical Insurance Pool Claims/Third Party Administration				
Other Funds (NL)	108,022,757	171,154,791	238,813,101	238,813,101
Total Funds	**$108,022,757**	**$171,154,791**	**$238,813,101**	**$238,813,101**
Workers' Compensation				
Other Funds (NL)	824,679	540,000	731,122	731,122
Total Funds	**$824,679**	**$540,000**	**$731,122**	**$731,122**

Program Description

This program area reports nonlimited expenditures out of the Workers' Benefit Fund, the Oregon Medical Insurance Pool (OMIP), and the Workers' compensation NL Accounts, which consists of the Self-Insured Employer Adjustment Reserve and the Self-Insured Employer Group Adjustment Reserve.

Revenue Sources and Relationships

Worker's Benefit Fund revenues include:

- Workers' Compensation Assessments and Contributions (cents-per-hour): the current rate is 3.4 cents per hour, reduced from 4 cents per hour in 2000, with a 1.7-cent deduction from employee wages and an equal deduction from the employer, which is dedicated to reserves in the Workers' Benefit Fund. One-sixteenth (1/16) of one cent is dedicated to the Center for Occupational Disease Research at the Oregon Health Science University. Funds are also transferred to the Bureau of Labor and Industries to support workers' compensation-related investigations in that agency. The remainder is used for workers' compensation benefits.
- Recovered claims cost from noncomplying employers, fines, interest income, and other revenues.

Oregon Medical Insurance Pool Claims/Third Party Administration includes Oregon Medical Insurance Board assessments collected from health insurers (generally twice a year, on an as-needed basis depending on expenditure estimates) and individual insurance premiums collected from insured parties. The funds are used for the payment of claims for parties covered under the subject insurance plans. OMIP assumed an increase in enrollment due to the approval of the Insurance Pool Governing Board's (IPGB) participation in the state's Medicaid/SCHIP waiver agreements. The agreements allowed the IPGB to receive federal match for FHIAP enrollees. Based on the influx of federal dollars, the IPGB was able to plan substantial enrollment expansion, which would have included a significant increase to the OMIP population who is served through FHIAP. The initial expansion growth was to bring the FHIAP population to 25,000 members, which would have had a significant impact on the OMIP population through the agency's individual subsidy program. OMIP enrollment is assumed to grow to approximately 14,000 by the end of 2003-05. The roll-forward projection into 2005-07 shows total expenditures for the biennium of $230.6 million, with enrollment projected to grow to 13,000 by the end of 2005-07.

Workers' Compensation Nonlimited Accounts are funded with workers' compensation premium assessments from self-insured employers and employer groups.

Budget Environment

The 1995 Legislature directed the Department to reduce the balance of reserve funds to no more than six months of expenses and transfers. This reduction was to occur gradually over a period of years, protecting against wide fluctuations in the assessments to employers, insurance companies, and workers. The Legislature subsequently directed the Department to maintain a Workers' Benefit Fund reserve balance of twelve months.

The budget assumes OMIP's insurance pool loss ratio will be approximately 143.3%. This is a change to previously lower loss ratios, and more closely reflects the current national experience of 200%. The budget also contains a prudent reserve for extraordinary costs, such as multiple organ transplants, which could affect total expenditures. The OMIP caseload has increased from 6,500 in 1999-2001 to 10,250 in 2001-03, primarily as a result of the implementation of the Family Health Insurance Assistance Program (FHIAP). The increase in nonlimited expenditures reflects that caseload growth.

Legislatively Adopted Budget

The Legislature approved the adjustments made in the Governor's budget, resulting in a net increase of $56,472,269 in Nonlimited Other Funds, including an increase of $67.7 million in OMIP Claims/Third Party Expenditures based on a projected 2005-07 enrollment increase to over 13,000.

The budget includes a reduction of $11.4 million in the Workers' Benefit Fund due to a decrease in the assessment necessary to support the direct payment of benefits to injured workers, while maintaining a prudent fund balance.

DCBS – Insurance

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	14,414,794	15,620,981	15,791,078	15,550,961
Total Funds	**$14,414,794**	**$15,620,981**	**$15,791,078**	**$15,550,961**
Positions	96	93	93	93
FTE	94.12	93.00	92.00	92.00

Program Description

The Insurance Division protects the insurance-buying public by evaluating the financial soundness of insurance companies, the availability and cost of insurance, and the equitable treatment of insureds and claimants. The Division's three sections provide independent customer advocacy and education, assist consumers in resolving complaints against agents and companies, enforce the Insurance Code, and collect and audit taxes of insurance companies. The Examinations section monitors the financial solvency of Oregon insurers. Consumer Protection enforces the Insurance Code. The Regulation section reviews insurance policy forms and premium rates for compliance with Oregon law, and also licenses insurance agents and provides Division-wide support.

Revenue Sources and Relationships

Division revenue sources include Workers' Compensation Insurance Taxes, business license fees, insurance premium assessments, interest earnings, and investment returns. Revenue estimates for 2003-05 included legislative approval of a fee increase from $1,300 to $1,500 for Certificate of Authority annual renewal. The Division receives a federal grant in the amount of $593,363 from the Health Care Financing Administration, which funds a portion of the Oregon Senior Health Insurance Benefits Assistance Program (SHIBA). For 2003-05, after paying operating expenses, it is expected that $124.6 million in insurance premium taxes, fines, and interest earnings will be transferred to the General Fund for general governmental purposes. In addition, $15.4 million from assessments on fire insurance premiums will be transferred to the Homeland Security Fire Marshal program.

Budget Environment

Increases in the complexity of insurance regulations, the demand for disaster insurance, and an aging Oregon population are significant workload factors for the Insurance Division. The Division is committed to using information technology to help manage this workload.

Governor's Budget

The budget is decrease of 70,020 Other Funds and 1.00 FTE from the 2003-05 legislatively approved budget. Adjustments include reductions to state government and Attorney General rates, and the PERS rate. The Governor's budget included savings of $600,727 Other Funds in services and supplies, and the Legislature added a 3% reduction of $85,502 to this adjustment.

DCBS – Finance and Corporate Securities

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	9,274,481	10,386,228	10,908,288	10,719,698
Other Funds (NL)	13,125	0	50,000	50,000
Total Funds	**$9,287,606**	**$10,386,228**	**$10,958,288**	**$10,769,698**
Positions	63	65	64	64
FTE	63.00	63.75	64.00	64.00

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. The Division is organized into two sections. The Financial Institutions Section is 64% of the budget and regulates state-chartered banks, credit unions, savings and loan associations, and related businesses. Corporate Securities is 36% of Division expenditures and registers security offerings, licenses businesses and individuals who sell securities, and investigates and enforces securities and commodities laws.

Revenue Sources and Relationships

The Division receives $27 million in revenue from annual assessments on financial institution assets and from securities licensing, registration, and examination fees. The Division receives $516,681 from interest earnings. HB 3656, enacted in 2003, raised securities licensing and registration fees for the first time since 1967-1969 to the midpoint of such fees charged by all states. This has increased the biennial transfer to the General Fund from $2,961,493 million in 2001-03 to a projected $13.5 million for 2003-2005.

The Division had two policy packages to address revenue shortfalls in three programs. The first package reduced expenditures in order to adjust the budgeted level to forecasted available revenues. The 2005

Legislature approved fee increases to support restoration of the positions and expenditures. The 2005 Legislature also restored the reduced positions and expenditures, as requested in the second policy package.

Budget Environment

A number of factors influence the workload and performance of DFCS. Federal law changes, specifically the passage of the 1999 Gramm-Leach-Bliley Financial Modernization Act, remove barriers to merging financial service providers. Continued expansion of consumer finance businesses (such as payday loans and title loans) creates a greater demand for oversight. Licensed securities broker-dealers are growing in number, the finance and securities field is becoming more globalized, and the use of the Internet for transactions is increasing. All of these changes increase the difficulty of oversight functions and require the Division to continually review program policy. DFCS is addressing these issues through an increase in education and cross training, enhancements in technology, and implementation of state and local partnerships.

In 2001, DFCS oversaw 5,079 registered securities, 112,847 licensed brokers/dealers and salespersons, and 1,064 investment advisor firms. The Securities section conducted 120 securities investigations, took 74 administrative actions, and made three criminal referrals. In 2001, DFCS also oversaw 33 state chartered banks, 8 state chartered trust companies, and 28 credit unions with assets worth over $33 billion. There were also 86 consumer finance and short-term lenders, 1,118 licensed mortgage bankers/brokers, 472 registered collection agencies, and 38 licensed pawnbrokers with $6.6 million in receivables from pawned items.

Legislatively Adopted Budget

The budget is an increase of $333,470 Other Funds and a decrease of 1 position (.25 FTE) from the 2003-05 legislatively approved budget. Adjustments include reductions to state government and Attorney General rates, and the PERS rate. The Governor’s budget included savings of $600,727 Other Funds in services and supplies, and the Legislature added a 3% reduction of $46,097 to that adjustment.

As discussed in the Revenue Sources and Relationships section, the budget includes a policy package with $1,325,872 Other Funds and 10 positions (10.00 FTE) to restore positions cut in the Division of Finance and Corporate Securities’ base due to a revenue shortfall, based on passage of the revenue bill.

DCBS – Oregon Medical Insurance Pool Administration

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor’s Recommended	2005-07 Legislatively Adopted
Other Funds	1,429,574	1,178,326	1,412,826	1,395,712
Total Funds	**$1,429,574**	**$1,178,326**	**$1,412,826**	**$1,395,712**
Positions	7	7	8	8
FTE	7.00	7.00	8.00	8.00

Program Description

The Oregon Medical Insurance Pool (OMIP) is a component of the Oregon Health Plan and ensures access to major medical insurance coverage for Oregon residents who otherwise are unable to obtain medical insurance for health reasons. Portability coverage is also available for eligible individuals. OMIP promotes access to health coverage and administers a third-party administrator contract. A board of directors, consisting of seven citizen members, guides OMIP policy. The OMIP shares its administrator and some staff through an intergovernmental agreement with the Insurance Pool Governing Board.

Revenue Sources and Relationships

OMIP collects assessments from health insurers (generally twice a year, on an as-needed basis depending on expenditure estimates) and collects individual insurance premiums from insured parties. Other Funds revenues include interest earnings. Nonlimited revenues of approximately $234.8 million are reported in the Nonlimited Programs section. The funds are used for the payment of claims for parties covered under the subject insurance plans, third-party administrator payments, and claim payments for high-risk insureds within Oregon through the Oregon Medical Insurance Pool Board. By statute, the administration rates for pool coverage cannot be more than 125% of rates established as applicable for individual risks in the commercial market.

Budget Environment

Rising health care costs and underwriting practices could affect the number of Oregonians in the high-risk medical pool, which OMIP estimates currently to be between 10,000 and 15,000. Other factors that affect workload include the cost of the coverage, which is set at 125% of the premium set by the largest insurers. The Division continues to monitor the insurance offered for cost and coverage.

OMIP added 6,500 enrollees in the 2001-2003 biennium, and enrollment by the end of 2003-05 is projected to be 10,250 (an increase of 57.7%). In 2005-07, OMIP enrollment is projected to exceed 13,000. Operating expenses for the program continue to remain near 7% of program expenditures, resulting in 93% of OMIP's budget directly funding health-care expenditures for OMIP enrollees. Enrollee monthly premiums fund about 70% of OMIP expenditures. OMIP assesses Oregon health insurers and stop loss carriers, based on the Oregon residents that they insure, to fund approximately 28%. The remaining 2% of revenue comes from miscellaneous sources, including interest and drug rebates. Premiums are increasing at a rate slightly higher than medical-claim expenditures, making premiums a larger part of total revenue in the 2003-05 biennium than in 2001-03.

Legislatively Adopted Budget

The budget is an increase of $217,386 Other Funds and 1 position (1.00 FTE) from the 2003-05 legislatively approved budget. Adjustments include reductions to state government and Attorney General rates, and the PERS rate. The Governor's budget included savings of $4,788 Other Funds in services and supplies, and the Legislature added a 3% reduction of $6,459 to this adjustment.

DCBS – Building Codes

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	23,660,152	25,323,910	24,467,689	24,325,181
Other Funds (NL)	167,522	200,000	167,153	167,153
Total Funds	**$23,827,674**	**$25,523,910**	**$24,634,842**	**$24,492,334**
Positions	173	157	148	151
FTE	169.05	150.74	143.75	146.00

Program Description

The Division has statutory authority for the enforcement of laws and codes related to structures and dwellings; manufactured structures; RV parks and tourist facilities; plumbing; elevators; amusement rides; electrical safety; and boilers and pressure vessels. With assistance from six boards, it develops, adopts, and interprets statewide building codes for residential and commercial construction; oversees the fabrication, installation, and repair of boilers and pressure vessels; issues trade professional licenses and construction and operating permits; investigates license and code violations; and provides continuing education for licensees. The Division conducts inspections of recreational vehicles, manufactured homes, and prefabricated structures and components and annually inspects operating elevators. The Division tests and certifies construction inspectors and tests and licenses plumbers and electricians.

In 1999, the Legislature established a tri-county Building Industry Service Board (Washington, Clackamas, and Multnomah Counties) and provided the Division with 3.50 FTE to administer this Board.

Revenue Sources and Relationships

The Division's revenues include:

- $30.3 million from fees for licenses, inspections, and permits, as well as surcharges on fees levied by state and local jurisdictions;
- $182,057 in Federal Funds (expended as Other Funds) to provide consumer assistance to individuals with complaints about manufactured homes and EPA funds for energy efficient manufactured homes certification;
- $647,767 from fines; and
- $477,837 in other revenue, including interest earnings.

The fees charged by Building Codes were established in the 1979 edition of the Uniform Building Code. These structural fees were increased by the 1999 Legislature at the request of the building industry to support ongoing program costs. For a variety of its other programs in 2001, the Division sought legislative confirmation of fee increases, the majority of which were approved. These fee increases had industry support. However, forecasted revenues for the 2003-05 biennium reflect declining revenue and workload, and insufficient revenue to maintain some required levels of service. The Governor's budget included a reduction of $4.8 million and

31.08 FTE to reflect this revenue forecast. The 2003 Legislature adopted a fee bill and a policy package that restored $1.6 million of that revenue and 9.58 FTE.

The agency reduced expenditures by $856,953 Other Funds and seven positions (6.30 FTE) in order to adjust the budget to match forecasted available revenues. Due to the economic recession, fee revenue, which funds the Division's operations, has remained relatively flat, to the point where the budget to maintain existing services could not be supported.

Budget Environment

By law, the Division is required to provide building codes regulation in areas where the local jurisdictions do not want to provide such service. As the provider of last resort, the Division serves 9% of the population, collects 2% of the fees, and is responsible for 55% of the geographic area in Oregon. HB 2153, passed by the 2001 Legislature, required local jurisdictions to participate in compliance activities. The Division expects most jurisdictions to continue use of the state for processing cases resulting in a projected 3% increase in the number of compliance cases.

Legislatively Adopted Budget

The budget is a decrease of $998,729 Other Funds and $32,847 Nonlimited Other Funds, and a decrease of 6 positions (4.74 FTE) from the 2003-05 legislatively approved budget. Adjustments include reductions to state government and Attorney General rates, and the PERS rate. The Governor's budget included savings of $480,451 Other Funds in services and supplies, and the Legislature added a 3% reduction of $148,059 to this adjustment.

The Legislature approved substantive legislation that created building codes regional administration. The Legislature added $320,634 Other Funds and 3 positions (2.25 FTE) for the workload from this bill.

As discussed in the Revenue Sources and Relationships section, the budget includes a package that reduced $856,953 Other Funds and 9 positions (6.30 FTE) due to a revenue shortfall. The Legislature approved a revenue bill that is revenue neutral but consolidates the fee structure.

DCBS – Office of Minority, Women and Emerging Small Business

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	637,134	699,603	773,693	761,495
Total Funds	**$637,134**	**$699,603**	**$773,693**	**$761,495**
Positions	5	5	5	5
FTE	5.00	5.00	5.00	5.00

Program Description

The Office of Minority, Women, and Emerging Small Business (OMWESB) certifies small businesses for targeted economic opportunity programs. The Disadvantaged Business Enterprise program aids firms seeking to contract with recipients of federal transportation funds. A business participating in the Minority Business Enterprise or Women Business Enterprise program is certified to contract with state, county, city, and local jurisdictions. The race and gender-neutral Emerging Small Business program certifies small businesses for work on specially designated emerging small business projects. OMWESB maintains an on-line directory of firms certified in these programs. The Office also provides public education on the certification programs and serves as a referral point for information on small businesses.

Revenue Sources and Relationships

The Office is funded by Other Funds revenue received from the Department of Transportation for business certification for federally funded projects and from the Department of Administrative Services for assessments to state agencies for certification and outreach services. In 2003-05, OMWESB expects to receive $613,271 from ODOT, which is 45% of the Office's funding. The remaining 55% ($761,775) will come from DAS assessments. Funding transferred to the Governor's Advocate's Office is anticipated to be $428,650 in 2005-07.

Budget Environment

OMWESB concentrates its efforts on the certification and re-certification process. Effective December 1, 2000, certifications are valid for three years, instead of one. Easing the paperwork burden on certified agencies allows the Office more time to focus on education, directory maintenance, and referral services. In the 2000-01 fiscal year, OMWESB certified 343 new applications and recertified 758 applications.

Legislatively Adopted Budget

The legislatively adopted budget is an increase of $61,892 Other Funds from the 2003-05 legislatively approved budget. Adjustments include reductions to state government and Attorney General rates, and the PERS rate. The Governor's budget included savings of $15,225 Other Funds in services and supplies, and the Legislature added a 3% reduction of $3,319 to this adjustment.

DCBS – Appraiser Certification and Licensure Board

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	40,918	0	0	0
Other Funds (NL)	2,950	0	0	0
Total Funds	**$43,868**	**$0**	**$0**	**$0**

Program Description

The Board licensed, certified, supervised, and disciplined appraisers in Oregon, and established education and experience standards. The Board ensured that regulatory functions were kept separate from the influence of industries and organizations that had a financial interest in the Board's actions. The Board conducted audits and investigations, took disciplinary action, and conducted contested case hearings.

The 2001 Legislature passed Senate Bill 304 that established the Board as a semi-independent state agency on July 1, 2001.

Board of Licensed Professional Counselors and Therapists – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	389,186	499,493	477,947	550,168
Total Funds	**$389,186**	**$499,493**	**$477,947**	**$550,168**
Positions	3	3	3	3
FTE	2.00	2.00	2.00	2.00

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." In 1998, the Board also began registering interns. The internship program permits counselors and therapists to register with the board while they are completing the work experience requirements for licensure. The seven-member board is appointed by the Governor and composed of three licensed professional counselors, two licensed marriage and family therapists, one faculty from a related training program, and one public member.

Revenue Sources and Relationships

The agency is funded by revenue generated from application and license fees. Other miscellaneous sources include fines and the sale of mailing lists and copies of public records. Revenue projections for 2005-07 reflect a 16% increase over 2003-05 estimates. The agency anticipates an increase in licensees, no fee increases are planned. The projected 2005-07 ending cash balance is the equivalent of approximately nine and one-half months of operating costs.

Budget Environment

The agency experienced increased operating costs in 2003-05 which are expected to continue in 2005-07. Major 2003-05 cost drivers include increased complaint investigations, a policy change in how investigations are performed, and extraordinary licensing system assessment, repair and maintenance costs. To address the licensing system problems, the procurement of a new licensing system was approved at the January 2005 meeting of the Emergency Board.

Legislatively Adopted Budget

The Legislature approved a budget of $550,168 Other Funds, a 15.1% increase from the Governor's original recommended budget (but a 1.1% reduction from the Governor's revised budget), and 2.00 FTE. The budget was adjusted to reflect the following rate and assessment reductions: Public Employees Retirement System ($1,375), Attorney General ($2,915), Department of Administrative Services ($1,558), and Oregon State Library ($18). The budget maintains current program levels; provides for the ongoing costs of the new licensing system; and reclassifies two part-time positions ($13,994).

Board of Dentistry – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	1,505,679	1,674,449	1,722,703	1,710,028
Total Funds	**$1,505,679**	**$1,674,449**	**$1,722,703**	**$1,710,028**
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 by setting standards for the entry to practice, examination of applicants, issuance and renewal of licenses, and enforcing the standards of practice. The Board 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, and the sale of mailing lists and copies of public records. Revenue projections for 2005-07 reflect a 4% increase over 2003-05 estimates and the projected 2005-07 ending cash balance represents approximately 10 months of operating costs.

Budget Environment

As of August 1, 2004, there were 3,435 dentists and 3,258 dental hygienists holding Oregon licenses, 1,815 dentists holding anesthesia permits, and 2,197 dental hygienists holding a Class 1 (nitrous oxide) anesthesia permit. Approximately 4,000 dental assistants are employed by dentists to assist in providing dental services – a high percentage of which hold certificates to perform advanced procedures or to take x-rays.

Legislatively Adopted Budget

The Legislature approved a budget of $1,710,028 Other Funds, a .7% reduction from the Governor's budget, and 7.00 FTE. The budget was adjusted to reflect the following rate and assessment reductions: Public Employees Retirement System ($5,742), Department of Administrative Services ($6,837), Oregon State Library ($64), and Secretary of State Audits Division ($32).

Board of Examiners of Licensed Dieticians – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	50,671	59,029	69,122	69,264
Total Funds	**$50,671**	**$59,029**	**$69,122**	**$69,264**
Positions	1	1	1	1
FTE	0.30	0.30	0.30	0.30

Agency Overview

The mission of the Board of Examiners of Licensed Dietitians is to protect the public's health, safety and well being by regulating licensed dietetic practice. The Board oversees the voluntary licensing program for dietitians who want to use the title "licensed dietitian." The agency issues and renews licenses; verifies continuing education; and investigates complaints, taking appropriate disciplinary action when necessary. The seven-member board is appointed by the Director of the Department of Human Services and composed of one physician trained in clinical nutrition, four dietitians, and two public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from application and license fees. Other miscellaneous sources include late payment fines. Revenue projections for 2005-07 reflect a 3% increase over 2003-05 estimates and the projected 2005-07 ending cash balance of $53,200 represents approximately 18 months of operating costs.

Budget Environment

The agency has 372 licensees and is one of seven health-related licensing boards who have agreed to develop an administrative consolidation plan for the 2007-09 biennium.

Legislatively Adopted Budget

The Legislature approved a budget of $69,264 Other Funds, a .2% increase from the Governor's budget, and 0.30 FTE. The budget was adjusted to reflect the Public Employees Retirement System rate reduction ($202) and a Department of Administrative Services assessment reduction ($656). The budget also includes several line-items shift to more closely align the budget with actual spending patterns and restores $1,000 of the Governor's $5,000 reduction.

The Legislature approved an expenditure limitation increase to implement House Bill 2058 ($8,768), allowing the agency to obtain financial services from the Department of Administrative Services instead of the Department of Human Services.

Health Licensing Office – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	3,737,761	4,649,116	5,043,843	4,992,324
Total Funds	**$3,737,761**	**$4,649,116**	**$5,043,843**	**$4,992,324**
Positions	28	28	27	27
FTE	26.92	26.92	27.00	27.00

Agency Overview

The mission of the Health Licensing Office is to maintain a strong and healthy quality of life for the citizens of Oregon by creating uniform public protection practices for the health professions and occupations under its authority. Established in 1999 as a consumer protection agency, the Health Licensing Office oversees the licensing and regulation of the following nine health-related professions:

- Board of Athletic Trainers
- Board of Cosmetology
- State Board of Denture Technology
- State Board of Direct Entry Midwifery
- Respiratory Therapist Licensing Board
- Environmental Health Registration Board
- Advisory Council for Electrologists and Permanent Color Technicians and Tattoo Artists
- Advisory Council on Hearing Aids
- Body Piercing Licensing Program

The boards and councils under the agency's administration set educational and professional scope of practice requirements. The agency provides a unified administrative structure. Programs and services are delivered through three operating divisions: the Regulatory Operations Division oversees licensing and credentials as well as consumer complaints and enforcement; the Administrative Services Division connects people to programs and information through professional participation, public outreach, and technology; and the Fiscal and Budget Division ensures that agency-wide accounting, fiscal, and budget operations comply with state policies and procedures.

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. Over 70% of the agency's revenue is generated by Cosmetologists. Revenue projections for 2005-07 reflect a 15.6% increase over 2003-05 estimates. The increase is primarily due to administrative fee increases implemented during 2003-05 and a proposed $15 increase in the cosmetology examination fee. The projected 2005-07 ending cash balance represents approximately five months of operating costs.

Budget Environment

The agency issues 31 types of professional licenses, maintains over 80,000 licensing records, and authorizes and administers six types of national tests and three clinical examinations. The agency reports increased examination applicants; an increase in the number of facilities and practitioners that are subject to routine inspection; and a decrease in complaint investigations.

Legislatively Adopted Budget

The Legislature approved a budget of $4,992,324 Other Funds, a 1% decrease from the Governor's budget, and 27.00 FTE. The budget was adjusted to reflect the following rate and assessment reductions: Public Employees Retirement System ($18,307), Attorney General ($3,357), Department of Administrative Services ($50,950), Oregon State Library ($442), and Secretary of State Audits Division ($178). The budget also restores funding to provide administrative support for the Board of Athletic Trainers ($51,939) and includes several line-item shifts to align the budget more closely with actual spending patterns.

The Legislature approved a one-time increase to expand online and e-commerce services ($119,000); increased funding to transition to the national cosmetology examination ($281,158); and approved the reclassification of three positions ($30,909).

The Legislature also approved HB 2103, which changes the name of the agency to the Oregon Health Licensing Agency effective January 1, 2006.

Board of Investigators – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2003-05 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	333,254	429,045	497,383	90,000
Total Funds	**$333,254**	**$429,045**	**$497,383**	**$90,000**
Positions	3	3	3	1
FTE	2.50	2.50	2.50	0.25

Agency Overview

The Board of Investigators sets minimum qualifications and standards for private investigators. The Board establishes a code of professional ethics, investigates allegations of misconduct, and prescribes fees. The Board has the authority to discipline investigators and assess civil penalties. The Board is comprised of seven members appointed by the Governor to four year terms.

Revenue Sources and Relationships

The Board's operations are supported by fees for new licensees and renewals, as well as miscellaneous revenue for document charges. The standard fee structure, established by administrative rule, is $550 for a two year license. A license can be issued provisionally for investigators who have yet to complete the required minimum number of investigatory hours or approved education. The Board projects having 720 total licensees for the 2005-2007 biennium. Of these, 222 or 34% are for new licenses and 438 or 64% are for renewals. Of the total number of licenses, 69, or 10%, are for provisional investigators. Two new categories of fees for temporary and interim licensure were approved by the Legislature beginning January 1, 2006 and could raise approximately $7,475 in new revenue over the last 18 months of the biennium.

Budget Environment

The Board began the 2005 legislative session with a proposed Governor's recommended budget of $497,393. The budget included a policy package in the amount of $14,368 to expand the amount of office space the Board rents in the State Office Building in Portland. The Legislature, however, for the second biennia in a row, remained troubled by the Board's increasing level of expenditure, small licensee base, and the draw down of its cash reserve. The Legislative remedy was to pass HB 2117-B abolishing the Board and transferring its duties, functions, responsibilities, and cash balance to the Department of Public Safety Standards and Training (DPSST) effective January 1, 2006. The measure was signed into law by the Governor on July 22, 2005. The absorption of the Board by DPSST will allow for a more cost effective administration of Oregon's private investigator industry and may lead to lower fees for licensure. Prior to HB 2117-B becoming law the Board's part-time investigator (0.50 FTE) and Office Specialist 2 (1.00 FTE) positions resigned leaving only the executive director as the remaining staff. A board member has also recently resigned.

Legislatively Adopted Budget

The legislatively adopted budget of $90,000 reflects a temporary six month budget that allows for the Board's phase-out and transition to DPSST. The budget represents a $407,383, or 81.91%, reduction from the Governor's recommended budget. The office expansion policy package was denied. Personal services total $39,819 and reflect the elimination of two vacant positions (1.50 FTE) and the conversion of the executive director's position into a six-month limited duration position (0.25 FTE). Also included under personal services are the final two weeks of costs associated with the Office Specialist 2 position that were expended at the start of the biennium. The services and supplies budget of $50,181 provides for six months of routine operating expense, including state government service charges, budget and accounting services, as well as an Attorney General line-item budget to allow for the completion of six on-going compliance cases. New and other existing compliance issues are being deferred until after the Board's transfer to DPSST. Any legally incurred expenditure billed to the Board after January 1, 2006, which for example could include unemployment costs associated with the executive director's position, will then become the responsibility of DPSST.

Of the $90,000 budget, the Legislature requested that the Department of Administrative Services unschedule $15,000 or 16.7%. The intent is that these funds only be made available in the event of essential, unanticipated costs that the Board is unable to manage within authorized scheduled limitation arise.

The Board's beginning balance was adjusted downward by $16,408 to reflect the actual, rather than budgeted, beginning cash position. This adjustment is in addition to a previous downward adjustment of $10,734 that occurred in the Governor's recommended budget. Licensure and other revenue sources were also adjusted downward by $355,130 or 83.29% leaving $67,237 or six months of anticipated revenue. The actual ending cash balance as of January 1, 2006 will be transferred to DSPSST and is estimated to be $103,600 based on the assumption that the $15,000 in unscheduled funds remains unscheduled, or $88,600 if the funds are scheduled and fully expended.

Of final note, the Secretary of State is expected to perform an agency close-out audit on the Board with the audit results being made public during the 2005-07 biennium.

Bureau of Labor and Industries (BOLI) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	11,459,227	10,935,047	11,585,348	11,320,999
Other Funds	3,743,206	5,123,744	5,727,931	5,528,430
Federal Funds	942,829	1,317,039	1,366,187	1,352,321
Other Funds (NL)	2,148,812	2,215,000	2,268,160	2,268,160
Total Funds	**$18,294,074**	**$19,590,830**	**$20,947,626**	**20,469,910**
Positions	116	110	111	110.00
FTE	113.75	106.24	109.00	108.00

Agency Overview

The Bureau of Labor and Industries (BOLI) has four divisions: Commissioner's Office/Program Support Services; Civil Rights; Wage and Hour; and Apprenticeship and Training. The Bureau ensures compliance with state laws relating to apprenticeship; wages and hours worked; terms and conditions of employment; and rights of workers and citizens to equal and nondiscriminatory treatment.

Revenue Sources and Relationships

BOLI is primarily supported by the General Fund. The Bureau receives Other Funds revenues from a fractional percentage (0.03%) of the unemployment taxes paid by employers each year, that are deposited to the Wage Security Fund. The Wage Security Fund is used to pay final wages for employees whose employers cease operations and default on final paychecks. Assessments on public works construction contracts for the Prevailing Wage Rate program account for $2 million; Technical Assistance Fees will generate $1.4 million; contract services with the Department of Consumer and Business Services (DCBS) and several Oregon cities will produce over $846,000; and miscellaneous fees and receipts will provide over $317,000. BOLI will receive an estimated $1.27 million in Federal Funds from the Equal Employment Opportunity Commission and the Veterans' Administration. These funds partially support the costs for civil rights where federal and state jurisdictions overlap.

Budget Environment

The staffing levels have been reduced by 33% over the past 10 years, from 159.02 FTE in 1993-95 to the 2003-05 level of 106.24. These reductions occurred at the same time that the Oregon workforce was increasing by approximately 247,000 employees. The budget for the Bureau has been essentially flat since 1999-2001. The Bureau has dealt with the loss of staffing, and with resources that do not keep pace with inflation, by closing offices and reducing services. The reduced service levels mean that the Bureau will not be able to meet its previously set performance targets.

The workload is primarily driven by the number of complaints it receives relating to wages and hours worked; terms and conditions of employment; and rights of workers and citizens to equal and nondiscriminatory treatment. Prevailing wage rate investigations increased by 28% in 2003-04. The closure of Woodland Park and Eastmoreland hospitals in Portland in 2004 created significant demand on the Wage Security Fund, including payouts of $964,000 for 380 wage claims. Apprenticeship registration generally reflects trends in the labor market. These registrations have declined from a high of over 8,000 in fiscal year 1997 to 5,744 in 2002, which reflects trends seen in prior recessions.

The Labor Commissioner has established a number of initiatives for the Bureau, including increasing technical assistance for employers to meet compliance requirements; improvements to civil rights intake and investigation processes; improvements to the timeliness of minimum wage and overtime claims resolution; and assisting in the establishment of new apprenticeship programs.

Legislatively Adopted Budget

The budget is an increase of $385,952 General Fund, $404,686 Other Funds, and $35,282 Federal Funds (a total increase of 4.5%) over the 2003-05 legislatively approved budget. The Legislature reduced the General Fund services and supplies budget by 3%. Other adjustments included reductions to state government and Attorney General rates, and the Public Employee Retirement System (PERS) rate. The Legislature approved two Other Funds policy packages to provide technical assistance to employers, address prevailing wage rate workload. These packages are discussed in more detail in the Bureau program areas.

A budget note directs the Bureau to report to the Joint Legislative Audit Committee on prevailing wage workload, and to seek an additional position from the Emergency Board if required to meet the workload. Another budget note directs the Bureau to work with the Prevailing Wage Advisory Committee on ways to streamline procedures and reduce costs for small public works projects.

BOLI – Commissioner's Office and Program Support Services

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	3,408,069	3,266,259	3,445,268	3,377,506
Other Funds	1,266,869	2,121,266	2,014,929	1,992,878
Federal Funds	118,117	196,338	217,421	215,400
Total Funds	**$4,793,055**	**$5,583,863**	**$5,677,618**	**5,585,784**
Positions	30	29	28	28
FTE	29.50	28.50	27.50	27.50

Program Description

The Commissioner's Office and Program Support Services Division provides overall policy direction and management for the Bureau. The Division's program units are:

- ***Commissioner's Office*** (5.00 FTE) – This unit combines administration, strategic planning, legal policy, public information, and intergovernmental relations into one activity area.
- ***Business Services*** (8.50 FTE) – This program provides centralized fiscal services including accounting, purchasing, payroll, budget development, contract administration, and telecommunications. Personnel services such as safety, wellness, labor/management relations, workers' compensation, training, and staff development are another component of this program area; and information services to implement and maintain computer information systems and user support functions.
- ***Hearings Unit*** (6.42 FTE) – This unit convenes administrative law proceedings in contested cases for wage and hour, and civil rights matters.
- ***Technical Assistance for Employers*** (7.58 FTE) – This unit provides employers with information from a website, handbooks, a telephone information line, and customized workshops and seminars regarding employment law requirements.

Revenue Sources and Relationships

This program is approximately 60% funded from General Fund resources. Other Funds revenues for the Commissioner's Office/Program Support Division include fees from seminars for employers on Civil Rights and Wage and Hour laws, on-site presentations, and the sale of handbooks totaling just over $1.4 million. Special Prevailing Wage Rate revenues of $270,774 provide targeted assistance for public contracting compliance. Additional Other Funds are received from miscellaneous fees. 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

In the 1993-95 biennium, the Bureau had 159.02 FTE. For the 2003-05 biennium, the legislatively adopted staffing level was 106.24 FTE, a decline of 33.2%. The overall workload has remained approximately the same despite this significant 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 this reduction in staffing has had a long-term adverse effect on timeliness.

Legislatively Adopted Budget

The budget is an increase of $1,921 compared to the 2003-05 approved budget, including standard adjustments for inflation and employee compensation changes. The budget is 1 position (1.00 FTE) below the 2003-05 approved budget from a technical adjustment to transfer the prevailing wage rate technical assistance function ($239,043 Other Funds and 2.00 FTE) to the Wage and Hour Division. The budget includes reductions to state government and Attorney General rates, and the PERS rate.

The 2005 Legislature added $136,314 Other Funds and 1 position (1.00 FTE) to meet increased employer demand. This was funded with increased Other Funds revenue from additional seminars that will be staffed by the new position, and from the sale of the 2004 version of the Employer Handbook.

BOLI – Civil Rights

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	2,534,083	2,389,528	2,569,582	2,512,151
Other Funds	723,754	885,253	939,609	926,808
Federal Funds	783,935	1,042,455	1,070,858	1,060,413
Total Funds	**$4,041,772**	**$4,317,236**	**$4,580,049**	**4,499,372**
Positions	32	31	31	31
FTE	31.00	30.00	30.00	30.00

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, association, age, marital status, physical/mental disability, and injured worker status. Protection is also provided against retaliation for filing civil rights complaints, for reporting illegal activity ("whistleblower" protection), and for violations of family leave laws. The Division processes employment discrimination complaints for the Oregon Occupational Safety and Health Administration (OR-OSHA) and Workers' Compensation, as well as complaints related to discrimination in violation of local ordinances in Corvallis, Eugene, and Portland, and Multnomah and Benton Counties.

The Division operates under a work-share agreement with the federal 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 $336,400 from OR-OSHA, the cities of Corvallis, Eugene, and Portland, and Multnomah and Benton Counties for services provided under contract, and miscellaneous revenues from providing public record copies. A major Other Funds source ($620,000) is from workers' compensation revenues in DCBS, for investigating allegations of discrimination against injured workers. The EEOC work-share reimbursement of $500 per case provides $1.21 million Federal Funds. This reimbursement covers about half the actual costs. Since the federal budget fluctuates, the number of cases authorized for reimbursement varies per year, regardless of the number of actual cases handled. When Federal Funds are reduced, the costs of shared cases are shifted onto the General Fund.

Budget Environment

The Civil Rights Division responded to 27,358 inquiries in 2003-04, and investigates over 2,000 cases per year. Most of these cases relate to discrimination in employment. In 1996, the Bureau increased efficiency by implementing a new case management system. This system has provided complainants with quicker resolution through early screening and disposition of cases with no evidence, and has helped the Bureau to offset the declining federal share of investigative costs. In the 2003-04 biennium, the average time to process a case, including the initial interview, was within 53 days of filing.

Funding for investigation of discrimination complaints against injured workers was shifted from the General Fund to the Workers' Benefit Fund in DCBS in 1995. Complaints from injured workers relating to discrimination or retaliation for using the workers' compensation system constitute 15% to 20% of the Civil Rights Division's annual caseload and require the equivalent of four investigators.

The Labor Commissioner proposed legislation to the 2005 Legislature that would have made Oregon's housing discrimination law equivalent to the federal law. The bill was in committee on adjournment. The Labor Commissioner anticipates proposing this legislation in 2007. If enacted, it will enable the Bureau to partner with the federal Department of Housing and Urban Development and receive Federal Funds to enforce housing discrimination laws.

Legislatively Adopted Budget

The budget is an increase of $122,623 General Fund, $41,555 Other Funds, and $17,958 Federal Funds when compared to the 2003-05 approved budget, including standard adjustments for inflation and employee compensation changes. The budget includes reductions to state government and Attorney General rates, and the PERS rate.

BOLI – Wage and Hour

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	3,183,836	2,829,294	2,995,258	2,914,753
Other Funds	1,752,583	2,117,225	2,645,509	2,608,744
Other Funds (NL)	2,148,812	2,215,000	2,268,160	2,268,160
Total Funds	**$7,085,231**	**$7,161,519**	**$7,908,927**	**7,791,657**
Positions	34	32	34	34
FTE	33.50	30.62	33.50	33.50

Program Description

The Wage and Hour Division receives claims and complaints from workers involving wages and working conditions, including the minimum wage and overtime, and protects children in the workplace. The Division also enforces regulations pertaining to private employment agencies, conducts surveys and regulates prevailing wage rates on public works contracts, and licenses and regulates farm and forest labor contractors. The Division publishes prevailing wage rates for public works projects.

Revenue Sources and Relationships

The Wage and Hour Division expects to receive $130,000 in licensing fees for farm/forest labor contractor licenses, about $2 million from assessments on public construction contracts for the Prevailing Wage Rate (PWR) program, and $270,000 in interest and recoveries for the Wage Security Fund. The Fund is dedicated to the payment of final wages for employees whose employers cease operations and default on final paychecks. It was transferred to the nonlimited budget by the 1995 Legislature. Over $3.4 million will be received for the Fund in 2005-07 from the .03% of unemployment tax premiums paid by employers during one quarter of each biennium.

Budget Environment

The Wage and Hour Division receives and investigates over 3,000 wage claims each year. Approximately one-third of these complaints in 2003-04 related to unpaid final wages involving businesses that had failed. As noted above, the closure of two large hospitals in the Portland area resulted in a 33% increase in claims against the Wage Security Fund. Another quarter of the claims relate to minimum wage and overtime. The remainder relate to hours worked and pay rate disputes. The Labor Commissioner has established a goal of completing prevailing wage rate investigations within 90 days. However, in 2003-04, only 39% of the investigations were completed within this time limit.

The Bureau notes that the number of General Fund supported staff is no longer sufficient to process all wage claims in a timely manner. The Labor Commissioner is considering reducing enforcement of hours worked and pay rate regulations in order to focus scarce resources on enforcement of minimum wage claims.

Legislatively Adopted Budget

The budget is an increase of $85,459 General Fund, $491,519 Other Funds and $53,160 nonlimited Other Funds above the 2003-05 approved budget, including standard adjustments for inflation and employee compensation changes, and the policy package discussed below. The budget includes reductions to state government and Attorney General rates, and the PERS rate. It also includes the transfer of the prevailing wage rate technical assistance function ($232,316 Other Funds and 2 positions (2.00 FTE)) from the Commissioner's Office/Program Support Division.

The 2005 Legislature approved a policy package with $116,884 Other Funds and 1 position (1.00 FTE) to complete compliance reviews of prevailing wage rate projects. The additional position will enable the Division to complete 55% of prevailing wage claim investigations within 90 days, which is the 2007 target. The prevailing wage rate program is funded with fees paid by public works contractors. The program currently has sufficient Other Funds revenue to support the policy package. The Legislature did not approve an additional position for this function, but directed the Bureau to report to the Joint Legislative Audit Committee on the prevailing wage workload, including individual staff workload. The Committee may recommend that the Emergency Board establish this position if the workload report supports the need.

The Legislature also approved a budget note that directs the Prevailing Wage Rate Advisory Committee to evaluate streamlining procedures and reducing the administrative cost for small public works projects. The Bureau will report to the 2007 Legislature on the outcomes from this evaluation.

BOLI – Apprenticeship and Training

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	2,333,239	2,449,966	2,575,240	2,516,589
Other Funds	0	0	127,884	
Federal Funds	40,777	78,246	77,908	76,508
Total Funds	**$2,374,016**	**$2,528,212**	**$2,781,032**	**2,593,097**
Positions	20	18	18	17
FTE	19.75	17.12	18.00	17.00

Program Description

The Division promotes the development of a highly skilled workforce through partnerships with government, labor, business, and education, and provides apprenticeship opportunities for individuals. The 10-member Oregon State Apprenticeship and Training Council provides policy direction and approves local apprenticeship committees and their occupational standards. The Division conducts regular compliance reviews of the local committees to insure that apprentices are being treated fairly and receiving the best possible training. The Division is also responsible for maintaining a statewide registration of education and training programs for veterans, and works in partnership with educators, employers, and students. This includes cooperative efforts with school-to-work programs to ensure that adult apprenticeship standards are connected to core competencies identified at the high school level.

Revenue Sources and Relationships

The Apprenticeship and Training Division is primarily funded with the General Fund. The Division anticipates receiving a federal grant of over $60,000 from the Veterans' Administration in the 2005-07 biennium for on-the-job training of qualified veterans.

Budget Environment

The Division registered over 2,075 new apprentices in 2004, and maintains a registry of nearly 5,260 apprentices. It conducts compliance reviews to insure that programs are acting in accordance with their standards and to assure that all apprentices are being treated equally. The number of new apprentices has remained stable over time, but the registry of total apprentices has declined from a high of over 8,000 in 1997.

In the 2003-05 biennium, the Bureau was instructed by budget note to report to the Emergency Board on its efforts to increase the number of women and minorities in apprenticeship programs and the outcomes from those efforts. The Bureau reported at the November 2004 meeting of the Emergency Board that its increased efforts have resulted in three new programs that will directly benefit women, including over 90 presentations to workforce partners to promote apprenticeship. This effort was instrumental in the OHSU-North Macadam-South Waterfront District agreement, which establishes a requirement that 20% of project hours worked will be carried out by apprentices and sets goals of 10% women and 25% minority participation. BOLI continues to work with the City of Portland and Tri-Met to develop strategies to recruit women and minorities for careers in the trades. In addition, BOLI has worked with ODOT to adopt numerous strategies to improve its current training program. ODOT has committed to fund a program to prepare women and minorities to enter an apprenticeship program and to support and mentor them throughout their training. This includes a commitment to recruit individuals throughout the rural areas of the state as well.

Legislatively Adopted Budget

The budget is an increase of $66,623 General Fund and a reduction of $1,738 Federal Funds compared to the 2003-05 approved budget. These adjustments reflect standard adjustments for inflation and employee compensation changes. The budget includes reductions to state government and Attorney General rates, and the PERS rate. The budget also includes the elimination 1 position (0.12 FTE).

Board of Medical Examiners – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	5,759,309	6,505,650	7,234,868	7,054,369
Total Funds	**$5,759,309**	**$6,505,650**	**$7,234,868**	**$7,054,369**
Positions	33	34	36	36
FTE	31.00	32.60	34.50	34.30

Agency Overview

The mission of the Board of Medical Examiners is to protect the health, safety, and well being of Oregon's citizens by regulating the practice of medicine in a manner that promotes quality care. The agency licenses and regulates medical doctors, doctors of osteopathy, podiatrists, 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 to ensure compliance with their terms of probation and ensures that it is safe for them to practice medicine; works to rehabilitate and educate "problem" licensees whenever appropriate; and takes an active stance in preventing practice problems, which endanger patients, primarily through diversion program for licensees with substance abuse disorders, by education outreach, and by monitoring the prescribing practices of certain licensees. The eleven-member board is appointed by the Governor and composed of seven medical doctors, two doctors of osteopathy, and two public members.

The agency's activities are grouped into two program areas—the Operations Program and the Health Professionals Program. The Operations Program includes licensing, investigative, compliance, and administrative functions. The Health Professionals Program (HPP) is dedicated to intervention, rehabilitation, and education for licensees who suffer from substance abuse disorders. HPP represents approximately 11% of the agency's total budget.

Revenue Sources and Relationships

The agency is funded by revenue generated from licensure, examination, certification, and registration fees. Other miscellaneous revenue includes the sale of lists and directories, and fines or forfeitures imposed as disciplinary measures. The Board is required by ORS 677.290 to transfer $10 for each in-state registered physician to the Oregon Health and Science University (OHSU) to maintain a medical library. The Board expects to transfer approximately $190,000 to OHSU during the 2005-07 biennium.

In October 2004, the Board implemented a temporary fee reduction to reduce its ending cash balance to a more appropriate level. The agency's fees are among the lowest in the western states for comparable licenses. With the temporary fee reduction, the projected 2005-07 ending cash balance represents approximately 16 months of operating costs.

Budget Environment

There are three main factors that influence the agency's budget: the number of licensees, complaints, and participants in the Health Professionals Program. The agency regulates over 13,000 health professionals divided among physicians, podiatrists, physician assistants, and acupuncturists. The number of new license applications continues to grow as schools expand to meet the ongoing demand for medical professionals. Over 600 written complaints are received each year. Since 1998, the number of new investigations opened annually has increased 77% and the number of licensees on probation has increased 75%. Currently there are 104 practitioners being actively monitored by the Health Professional Program and 188 others have either satisfactorily completed the program or have been referred to similar programs in the states where they have moved.

Legislatively Adopted Budget

The Legislature approved a budget of $7,054,369 Other Funds, a 2.5% reduction from the Governor's budget, and 34.30 FTE. The budget was adjusted to reflect the following rate and assessment reductions: Public Employees Retirement System ($26,262), Department of Administrative Services ($33,948), Oregon State Library ($476), and Secretary of State Audits Division ($202).

The Legislature approved an increase of $127,076 and 1.20 FTE to address investigative and compliance monitoring workload; an increase of $178,734 and 0.50 FTE (limited-duration) to conduct nationwide background checks on new applicants and licensees under investigation; and a rent increase of $8,228 for the Diversion Program.

Mortuary and Cemetery Board – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	934,957	1,055,485	1,129,509	1,117,605
Total Funds	**$934,957**	**$1,055,485**	**$1,129,509**	**$1,117,605**
Positions	6	6	6	6
FTE	6.00	5.75	6.00	6.00

Agency Overview

The Mortuary and Cemetery Board regulates individuals and facilities engaged in the care, preparation, processing, transportation, and final disposition of human remains. The agency's mission 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.

The agency licenses individual death care professionals and the facilities in which they work. Licensees include funeral service practitioners, embalmers, apprentices, interns, preneed sales people, funeral establishments, immediate disposition companies, cemeteries, and crematories. The agency performs inspections, complaint investigations, and background investigations. Each facility and its records are required to be inspected at least once a biennium. Background checks are performed on license applicants and on the principals of licensed facilities. The agency also administers the funeral service practitioner and embalmer exams twice a year.

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; and civil penalties. To address a revenue short-fall, the agency implemented fee increases administratively in November 2004. In addition the agency proposed 2005 legislation (Senate Bill 53) to increase the death certificate filing fee by $3. Although Senate Bill 53 was not approved, a higher than anticipated 2003-05 ending balance prevented the agency from having to reduce staff in the short-run. The projected 2005-07 ending cash balance of $67,406 represents approximately one and one-half months of operating costs.

Budget Environment

Revenue to support agency operations and maintain an adequate ending cash balance continues to be an issue. The Legislature approved a budget note directing the agency to work with the Department of Administrative Services and Legislative Fiscal Office to determine the appropriate staffing level needed to effectively regulate the funeral industry in Oregon and report to the Joint Legislative Audit Committee no later than January 2006. The report will compare oversight scope, personnel, budget, fee structures, and staff training requirements of like oversight entities in other states to the current operation in Oregon.

Legislatively Adopted Budget

The Legislature approved a budget of $1,117,605 Other Funds, a 1.1% reduction from the Governor's budget, and 6.00 FTE. The budget was adjusted to reflect the following rate and assessment reductions: Public Employees Retirement System ($4,427), Attorney General ($2,642), Department of Administrative Services ($4,698), Oregon State Library ($89), and Secretary of State Audits Division ($48). The budget also includes several line-items shifts to more closely align the budget with actual spending patterns.

The Legislature ratified the fee increases implemented administratively during the 2003-05 biennium and approved the expenditure limitation reduction associated with the implementation of House Bill 2058 – allowing the agency to obtain financial services from the Department of Administrative Services ($13,950).

Board of Naturopathic Examiners – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2007-07 Legislatively Adopted
Other Funds	270,297	323,132	389,864	382,260
Total Funds	**$270,297**	**$323,132**	**$389,864**	**$382,260**
Positions	2	2	2	2
FTE	1.75	1.75	2.00	2.00

Agency Overview

The Board of Naturopathic Examiners was established in 1927 to license and regulate naturopathic physicians in Oregon. The Board's mission is to protect the public by improving upon standards of care offered by licensed practitioners through ensuring competency in education, and enhancing communication with the profession and the public. The Board conducts state jurisprudence examinations for applicants, issues licenses to practice naturopathic medicine, certifies special competency in natural childbirth, sets continuing education standards, and approves naturopathic schools or colleges offering four-year full-time residential programs. The Board also investigates complaints, administers discipline, and imposes civil penalties. The five-member board is appointed by the Governor and composed of four naturopaths and one public member.

Revenue Sources and Relationships

The agency is funded by revenue generated from application, license, and certification fees. Other miscellaneous sources include late payment fines, and the sale of mailing lists and copies of public records. Revenue projections for 2005-07 reflect a 2.5% increase over 2003-05 estimates and the projected 2005-07 ending cash balance represents approximately nine months of operating costs.

Budget Environment

The agency expects 2005-07 license renewals to remain constant, applications and initial licenses to decline, and retired status licenses to increase compared to 2003-05 estimates. The agency uses its website, brochures, and newsletters to educate the public about naturopathy. This agency is one of seven health-related licensing boards who have agreed to develop an administrative consolidation plan for the 2007-09 biennium.

Legislatively Adopted Budget

The Legislature approved a $382,260 Other Funds budget, a 2% reduction from the Governor's budget, and 2.00 FTE. The budget was adjusted to reflect the following rate and assessment reductions: Public Employees Retirement System ($1,226), Attorney General ($1,655), Department of Administrative Services ($1,726), Oregon State Library ($30), and Secretary of State Audits Division ($16). The budget also includes several line-item shifts to more closely align the budget with actual spending patterns.

The Legislature approved an increase to implement House Bill 2058 – allowing the agency to obtain financial services from the Department of Administrative Services ($13,175); approved increasing the agency's part-time position to full-time ($18,679 and 0.25 FTE); and approved a small increase for additional office space ($1,889).

Board of Nursing – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	7,077,409	7,938,514	9,106,095	9,405,198
Total Funds	**$7,077,409**	**$7,938,514**	**$9,106,095**	**$9,405,198**
Positions	36	40	45	45
FTE	35.50	39.25	44.25	44.25

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 services 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 $1.9 million from DHS in 2005-07. Revenue projections for 2005-07 include a proposed new fingerprinting fee which is expected to generate approximately $742,000. The 2005-07 projected ending cash balance represents approximately four months of operating costs.

Budget Environment

The agency's budget is influenced by the number of licensees, complaint investigations, background checks, and participants in the Nurse Monitoring program. The agency licenses approximately 42,400 registered and licensed practical nurses; 2,490 nurse practitioners, nurse anesthetists, and clinical nurse specialists; and certifies 18,000 nursing assistants (CNA) and medication aides. On average, 600 to 700 formal complaints are investigated and 1,000 to 1,500 informal inquiries are conducted. The complaint case backlog has increased 67% over the last three years, from 1,106 to 1,846. The growth in the backlog appears to be the result of an increase in the amount of time it takes to complete a complaint investigation. Despite efforts to restructure duties and streamline functions, the average number of days to complete an investigation has doubled since 2002. Law Enforcement Data System checks are performed on all initial and renewal applications totaling about 36,000 per year. The Nurse Monitoring program, administered by 3.00 FTE, provides an alternative to discipline for nurses with substance abuse, physical, or mental health disorders. There are about 360 participants in the program now compared to 307 in the last biennium, a 17% increase.

Legislatively Adopted Budget

The Legislature approved a budget of $9,405,198 Other Funds, a 3.3% increase from the Governor's budget, and 44.25 FTE. The budget was adjusted to reflect the following rate and assessment reductions: Public Employees Retirement System ($30,546), Attorney General ($10,641), Department of Administrative Services ($28,776), Oregon State Library ($534), and Secretary of State Audits Division ($293).

The Legislature approved:

- The establishment of two investigator positions and increased a part-time Complaint Intake Coordinator to full-time to address the compliant case backlog ($255,625 and 2.25 FTE).
- An increase to conduct nationwide criminal background checks on new applicants and licensees under investigation with the understanding that a fee would be established administratively to recover the costs ($742,000).
- The continuation of three limited-duration positions to maintain current Customer Service Center staffing in anticipation that increased use of on-line services may reduce the need for these positions in the future ($199,518 and 2.50 FTE).
- A one-time increase to accommodate delays in an office reconfiguration project that was expected to be completed in 2003-05 ($325,000).
- An increase in rent to accommodate the new investigative staff ($33,600).

Board of Examiners of Nursing Home Administrators – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	181,712	189,693	204,047	201,982
Total Funds	**$181,712**	**$189,693**	**$204,047**	**$201,982**
Positions	1	1	1	1
FTE	1.00	1.00	1.00	1.00

Agency Overview

The mission of the Board of Examiners of Nursing Home Administrators is to protect the public by developing, imposing, and enforcing standards which shall be met by individuals in order to receive and retain a license as an Oregon nursing home administrator. The nine-member board is appointed by the Governor and composed of three nursing home administrators, three public members, one registered nurse, one registered pharmacist, and one physician.

Revenue Sources and Relationships

The agency is funded by revenue generated from examination, license, and endorsement fees. Other miscellaneous sources include license verification fees, and the sale of mailing lists and copies of public records. Revenue projections for 2005-07 reflect a 3.9% increase over 2003-05 estimates. Roughly half of the increase is interest income, a new revenue source made possible by House Bill 2058. The projected 2005-07 ending cash balance of $91,820 represents approximately eleven months of operating costs.

Budget Environment

The agency expects 2005-07 initial license applications to increase slightly, active license renewals to remain constant, and inactive license renewals to increase compared to 2003-05 estimates. This agency is one of seven health-related licensing boards who have agreed to develop an administrative consolidation plan for the 2007-09 biennium.

Legislatively Adopted Budget

The Legislature approved a $201,982 Other Funds budget, a 1% decease from the Governor's budget, and 1.00 FTE. The budget was adjusted to reflect the following rate and assessment reductions: Public Employees Retirement System ($744), Attorney General ($496), Department of Administrative Services ($802), Oregon State Library ($15), and Secretary of State Audits Division ($8). The budget also includes several line-item shifts to more closely align the budget with actual spending patterns.

The Legislature approved an increase to implement House Bill 2058 – allowing the agency to obtain financial services from the Department of Administrative Services ($8,857); an increase in out-of-state travel to participate in national organization meetings ($1,500); and an increase for Attorney General services ($1,500).

Occupational Therapy Licensing Board – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	225,375	249,107	274,504	269,139
Total Funds	**$225,375**	**$249,107**	**$274,504**	**$269,139**
Positions	1	1	1	1
FTE	1.25	1.25	1.25	1.25

Agency Overview

The Occupational Therapy Licensing Board was created in 1977 to assure that only qualified persons provide 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 Other Funds revenue generated from license fees and other miscellaneous sources including limited permits, late fees, and the sale of mailing lists and copies of public records. Revenue projections for 2005-07 reflect a 15% increase over 2003-05 estimates. The increase is due primarily to a July 2004 license fee increase, the effect of which will not be truly realized until 2006 due to the agency's biennial renewal cycle. The 2005-07 projected ending cash balance represents approximately 20 months of operating costs.

Budget Environment

The agency's workload appears fairly stable, with nominal growth projected for 2005-07. As of November 2004, there were 1,306 licensees – 1,075 occupational therapists and 231 occupational therapist assistants. This agency is one of seven health-related licensing boards who have agreed to develop an administrative consolidation plan for the 2007-09 biennium.

Legislatively Adopted Budget

The Legislature approved a budget of $269,139 Other Funds, a 2% reduction from the Governor's budget, and 1.25 FTE. The budget was adjusted to reflect the following rate and assessment reductions: Public Employees Retirement System ($883), Attorney General ($1,255), Department of Administrative Services ($998), Oregon State Library ($19), and Secretary of State Audits Division ($10).

The Legislature approved an increase to implement House Bill 2058 – allowing the agency to obtain financial services from the Department of Administrative Services ($6,215) and an increase in professional services to contract for investigator services ($8,000).

Board of Pharmacy – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	2,620,729	3,012,517	3,745,957	3,604,033
Federal Funds	0	0	350,000	0
Total Funds	**$2,620,729**	**$3,012,517**	**$4,095,957**	**$3,604,033**
Positions	16	16	21	18
FTE	15.00	15.50	19.46	17.50

Agency Overview

The mission of the Board of Pharmacy is to promote, preserve, and protect the public health, safety and welfare by regulating the practice of pharmacy as well as the quality and distribution of drugs and medical devices. The Board licenses approximately 4,200 pharmacists, 5,500 pharmacy technicians, 1,000 pharmacies, 2,750 non-prescription drug outlets, and 850 pharmaceutical wholesalers and manufacturers. 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 fees. Revenue projections for 2005-07 reflect a 2.6% increase over 2003-05 estimates. The majority of the increase is interest income, a new revenue source made possible House Bill 2058. The projected 2005-07 ending cash balance represents approximately eight months of operating costs.

Budget Environment

The agency continues to experience increased compliance, investigation, licensing, and administrative workloads. Contributing factors include: pharmacists becoming more involved in direct patient care and drug therapy management; the use of pharmacy technicians; the increased number of drug outlets that must be inspected; increased complexity of complaints and investigations; and an increase in requests for information from the public, pharmacists, attorneys, and others. In addition, high priority issues including foreign drug importation, the diversion of non-prescription drugs for methamphetamine production, and bio-terrorism preparedness have increased the agency's workload.

Legislatively Adopted Budget

The Legislature approved a budget of $3,604,033 Other Funds, a 12% reduction from the Governor's budget, and 17.50 FTE. The budget was adjusted to reflect the following rate and assessment reductions: Public Employees Retirement System ($13,357), Attorney General ($5,882), Department of Administrative Services ($13,425), Oregon State Library ($264), and Secretary of State Audits Division ($142). The budget also establishes a line-item budget for pay-line exceptions approved by the Department of Administrative Services to address compression issues ($36,000).

The Legislature approved:

- The establishment of two permanent positions to address high priority project workload and the reclassification of two positions ($281,970).
- An increase to reflect current spending patterns for Attorney General services ($60,000).
- A one-time increase to relocate the agency to the first floor of the Portland State Office Building ($100,945) and an increase in rent to reflect the increased square-footage of the new space ($60,111).
- An increase to implement House Bill 2058 – allowing the agency to obtain financial services from the Department of Administrative Services ($16,799).

Board of Psychologist Examiners – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	539,763	622,492	724,427	701,432
Total Funds	**$539,763**	**$622,492**	**$724,427**	**$701,432**
Positions	3	3	3	3
FTE	2.50	2.50	3.00	3.00

Agency Overview

The Board of Psychologist Examiners was created in 1973 to determine qualifications, examine, and license individuals to practice psychology in Oregon. The agency's mission 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 agency investigates alleged violations of the statutes and imposes appropriate sanctions, adopts a code of ethics, and enforces continuing education requirements. The seven-member board is appointed by the Governor and composed of five psychologists and two public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from licensing, application, and examination fees. Other miscellaneous sources included civil penalties and publication sales. Although no fee increases are planned for the 2005-07 biennium, the agency is projecting a one-time increase in revenue (approximately 23%) as it transitions from an annual license renewal cycle to a biennial renewal cycle. Implementation is scheduled to begin in November 2005 and is expected to be completed in the fall of 2006. The projected 2005-07 ending cash balance is the equivalent of approximately eleven months of operating costs, which should protect the agency from having to raise fees for the next several years.

Budget Environment

The Board's workload is dependent upon the number of requests for licensure and complaints in any given time period. Although the Board doesn't anticipate a significant increase in requests for licensure - approximately 65 applications for initial licensure and 1,200 renewal licenses annually – a steady increase in complaints over the last few years has created a backlog. The Board receives approximately 60 consumer complaints per year. In August 2003 the complaint case backlog totaled 35. Since then, the backlog has dropped to 24 cases. The backlog reduction was achieved by working the agency's part-time investigator full-time.

Legislative Adopted Budget

The Legislature approved a budget of $701,432 Other Funds, a 3.2% reduction from the Governor's budget, and 3.00 FTE. The budget was adjusted to reflect the following rate and assessment reductions: Public Employees Retirement System ($1,899), Attorney General ($7,481), Department of Administrative Services ($4,345), Oregon State Library ($34), and Secretary of State Audits Division ($19). The budget also includes several line-item shifts to more closely align the budget with actual spending patterns.

The Legislature approved increasing the Board's part-time investigator to full-time to ensure timely complaint investigations ($30,750 and 0.50 FTE) and approved an increase to develop and implement an alternative to the current oral licensing examination ($20,000).

Public Utility Commission (PUC) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	29,619,858	33,222,227	34,326,628	33,925,143
Federal Funds	302,957	334,915	421,609	419,103
Other Funds (NL)	92,343,953	121,920,072	108,020,000	108,020,000
Total Funds	**$122,266,768**	**$155,477,214**	**$142,768,237**	**$142,364,246**
Positions	124	124	125	125
FTE	123.00	123.50	124.00	124.00

Agency Overview

The three-member Public Utility Commission (PUC), which is appointed by the Governor 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 of 1% on gross operating revenues.
- ***Telecommunications providers*** are assessed up to 0.25 of 1% on gross intrastate retail sales excluding wholesale revenues. Telecommunication carriers and subscribers are assessed an additional amount to support the Oregon Universal Service Fund (OUSF) and the Residential Service Protection Fund (RSPF).
  - OUSF is supported through an assessment on intrastate revenue (currently 6.1%) which is estimated to generate $123.8 million during the 2005-07 biennium. The estimated ending balance of $17.7 million is equal to approximately four months of operating expenditures for this fund.
  - RSPF is supported by a surcharge not to exceed $0.35 per month to retail subscribers who have access to relay services. The current surcharge of $0.10 per month may need to adjust the rate during the biennium. Anticipated revenues for the 2005-07 biennium total $11.8 million. The estimated ending balance of $5 million is equal to approximately 12 months of operating expenditures for this fund.
- ***Electric utilities*** are assessed an average of 0.18 mill ($0.00018) per kilowatt-hour delivered. Retail electric consumers of Portland General Electric and PacifiCorp pay additional charges for public purpose expenditures (3%) and low-income bill assistance ($10 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 the PUC, to the entities provided in statute (e.g., education service districts, and the Housing and Community Services Department).

Excluding OUSF and RSPF, the estimated ending balance from fees of $12.56 million represents approximately 12.5 months of operating expenditures.

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 53%.

Budget Environment

PUC anticipates that the number and complexity of cases filed and hearings conducted will continue to increase due to ongoing restructuring of the telecommunications and energy industries, and increasing wholesale costs of gas and electricity. Also, changes in federal pipeline integrity management requirements will likely add workload for inspections, monitoring, and training.

SB 17 (2005) establishes an interim, 10-member Task Force on Telecommunications Law Revisions. With staff support provided by the PUC, the task force will review Oregon's current laws and propose changes within the context of changing technologies and pending federal law.

PUC – Utility Program

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	7,828,648	8,748,905	8,894,177	8,773,052
Federal Funds	302,957	334,915	421,609	419,103
Other Funds (NL)	92,343,953	121,920,072	108,020,000	108,020,000
Total Funds	**$100,475,558**	**$131,003,892**	**$117,335,786**	**$117,212,155**
Positions	42	42	43	43
FTE	42.00	42.00	43.00	43.00

Program Description

The Utility Program provides research, analysis, and technical support to assist the Commission in carrying out its mission; implements state policy regarding utility industry restructuring and competition; and oversees the contract with the Energy Trust of Oregon which administers a portion of the public purpose charge. The program also includes the 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 Funds.

Legislatively Adopted Budget

The legislatively adopted budget represents a 10.5% decrease from the 2003-05 legislatively approved budget. The anticipated revenues from the OUSF have decreased by approximately $18.8 million due to increased federal reimbursements to providers, fewer telecommunication carriers serving customers in high cost areas, and lower line charges due to shifts in technology (wireless and DSL). However, services in rural areas are not expected to change; rather, the budget is more closely aligned with actual revenue and expenditure experience. The budget adds one position (1.00 FTE) to meet increased federal requirements for the gas pipeline safety program.

PUC – Residential Service Protection Fund

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	8,376,887	9,608,989	9,905,841	9,896,512
Total Funds	**$8,376,887**	**$9,608,989**	**$9,905,841**	**$9,896,612**
Positions	5	5	5	5
FTE	5.00	5.00	5.00	5.00

Program Description

RSPF provides telecommunications services for disabled persons, including the hearing- and speech-impaired, and low-income individuals through the following programs:

- ***Oregon Telephone Assistance Program (OTAP)*** subsidizes local telephone service rates to eligible low-income Oregonians by providing a $13.50 monthly reduction for basic telephone service ($3.50 paid by Oregon, the remainder provided by the federal government).
- ***Telecommunication Devices Access Program (TDAP)*** provides special communication devices to deaf, hearing and/or speech impaired, or others with disabilities that prevent them from using telephones.
- ***Oregon Telecommunications Relay Service (OTRS)*** provides a 24-hour-a-day relay service as required by the Americans With Disabilities Act to link hearing-, speech-, and mobility-impaired individuals with non-impaired individuals.
- ***Emergency Medical Certificates*** protects a customer's ability to make calls if a qualified medical professional states that disconnection would significantly endanger the health of the customer. This program is outlined in the RSPF law, but administered by the Consumer Protection Services in Policy and Administration where its expenditures are covered.

Legislatively Adopted Budget

The legislatively adopted budget reflects a 3% increase over the 2003-05 legislatively approved budget. Current services are maintained for more than 56,000 OTAP and TDAP customers and an estimated 140,000 relay minutes each month will be provided through OTRS.

PUC – Policy and Administration Program

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	13,414,323	14,864,333	15,526,610	15,255,579
Total Funds	**$13,414,323**	**$14,864,333**	**$15,526,610**	**$15,255,579**
Positions	77	77	77	77
FTE	76.00	76.50	76.00	76.00

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.
- ***Economic Research and Financial Analysis Division*** evaluates proposed mergers, analyzes utilities' cost of capital, and forecasts electric utility loads and power costs.
- ***Regulatory Operations Division*** processes all utility filings and provides information services to the agency.

Legislatively Adopted Budget

The legislatively adopted budget reflects a 2.6% increase over the 2003-05 legislatively approved budget. While no additional expenditure limitation was provided, the budget does support reclassifying nine positions, establishing an accounting technician (1.00 FTE) and a part-time office specialist (0.50 FTE), and abolishing a mail services assistant (1.00 FTE). These adjustments are intended to better align workload and reduce working-out-of-class differential payments.

Board of Radiologic Technology – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	442,156	414,418	471,619	467,148
Total Funds	**$442,156**	**$414,418**	**$471,619**	**$467,148**
Positions	3	4	3	3
FTE	2.79	2.65	3.00	3.00

Agency Overview

The mission of the Board of Radiologic Technology is to promote, preserve, and protect the public health, safety, and welfare of Oregonians when being exposed to ionizing radiation for the purpose of medical diagnosis or radiation therapy. The Board licenses and regulates radiologic technologists, sets minimum requirements for licensees and limited permit holders, and verifies completion of continuing education requirements. The seven-member board is appointed by the Governor and composed of four diagnostic radiologic technologists, one radiation therapist, one M.D. radiologist, and one public member.

Revenue Sources and Relationships

The agency is funded by revenue generated from license, examination, and permit fees. Other miscellaneous sources include fines and the sale of mailing lists and copies of public records. Revenue projections for 2005-07 reflect a 16% increase over 2003-05 estimates and the projected 2005-07 ending cash balance represents approximately seven months of operating costs.

Budget Environment

In response to deteriorating service levels the agency implemented licensing process improvements in 2003-05. As a result, agency operations are stabilizing and service levels have improved. This agency is one of seven health-related licensing boards who have agreed to develop an administrative consolidation plan for the 2007-09 biennium.

Legislatively Adopted Budget

The Legislature approved a $467,148 Other Funds budget, a .9% reduction from the Governor's budget, and 3.00 FTE. The budget was adjusted to reflect the following rate and assessment reductions: Public Employees Retirement System ($1,436), Attorney General ($528), Department of Administrative Services ($2,212), Oregon State Library ($45), and Secretary of State Audits Division ($24). The budget also includes several line-item adjustments to more closely align the budget with actual spending patterns.

The Legislature approved:

- An increase to implement House Bill 2058 – allowing the agency to obtain financial services from the Department of Administrative Services ($10,191).
- An increase to purchase LEDS software – allowing the Board to perform background checks on initial and renewal applications ($2,895 – of which $2,355 is one-time).
- Increasing a part-time position to full-time ($40,340 and 0.50 FTE).
- An increase to reflect current spending patterns for Attorney General services ($13,609).

Real Estate Agency – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	5,615,329	6,311,101	6,239,626	3,874,655
Total Funds	**$5,615,329**	**$6,311,101**	**$6,239,626**	**$3,874,655**
Positions	32	30	30	30
FTE	30.29	30.00	29.63	18.52

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 public report issuance for campground contract brokers, subdivisions, timeshares, and condominium developments. The agency approves courses and develops curriculum requirements for its licensees, administers real estate examinations, audits licensees, and investigates complaints made concerning its licensees and regulated activities. The Real Estate Commissioner, who is appointed by the Governor, administers the agency. The agency supports the Real Estate Board, whose seven industry members and two public members are appointed by the Governor.

Revenue Sources and Relationships

Other Funds revenues are generated through licensing and registration fees and renewals; charges for examinations; the sale of publications and educational seminars; and other services. No fee changes are anticipated for the 2005-07 biennium.

The agency also anticipates collecting just approximately $100,000 in civil penalties which are payable to the General Fund.

Budget Environment

During the public hearing before the Joint Committee on Ways and Means Subcommittee, members discussed whether the current structure and management of the agency and the Real Estate Board were appropriate and meeting the needs of the industry and the public. Legislative leadership agreed to appoint a work group consisting of four legislative members, two members from the Real Estate Board, the Real Estate Commissioner, and one licensee. The work group will review the role and function of the Real Estate Board, practices by the agency, alternative forms of licensure and regulation, and an internal audit recently completed by the Department of Administrative Services.

Legislatively Adopted Budget

The legislatively adopted budget reflects a 15-month operating budget pending a report to the Emergency Board on the findings of an interim work group.

Board of Examiners for Speech-Language Pathology and Audiology – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved *	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	154,378	153,663	237,115	234,753
Total Funds	**$154,378**	**$153,663**	**$237,115**	**$234,753**
Positions	2	2	2	2
FTE	0.85	0.85	1.40	1.40

** Includes House Bill 5162 (2005).*

Agency Overview

The mission 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, evaluates the qualifications of individuals seeking licensure, investigates complaints against licensees or persons operating without a license, and provides public information and education regarding licensure. The seven-member board is appointed by the Governor and composed of two licensed speech-language pathologists, two licensed audiologists, two public members, and one medical doctor with American Board of Otolaryngology certification.

Revenue Sources and Relationships

The agency is funded by revenue generated from application, license, and certification fees. Other miscellaneous sources include late fees and the sale of mailing lists and copies of public records. The agency plans to increase fees administratively in 2005-07 and, as a result, projected 2005-07 revenue reflects a 62% increase over 2003-05 estimates. The proposed increases include a $10 increase in the application fee, a $30 per year increase in the renewal fee, and a $40 increase in the late renewal fee. The 2005-07 projected ending cash balance of $56,429 represents approximately six months of operating costs.

Budget Environment

The agency is experiencing increased licensing workload related to speech-language pathology assistants – a new licensure category created in 2001. In addition, complaint investigations tripled in 2004, increasing the need for Attorney General services. The agency received a $7,100 expenditure limitation increase for the 2003-05 biennium in House Bill 5162-A (2005) to cover increased Attorney General costs. This agency is one of seven health-related licensing boards who have agreed to develop an administrative consolidation plan for the 2007-09 biennium.

Legislatively Adopted Budget

The Legislature approved a $234,753 Other Funds budget, a 1% reduction from the Governor's budget, and 1.40 FTE. The budget was adjusted to reflect the following rate and assessment reductions: Public Employees Retirement System ($627), Attorney General ($413), Department of Administrative Services ($991), Oregon State Library ($21), and Secretary of State Audits Division ($11). The budget also includes several line-item shifts to more closely align the budget with actual spending patterns.

The Legislature approved an increase to implement House Bill 2058 – allowing the agency to obtain financial services from the Department of Administrative Services ($6,144); approved increasing a part-time position to address increased workload ($59,598 and 0.55 FTE); and approved an increase for Attorney General services ($4,000).

Board of Tax Practitioners – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	763,247	825,317	922,639	913,035
Total Funds	**$763,247**	**$825,317**	**$922,639**	**$913,035**
Positions	5	4	4	4
FTE	5.00	4.00	4.00	4.00

Agency Overview

The Board of Tax Practitioners is a seven-member citizen board that protects consumers by ensuring Oregon tax practitioners are competent and ethical in their professional activities. It accomplishes this by licensing and overseeing tax preparers, tax consultants, and tax businesses. Currently, the Board regulates about 2,200 tax consultants, 1,800 tax preparers, and about 1,500 tax businesses per year. It develops initial competency examinations and monitors required continuing education programs for tax preparers. The Board also investigates complaints filed concerning personal tax return services by licensees and unlicensed persons and takes disciplinary action when appropriate. A four-person staff administers Board programs.

Revenue Sources and Relationships

The Board's Other Funds come principally from annual licensing and business registration fees. Fees are also charged for the administration of licensing examinations. Fees are established by rule but are limited by statute. The Board expects to collect $579,000 in licensing fees, $142,000 from business registration fees, $106,000 from examinations, $30,000 from fines and penalties, $45,000 in pass through revenues for community colleges administration of examinations, and $24,000 in other miscellaneous revenue for the 2005-07 biennium.

Budget Environment

The number of professionally prepared income tax returns is expected to increase along with the growth in Oregon's population. Statistics from the Department of Revenue show that about one half of all personal income tax returns are filed with the aid of a Tax Practitioner. The number of tax practitioners and tax businesses is expected to remain at about the same level as the prior biennium. In prior biennia, the Board experienced serious cash flow and budgetary problems. Those issues have been successfully addressed and the Board's fiscal situation has stabilized.

Legislatively Adopted Budget

The legislatively adopted budget provides for continuation of the Board's existing operations recognizing reduced costs of services provided by internal service agencies.

Veterinary Medical Examining Board – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	442,458	477,212	517,975	512,596
Total Funds	**$442,458**	**$477,212**	**$517,975**	**$512,596**
Positions	3	3	3	3
FTE	2.25	2.25	2.25	2.25

Agency Overview

The mission of the Veterinary Medical Examining Board is to protect animal health and welfare, public health, and consumers of veterinary services. The Board determines license qualifications and licenses veterinarians, veterinary technicians, euthanasia shelters, and euthanasia technicians; investigates consumer complaints and disciplines licensees found to be in violation of the Veterinary Practice Act; conducts national board examinations for veterinary technicians; and monitors advances and changes in the profession to determine minimum practice standards and ensure ongoing public and animal health. The seven-member board is appointed by the Governor and composed of five veterinarians and two public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from license, application, and examination fees. Revenue projections for 2005-07 reflect a 1% reduction from 2003-05 estimates. A fee reduction implemented in 2001 to address an increasing cash balance is still in effect. The projected 2005-07 ending cash balance represents approximately 16 months of operating costs.

Budget Environment

The agency currently licenses 1,726 veterinarians, 784 veterinary technicians, 145 euthanasia technicians, and 34 euthanasia facilities. Consumer complaints continue to increase as the number of companion animals per capita continues to rise. This agency is one of seven health-related licensing boards who have agreed to develop an administrative consolidation plan for the 2007-09 biennium.

Legislatively Adopted Budget

The Legislature approved a $512,596 Other Funds budget, a 1% reduction from the Governor's budget, and 2.25 FTE. The budget was adjusted to reflect the following rate and assessment reductions: Public Employees Retirement System ($1,596), Attorney General ($2,097), Department of Administrative Services ($1,634), Oregon State Library ($34), and Secretary of State Audits Division ($18). The budget also includes several line-item shifts that more closely align the budget with actual spending patterns.

The Legislature approved an increase to implement House Bill 2058 – allowing the agency to obtain financial services from the Department of Administrative Services ($12,221).

ADMINISTRATION

Department of Administrative Services (DAS) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	3,193,409	1,791,159	8,012,086	9,437,182
Lottery Funds	275,805	1,622,874	1,622,118	2,222,118
Other Funds	210,074,939	541,977,478	634,638,694	804,682,348
Federal Funds	877,272	477,000	59,000	59,000
Other Funds (NL)	318,775,306	286,088,536	279,470,012	104,887,783
Total Funds	**$533,196,731**	**$831,957,047**	**$923,801,910**	**$921,288,431**
Positions	955	907	885	1,039
FTE	925.38	898.23	875.03	892.74

Totals are different from those in the Governor's budget document due to separate treatment by the Legislative Fiscal Office of Lottery Funds for County Fairs and debt service payments for Oregon Opportunity Bonds issued on behalf of the Oregon Health and Science University.

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 provides printing, information technology consultation, computer, payroll, and accounting services. The Department also distributes federal, lottery, and state funds to cities, counties, and other state agencies. It also collects and distributes mass transit assessments.

Revenue Sources and Relationships

The Department's operating revenue comes primarily from fees charged for services provided to state agencies and from the statewide assessment. The Department establishes rates for these direct services and bills agencies based on how much of the service they use. It also provides indirect services to state agencies, such as the services provided by the Director's Office, Budget and Management Division, and Human Resource Services Division. Because a unit rate and usage volume cannot be determined directly, DAS recovers the cost of these services through a "statewide assessment," which is included in all state agencies' budgets as part of the line item expense titled "State Government Service Charges." Although services that are supported by the assessment cannot be directly measured and identified to each agency receiving the service, the Department makes an effort to allocate the assessment equitably. Revenue for Nonlimited Other Funds expenditures comes from agency reimbursements for various costs that are demand driven and not discretionary to the Department of Administrative Services (e.g., insurance claims and payments related to health care benefits). Expenditures by individual state agencies are controlled through the budget review and approval process.

Legislatively Adopted Budget

The legislatively adopted budget reflects the adjustments made to all divisions for reductions to state agency service charges and reduced PERS contribution rate. It also makes some significant changes to the past practice of excluding certain types of expenditures from expenditure limitation. Changes to this past practice will improve legislative oversight and are discussed in detail by division or operating unit.

DAS – Office of the Director

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	212,282	208,280	227,625	226,589
Other Funds	3,192,207	4,159,930	4,567,525	4,372,226
Total Funds	**$3,404,489**	**$4,498,818**	**$4,795,150**	**$4,598,815**
Positions	19	17	18	18
FTE	17.69	17.00	18.00	18.00

Program Description

The Director is responsible for managing and coordinating the policies, programs, and services of the various divisions within the Department. Also, as head of state government's central administrative agency, the Director is responsible for coordinating policy among the various state agencies and setting guidelines for developing and executing the Governor's budget. The Office of the Director now has the following units:

- ***Agency Administration*** includes the Director, Deputy Director, Director for Operations, and support staff.
- ***Office of Economic Analysis*** produces the Oregon Economic and Revenue Forecast and Criminal Justice Population Forecast. It also contracts for the Highway Cost Allocation Study.
- ***Internal Audits*** is responsible for conducting internal audits of the Department's public funds.
- ***Government Affairs and External Relations*** is responsible for legislative coordination and communications with agencies and the public.

Revenue Sources and Relationships

The General Fund supports the Prison Population Forecast. Otherwise, the Office is supported through an assessment of state agencies and reimbursement from the Department of Transportation for the cost of the Highway Cost Allocation Study.

Budget Environment

The Office of the Director is essentially an administrative office within an administrative agency. Its budget is based upon the amount of support needed within the Department and within state government.

Legislatively Adopted Budget

The legislatively adopted budget reflects the internal transfer of one communications staff position to the Office from the Information Resources Management Division. The budget has no program enhancements or reductions and provides for the continuation of the Office's existing services.

DAS – Budget and Management Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	6,666,790	8,408,851	7,735,548	11,283,366
Other Funds (NL)	1,475,305	11,783,250	3,293,093	0
Total Funds	**$8,142,095**	**$20,192,101**	**$11,028,641**	**$11,283,366**
Positions	36	34	34	35
FTE	35.50	33.50	33.50	34.50

Program Description

The Budget and Management Division establishes and enforces statewide budget standards and monitors agencies to ensure that funds are spent within legal and budgetary constraints. It is responsible for reviewing agency budget requests and developing and tracking the Governor's budget through the legislative process. The Division also helps to coordinate statewide bonded debt programs, including issuance of Certificates of Participation (COPs), Tax Anticipation Notes (TANs), Pension Obligation Bonds, and Lottery Revenue Bonds. It recently completed development and implementation of the first phases of a new statewide budgeting system (ORBITS).

Revenue Sources and Relationships

The Budget and Management Division is funded through assessments of state agencies ($9.3 million). The balance of the Division's planned expenditures will be funded with carry-forward cash balance from COPs previously issued for the ORBITS project.

Budget Environment

The Division's budget relies entirely on the ability of agencies to pay their assessments. Department management must ensure that the Division does its job properly, using only resources necessary to accomplish the work.

Legislatively Adopted Budget

The legislatively adopted budget recognizes the increase of one position in the Division that was offset by a position reduction in what was known as the Procurement, Fleet, and Surplus Services Division toward the end of the 2001-03 biennium. The budget also includes eight limited duration positions to continue work on the ORBITS project, down from nine positions in 2003-05. This next phase of the project will bring additional functional capabilities to the system that will enhance budget oversight by the Division and Legislative Fiscal Office. The significant amount of Nonlimited Other Funds for 2003-05 was to record the refunding of Certificates of Participation at a lower interest rate. In the past, debt service had been excluded from expenditure limitation. The Legislature felt that debt service is predictable, and therefore should be subject to the same budgetary controls as other expenditures. Debt service is now subject to expenditure limitation: refinancing of existing debt to take advantage of lower interest rates, by law, is still excluded from expenditure limitation to allow the Department to take advantage of interest rate changes in the marketplace.

DAS – State Controllers Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	7,098,291	8,418,450	9,050,407	22,465,803
Other Funds (NL)	16,418,798	15,986,282	13,460,746	0
Total Funds	**$23,517,089**	**$24,404,732**	**$22,511,153**	**$22,465,803**
Positions	53	48	49	49
FTE	52.32	48.00	48.50	48.50

Program Description

The primary role of the State Controllers Division is to support and ensure accuracy and accountability in state government financial systems by providing services and controls in the management of statewide accounting, receivables, financial reporting, and payroll functions. It also 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 an assessment of state agencies ($15.6 million) and from direct charges for processing warrants and payroll checks/stubs ($7 million). Assessments are based on analyses of services provided. Direct charge rates have increased due to additional system maintenance and internal control functions recommended by the Secretary of State Audits Division.

Budget Environment

The Division's budget relies on the ability of agencies to pay their assessments and direct charges. Department management must ensure that the Division does its job properly, using only resources necessary to accomplish the work.

Legislatively Adopted Budget

The legislatively adopted budget provides for the continuation of existing services of the Division. It includes one additional position to be phased in during the biennium to address workload increases, providing accounting and financial services to various licensing boards. The cost of the position will be paid from service charges to the licensing boards. The Legislature also removed the exemption of pass-through charges for data processing and bank service fees from legislatively approved expenditure limitation.

DAS – Information Resources Management Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	62,742,161	81,052,241	53,295,431	155,471,495
Other Funds (NL)	107,820,191	101,355,039	91,524,275	0
Total Funds	**$170,562,352**	**$182,407,280**	**$144,819,706**	**$155,471,495**
Positions	314	300	282	267
FTE	304.98	294.92	279.92	225.96

Program Description

The Information Resources Management Division (IRMD), encompasses computer and information services, telecommunications, and video teleconferencing, and is responsible for central review and coordination of the acquisition by state agencies of all major telecommunication and information technology systems including hardware and software.

The Division has five separate units for budgetary purposes:

- ***Administration*** provides administrative support for the Division. It coordinates and oversees IRMD business functions.
- ***Enterprise Governance Services*** includes the Enterprise Planning and Policy program, State Cyber Security program, and Quality Assurance program. This unit's activities include state government-wide governance

support; planning and coordination; rule/policy development; Information Technology (IT) asset and portfolio management; strategic oversight of major IT investments (Quality Assurance); analysis and review of IT-related budget and project requests; and support for state government-wide cyber security efforts.

- ***Enterprise Application Services*** includes the E-Government program, Systems Development and Consulting program, and Geospatial Enterprise Office program. This unit provides the program and technical infrastructure for the state's Internet and Intranet Portal via content management, the state's secure pay electronic commerce capability and maintenance and support for the Oregon Geospatial Data Library.
- ***Enterprise Infrastructure Services*** includes the General Government Data Center program, Enterprise Network Services program, and Technology Support Center program. This unit provides state government-wide central hosting services, and provides voice, video, and data services. It also provides help desk services, local area network, and desktop support for the entire Department.
- ***Publishing and Distribution*** provides complete electronic "print-to-post" services to state agencies, provides printed and electronic document services to public agencies, and operates a secure print facility for printing checks, warrants, and negotiable documents. It also collects, processes, and distributes federal and interagency mail in the Willamette Valley.

Revenue Sources and Relationships

The Division receives a small portion of its revenues from assessments of state agencies. Agencies are assessed for the Division's role in enterprise planning and policy ($1.8 million), E-government support ($8.4 million), Quality Assurance ($0.9 million), Cyber Security ($12.7 million), maintenance and support of the Legislative Information Notification Update System ($0.3 million) and maintenance of a centralized Geographic Information System ($1.5 million). It also includes an assessment for inter-office mail delivery services ($2.1 million). The balance of the Division's estimated $155 million in revenues comes largely from various systems and services usage fees. The Division has an extensive rate schedule for the myriad services it provides to state and local agencies. Demand for services is heavily driven by the state's policy movement toward increased use of telecommunications and electronic processes in government. It is also driven by demand for printing and distribution services, not only from state agencies, but also from local government units. The Nonlimited Other Funds portion of the budget request is for expenses incurred on behalf of agencies based on demand. Examples include postage and telecommunications costs that are passed on to other state agencies.

During the 2003-05 biennium, Division costs are expected to exceed resources and it will have to rely on cash advances from other divisions to sustain operations. The principal reason is that the Division's revenue estimates and structure did not align with its cost structure. Additionally, considerable new initiatives have added costs without adding revenues.

Budget Environment

A great deal of attention has been given to the state's information technology capabilities, infrastructure, and security. As state government becomes more dependent on technology for the delivery of services within and without, the role of the Division takes on additional meaning as the central information technology repository. The notion that state government information technology should be addressed on the enterprise level has now been accepted by the current administration. Initiatives such as the Central Data Center and Enterprise-wide Cyber Security should facilitate future improvements to the delivery of services to the public. The increased interconnectivity of information technology and print media, coupled with the demand for economies of scale and cost effectiveness of bulk mail and pre-sorted zip+four first class mail, has increased work levels in the publishing and distribution area.

Legislatively Adopted Budget

The legislatively adopted budget maintains the Division's existing service level while acknowledging internal operational changes. It reflects a number of personnel changes that resulted from intra-departmental transfers and staff reductions due to funding constraints and changes to business activities. Eight positions in Systems Consulting and Development, and 13 positions in Publishing and Distribution have been eliminated. These are offset by the transfer of 20 positions from the Operations Division to support the Department's desktops and local area network. Nine budget, accounting, purchasing, and payroll related positions are transferred to the Operations Division and one position is transferred to the Director's Office. Four positions are phased out to reflect administrative actions at the end of the 2001-03 biennium and another three directory assistance positions are phased out to reflect operating reductions.

The budget was reduced by $7.7 million and eliminated 25 positions (24.42 FTE) as part of the Division's budget rebalance. The Legislature approved additional expenditure limitation of $33.4 million to reflect the revised estimated cost of pass-through expenses for services and supplies. Additionally, the budget includes ten positions (9.21 FTE) and $20.1 million to continue the statewide information systems security initiative approved during the interim by the Emergency Board. The Legislature transferred the Nonlimited Other Funds portion of the budget request to expenditure limitation subject to legislative approval.

The Legislatively adopted budget also reflects the transfer of a significant portion of operations to the new State Data Center. As a result, the budget was reduced by $36.4 million and authorized FTE reduced by 38.75 to reflect the elimination of 59 positions. The actual position reductions will occur during the biennium and be reflected in the Department's 2007-09 biennium budget request.

DAS – Consolidated Data Center

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	0	0	76,600,000	99,414,508
Total Funds	**$0**	**$0**	**$76,600,000**	**$99,414,508**
Positions	0	0	0	167
FTE	0.00	0.00	0.00	67.92

Program Description

The Consolidated Data Center is now under construction and development. Dubbed the "Computing and Networking Infrastructure Consolidation" (CNIC) project, twelve state agencies will have core computer needs provided at one central facility. The Center will be within the Department of Administrative Services for operational and budgetary purposes. A Governing Board, consisting of representatives of the participating/affected state agencies, will establish operating policies and revenue structure.

Revenue Sources and Relationships

The Center's revenues will come from the state agencies that it serves. The revenue structure (assessments and/or fee for service) is still under development. One-time facility construction and start up costs will be financed by the sale of Certificates of Participation. Debt service requirements will be included in the revenue structure.

Budget Environment

The initial biennium of the Center will see the movement of staff and resources from twelve agencies into the new Center. The Center's budget is still under development. Movement of data center activities of the first three agencies is expected to begin in the fourth quarter of calendar year 2005. All twelve agencies operations are expected to be moved into the center by the end of the 2005-07 biennium. Overall savings to state government is expected to be at least $10 million per biennium. Savings recognized over the first two to three biennia will pay back the initial investment.

Legislatively Adopted Budget

The legislatively adopted budget includes one-time investment costs of $38.2 million and operating costs of $61.2 million. It also includes position authority for 72 limited-duration positions (19.38 FTE) during transition, and 93 permanent, full-time positions (48.54 FTE) for operations during the biennium. The one-time costs will be financed with proceeds from the sale of Certificates of Participation. Operational costs will be paid by the 12 agencies transferring their data center operations to the new data center. As the center's operations stabilize, full-time staffing requirements are expected to decline to a core complement of 88 positions in 2007-09 and 72 in 2009-11 to maintain the same level of operating services being transferred.

DAS – Public Employees Benefit Board

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	2,332,617	3,8,93,262	4,126,413	6,113,958
Other Funds (NL)	10,003,837	28,459,793	25,360,288	21,340,455
Total Funds	**$12,336,454**	**$32,353,055**	**$29,486,701**	**$27,454,413**
Positions	17	17	17	17
FTE	15.30	16.68	16.83	16.83

Program Description

The Public Employees Benefit Board contracts for and administers medical and dental insurance for state employees and their dependents, representing over 110,000 Oregonians. The Board also selects and administers life and disability insurance coverage for eligible state employees. A major part of the Board's responsibility is developing benefit packages to meet the needs of state government and its employees, and preparing benefits information and answering inquiries from employees and their dependents about coverage.

Revenue Sources and Relationships

Board operation is funded through an administrative charge (assessment) added to the employees' health insurance premiums. By law, the assessment cannot exceed 2% of monthly premiums. Currently, the charge, or assessment, is 0.6% of monthly premiums. Additionally, the Board receives a portion of employee "opt-out" contributions, which are placed in a stabilization fund that is used to help stabilize insurance premiums. The Board is also reimbursed the cost of annual open enrollment activities from insurance companies. In 1999, the Board received $19.5 million when Standard Life Insurance Company changed from a mutual life insurance company to a stock life insurance company. The $19.5 million is currently earning interest, while the Board awaits a final court ruling on how the funds may be used. The Oregon Health and Science University and two individuals filed lawsuits seeking some of the money. The court ruled in PEBB's favor, however the plaintiffs appealed and the funds are still held apart, pending outcome of the appeals. The Nonlimited Other Funds portion of the budget request was for expenses incurred on behalf of customers served based on demand. Examples include open enrollment costs, and health and wellness program costs paid out of the stabilization fund.

Budget Environment

Demand for the Board's services has been increasing because of issues surrounding health insurance costs. Increased dealings with current and prospective providers also have placed additional demands on staff. Also, employee benefit packages that may be mandated by statute or arrived at through collective bargaining agreements can impact workload.

Legislatively Adopted Budget

The legislatively adopted Other Funds expenditure limitation eliminates the wellness program at the end of the current contract (December 31, 2005). The Legislature could not ascertain a discernable benefit, or premium savings, directly accruing from the $3 million program. The budget places expenditures for open enrollment under legislatively approved limitation. The budget continues the policy of exempting from limitation expenditures from the stabilization fund and administrative expenses of flexible spending accounts. The Nonlimited budget for 2005-07 reflects the estimate of costs to subsidize premiums.

DAS – Human Resource Services Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	8,798,226	10,398,343	11,664,137	13,919,805
Other Funds (NL)	379,563	1,997,359	2,323,803	0
Total Funds	**$9,177,789**	**$12,395,702**	**$13,987,940**	**$13,919,805**
Positions	53	55	59	59
FTE	52.50	54.50	58.50	58.50

Program Description

This Division provides central personnel-related services to help agencies obtain and retain a skilled workforce. Through administrative rules and policies and collective bargaining agreements, the Division defines and manages the state's human resources system based upon equal employment opportunity and a merit-based compensation system. The Division maintains the state's classification and compensation systems. It also maintains the centralized position and personnel database (PPDB), which captures position and employee information for all employees other than higher education academic staff. In addition, it provides training to new board and commission members, and training and consultation to state agency management on human resources issues.

Revenue Sources and Relationships

The Division's principal revenue source is from an assessment ($11.8 million) of Executive Branch state government agencies excluding the Department of Higher Education. Legislative and Judicial Branch agencies and the Lottery Commission pay a reduced assessment to use the centralized employee database. Approximately $2.3 million of revenue comes from specialized training sessions and executive recruitment services.

Budget Environment

The Division's budget is largely affected by its ability to assess other state agencies. To that extent, it must justify its budget to its Department head and, more particularly, the Legislature. Complaints about the amount of the assessment compared to services provided can cause a more thorough review of Division activities and performance outcomes. The Division intends to meet this challenge by ensuring that it delivers good service at a reasonable cost.

Legislatively Adopted Budget

The legislatively adopted budget reflects the transfer-in of one trainer position from Operations and a transfer of one position to the Risk Management Section. It adds $305,000 Other Funds and one limited duration position to assist with the assessment of current human resource information technology capabilities and future needs. It adds two permanent positions. One permanent position is to manage the reconciliation of contributions and personnel and payroll data now submitted to PERS on a monthly basis ($131,000 Other Funds). PERS' new operating system requires employer personnel and payroll data be reconciled when submitted, as opposed to the past practice of sending contributions throughout the year and then reconciling after the end of the year. The other permanent position is for workload growth related to the increased number of position actions throughout state government ($146,000 Other Funds). Examples of this are the establishment of a consolidated data center, the downsizing of the Oregon Student Assistance Commission, and review of certain state agency requested reclassifications and administratively established positions. The budget also recognizes the increase of one position that was accomplished administratively toward the end of the 2001-03 biennium ($136,000 Other Funds). The budget transfers expenditures for specialized training sessions and executive recruitment services to legislatively approved expenditure limitation.

DAS – Facilities Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	26,287,035	31,889,944	33,384,111	72,300,432
Other Funds (NL)	94,308,944	31,087,873	39,051,507	0
Total Funds	**$120,595,979**	**$62,977,817**	**$72,435,618**	**$72,300,432**
Positions	214	207	210	210
FTE	208.59	206.50	205.53	205.53

Program Description

The Facilities Division provides services related to facilities management, lease negotiation and supervision, project management, space planning and parking management, building operations and maintenance, and landscape maintenance for agencies occupying state-owned space. Major acquisition, construction, capital improvement, and maintenance projects are planned and managed by this Division.

Revenue Sources and Relationships

The Division is funded from a variety of sources; its two major sources are the uniform rent assessed on all tenant agencies and parking fees. The uniform rent rate for office space in 2005-07 is $1.32 per square foot, an increase of $0.02 per square foot over the 2003-05 rate. Uniform rent includes a depreciation component that is deposited in a Capital Projects Account, the balances of which are used for major rehabilitation of building space, as conditions require. Newly constructed office space will pay rent at $0.10 per square foot more than other uniform rent buildings in order to provide funds to pay debt service. The Division also receives $2.3 million from assessments of state agencies on the Capitol Mall for landscaping, debt service, and general facilities coordination. Other revenue is generated from service agreements to perform maintenance and janitorial services for office buildings owned by other state agencies, managing specialized non-office facilities, and a number of other facilities-related services.

Budget Environment

The Division owns or manages about 3.2 million square feet of mostly office space. The Division attempts to keep office facilities adequately maintained to prolong their useful lives and keep rental rates at a reasonable level. Demand for new or improved facilities has a direct impact on Division activities. External causes such as increased utility rates and additional security needs contribute to the increased uniform rent.

Legislatively Adopted Budget

The legislatively adopted budget phases out one position and reflects reductions in FTE resulting from administrative actions taken during the current biennium. One vacant position also was eliminated. The budget includes five new positions to support the new DEQ/Health Laboratory. These positions will be phased in October 1, 2006 (total cost $182,000 Other Funds) when the building is expected to become operational. The budget also removes the expenditure limitation exemptions for utilities, water, sewer, and refuse services that were included in the budget request.

DAS – State Services Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	3,456	259,426	0	595,313
Other Funds	44,603,595	51,028,753	61,189,608	63,241,706
Other Funds (NL)	73,691,232	80,155,363	87,925,661	68,294,877
Total Funds	**$118,298,283**	**$131,443,542**	**$149,115,269**	**$132,131,896**
Positions	145	144	138	142
FTE	144.63	140.43	137.92	141.92

Program Description

The State Services Division is newly formed from the merger of the Risk Management Division and the Procurement, Fleet, and Surplus Services Division. The merger came about as the result of a prior Department director's commitment to reduce overhead by reducing the number of divisions in the Department. The table above presents the combined historical budget data for the two divisions and the 2005-07 State Services Division totals included in the Governor's recommended budget. For comparative purposes, the 2001-03 and 2003-05 budget information for the two formerly separate divisions is provided in the following table.

Historical Budget Data for Combined Divisions

	2001-03 Actual	2003-05 Legislatively Adopted	2003-05 Legislatively Approved
Risk Management Division			
General Fund	3,456	0	259,426
Other Funds	14,482,060	15,134,176	15,300,653
Other Funds (NL)	60,892,524	45,813,855	66,313,855
Total Funds	**$75,378,040**	**$60,948,031**	**$81,873,934**
Positions	26	21	25
FTE	25.63	21.00	22.63
Procurement, Fleet, and Surplus Services Division			
Other Funds	30,121,535	31,466,358	35,728,100
Other Funds (NL)	12,798,708	13,841,508	13,841,508
Total Funds	**$42,920,243**	**$45,307,866**	**$49,569,608**
Positions	119	119	119
FTE	119.00	117.80	117.80

The Risk Management Section 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 merged Procurement, Fleet, and Surplus Services activities are provided by these sections: Purchasing Operations; Fleet Management/Motor Pool; State Surplus Property; and Federal Surplus Property. The primary role of these sections is to provide cost effective central services to state agencies and local governments.

Revenue Sources and Relationships

The revenue source for the Risk Management Section's operating expenditures is the Insurance Fund. State agencies pay into the Insurance Fund through an assessment ($93.7 million) based on a share of forecasted statewide claims costs. Statewide needs are developed from independent actuarial forecasts for workers' compensation, property, and liability costs and estimated legal costs. Assessments are significantly higher than for the 2003-05 biennium because the Division used carryover fund balance in the Insurance Fund to support 2003-05 needs. Additionally, Workers' Compensation surplus funds were depleted and Insurance Fund reserves were transferred to the General Fund in 2001 to help balance that biennium's budget. More than 70% of the Section's budget, established to purchase insurance and pay claims from the Insurance Fund, is Nonlimited Other Funds.

Purchasing operations are supported through an assessment of $5.9 million, which is based on volume of transactions and number of agency positions. An additional $4.8 million is provided through other direct fees for services and purchasing, consulting, and training fees.

The Fleet Management/Motor Pool operations are supported entirely through fees for services, principally fleet rental charges. In addition, the unit charges agencies that own vehicles for fueling, service, and repair fees. State Fleet Operations revenues are budgeted at $40.1 million for the 2005-07 biennium. Acquisition of new fleet vehicles will be financed through issuance of Certificates of Participation (COPs). The debt service will be built into vehicle usage rates.

State and Federal Surplus Property operations together generate revenue from service fees. For state surplus items, the fees ($3.5 million) are based on the value of the items sold for state agencies disposing of the surplus property. For federal surplus property, the service fees ($1.6 million) are charged to agencies acquiring the property through the Division based on the value of the federal surplus property acquired.

Budget Environment

The amount and types of property owned, the number of employees and their work, and the types of programs agencies have all contribute to the need for risk management services and products, principally insurance. How well agencies manage their risk elements directly impacts their risk management costs. Demand for services drives the budget of the fleet operations, purchasing, and surplus property services.

Legislatively Adopted Budget

The legislatively adopted budget ratifies the transfer of operations to the newly created State Services Division. It phases out four limited duration positions and makes permanent one limited duration subrogation specialist position established by the Emergency Board. It reflects the transfer in of one position from the Human Resource Services Division. It also reflects the elimination of eight positions that were phased out or used as part of permanent financing plans to fund positions reclassifications that were begun at the end of the 2001-03 biennium. One division head position was eliminated as a result of the combination of divisions.

The budget adds three positions for the state's Smart Buy initiative, begun during the current biennium ($378,000 Other Funds). This initiative will be funded by fees for service and vendor collected administrative fees to cover implementation costs. It also provides General Fund and position authority for the processing of claims submitted against the state seeking compensation for damages resulting from land use regulations (Ballot Measure 37 claims).

Expenditures for printing and motor pool expenses that previously were exempt from expenditure limitation are now subject to legislatively approved budgetary restrictions. Also, the budget represents a change in the way motor pool vehicles are financed. They were previously financed out of cash reserves. This budget approves the use of Certificates of Participation for the acquisition of motor pool vehicles. The change in financing will dramatically reduce the monthly cost of permanently assigned fleet vehicles. In large part because federal regulations allow rental rates to include the cost of debt service on acquired vehicles.

DAS – Operations Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	0	22,000	0	(843)
Other Funds	11,425,711	11,867,768	9,013,758	8,769,174
Total Funds	**$11,425,711**	**$11,889,768**	**$9,013,758**	**$8,768,331**
Positions	71	70	58	58
FTE	70.38	69.50	56.58	56.58

Program Description

A reorganization begun during the 1999-2001 biennium ultimately resulted in the transfer of a significant number of positions from the various operating divisions into a newly created Operations Division. The Operations Division provides core services that are best managed centrally. Included in the Operations Division are fiscal services such as departmental budgeting, payroll, and accounting, along with personnel and procurement services.

Revenue Sources and Relationships

The Division's revenue comes from service charges to the Department's various divisions to cover its costs.

Budget Environment

The Operations Division is purely a support office within an administrative agency. Its budget is based upon the amount of support needed within the Department.

Legislatively Adopted Budget

The legislatively adopted budget has no program enhancements or reductions. It does reflect the transfer of 20 positions to the Information Resources Management Division (IRMD). These positions are responsible for departmental computer support and information technology management. They previously were moved from IRMD to this Division during a reorganization in the year 2000. The budget also reflects the transfer out of one trainer position to the Human Resource Services Division, and the transfer in of 9 business services positions from IRMD. These transfers consolidate activities related to invoicing, disbursements, personnel, payroll, budgeting, and rate development that previously resided separately in IRMD. The small negative General Fund balance is due to a reduction to state service charges that needs to be calculated and allocated out to the appropriate divisions.

DAS – Office for Oregon Health Policy and Research

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	1,353,417	1,301,453	1,384,461	1,382,167
Other Funds	3,497,128	4,395,641	3,469,164	3,529,038
Federal Funds	877,272	377,000	59,000	59,000
Total Funds	**$5,727,817**	**$6,074,094**	**$4,912,625**	**$4,970,205**
Positions	32	15	17	17
FTE	22.49	14.83	16.75	16.75

Program Description

The 1993 Legislative Assembly established the Office of the Oregon Health Plan Administrator to oversee implementation of the Oregon Health Plan. In 1995, the Legislative Assembly combined it with the Office of Health Policy and its responsibility for the collection of data on hospital discharges, revenues, and changes in rates with the Office of the Oregon Health Plan Administrator to assist with health planning. Administration of the Oregon Health Council, the Oregon Health Services Commission, and the Oregon Health Resources Commission were also transferred to this Office. Primary responsibilities of these three commissions are policy advice on health care issues; establishment and maintenance of the prioritized list of health services; and the introduction, diffusion, and utilization of medical technology, respectively. The Office is the only agency with statewide Oregon Health Plan coordinating responsibilities.

Revenue Sources and Relationships

In addition to its General Fund support, the Office has contracts with Department of Human Services agencies that provide Other Funds revenue. The Federal Funds come from federal grants to conduct research on health coverage in Oregon. The Office also pursues other private grant funding to support its research activities.

Budget Environment

General Fund revenue constraints have created opportunities for the Office to explore private grant funding and using those funds to obtain federal matching funds through arrangements with the Department of Human Services (DHS). The Office sends the funds to DHS, where matching funds are obtained, and then DHS sends the original amount plus the match back to the Office to be spent as Other Funds. The Office also has pursued federal grant fund opportunities.

Legislatively Adopted Budget

The legislatively adopted budget continues funding for positions authorized by the Legislature. It continues position authority for the Prescription Drug Program established by SB 875 (2003). It also adds one position to be the Medical Director for the Health Services Commission ($25,000 General Fund and $275,000 Other Funds). Another position added is staff support to the Health Policy Commission ($66,000 General Fund and $77,000 Other Funds).

DAS – Oregon Progress Board

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	417,731	0	0	409,956
Other Funds	535,174	0	1,054,295	400,000
Total Funds	**$952,905**	**$0**	**$1,054,295**	**$809,956**
Positions	1	3	3	2
FTE	1.00	3.00	3.00	1.75

Program Description

The Oregon Progress Board consists of nine members appointed by the Governor. Functions include evaluating Oregon's progress in meeting the goals established in the Oregon Benchmarks; updating the benchmark measures; defining new measures; and addressing strategies for meeting the benchmark goals. The 1997 Legislative Assembly re-authorized the Progress Board as a statutory program.

Revenue Sources and Relationships

In the past, the Board had been funded by a combination of General Fund and Other Funds. General Fund support was eliminated by the 2003 Legislature. The Board receives Other Funds revenue from private grants, donations, and honorariums for speaking. The budget estimates $400,000 in revenues from these sources. The 2005-07 Governor's budget also proposed a $730,000 assessment of state agencies to supplement the other revenues.

Budget Environment

The 2003-05 legislatively adopted budget provided no funding for the Oregon Progress Board, but did include three unfunded positions (3.00 FTE). The Legislature encouraged the Department to seek Other Funds support for the Board. The Department used existing Other Funds expenditure limitation within its own budget to fund Progress Board operations.

Legislatively Adopted Budget

The legislatively adopted budget provides General Fund and Other Funds expenditure limitation to support activities of the Progress Board. The Progress Board no longer has statutory responsibility to review and approve agency performance measures. The budget reflects reduced staffing to reflect that change. The Legislature did not approve the Governor's recommendation to fund Board activities with assessments on state agencies. Instead, the Legislature provided General Fund to support daily operations.

DAS – Capital Improvements

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	3,014,195	4,735,189	4,424,262	5,092,557
Total Funds	**$3,014,195**	**$4,735,189**	**$4,424,262**	**$5,092,557**

Program Description

The Capital Improvements program, developed to complement the Major Construction/Acquisition program, provides for remodeling and renovation projects that cost less than $500,000.

Revenue Sources and Relationships

Capital improvement activities are funded out of the Capital Projects Account, the Department's depreciation reserve fund, and are in addition to construction expenditures financed from the sale of Certificates of Participation.

Legislatively Adopted Budget

The legislatively adopted budget provides funding for individual capital improvement projects ranging in cost from $100,000 to $325,000. The budget includes a combined $495,000 for HVAC improvements in various buildings, and $358,000 to upgrade electrical panels and controls and improve emergency lighting in other buildings. It also includes $500,000 for preparation of space for occupancy where unanticipated moves occur in state facilities. The budget includes $1.2 million Other Funds expenditure limitation for capital improvement projects approved but not completed in the 2003-05 biennium.

DAS – Capital Construction

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	23,789,780	61,792,002	28,092,003	10,272,000
Federal Funds	0	100,000	0	0
Total Funds	**$23,789,780**	**$61,892,002**	**$28,092,003**	**$10,272,000**

Program Description

The Capital Construction Program includes major remodeling, renovation, and new construction or acquisition projects over $500,000. In 1997, the Legislative Assembly approved significant changes in the state's approach to major construction and deferred maintenance. The legislation establishes an advisory committee to provide guidance on agencies' efforts to properly maintain and protect their investments in capital assets, and it mandates state agencies to prepare four-year capital construction budgets.

Revenue Sources and Relationships

Other Funds for capital construction come from the depreciation component of uniform rent and service agreements ($5.6 million), and from the issuance of Certificates of Participation ($4.6 million).

Legislatively Adopted Budget

The legislatively adopted budget includes funding for eight specific projects, some of which are continuations of projects authorized and begun in the prior biennia. The projects are fairly small, ranging in cost from $230,000 to $3.2 million. Included also is $250,000 for general planning needs. The Legislature did not approve requests for three $1 placeholders for: the Eugene State Office Building replacement; Agriculture Laboratory Improvements; and space standards management/acquisition due to a lack of specific project plans.

DAS – COP Issuance Costs for Capital Construction Projects (Nonlimited)

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	0	0	0	1,064,248
Other Funds (NL)	131,818	500,000	1,278,188	0
Total Funds	**$131,818**	**$500,000**	**$1,278,188**	**$1,064,248**

Program Description

This program accounts for the cost of issuing Certificates of Participations (COPs) for Capital Construction projects. Issuance costs normally are included as part of the principal amount borrowed, much like borrowers' "points" on a home mortgage are included in the amount borrowed. This item previously was included as part of the Capital Construction section. It has now been separated to keep financing costs separate from actual construction costs.

Legislatively Adopted Budget

The legislatively adopted budget reflects updated issuance costs for Certificates of Participation during the 2005-07 biennium. It also makes the issuance costs subject to legislatively approved expenditure limitation.

DAS – Miscellaneous Distributions

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Lottery Funds	0	0	0	600,000
Other Funds (NL)	14,545,618	14,763,577	15,252,451	15,252,451
Total Funds	**$14,545,618**	**$14,763,577**	**$15,252,451**	**$15,852,451**

Program Description

This program accounts for the Mass Transit Assessment collected from state agencies based on their number of employees working in certain mass transit districts and transportation districts. The assessment is then distributed to those districts to reimburse the districts for the benefits they provide to the state government.

Legislatively Adopted Budget

The legislatively adopted Other Funds budget reflects anticipated Mass Transit Assessment collections and distribution based on budgeted employment numbers. The Legislature determined that the amount should not be subject to expenditure limitation and it therefore remains Other Funds Nonlimited. The Lottery Funds is for distribution to the Oregon Association of Nurseries for agricultural transportation pursuant to SB 5520.

DAS – Special Governmental Payments

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	1,206,523	0	6,400,000	6,824,000
Lottery Funds	275,805	1,622,874	1,622,118	1,622,118
Other Funds	1,092,029	259,937,106	326,972,032	326,972,032
Other Funds (NL)	0	2,018,374	0	0
Total Funds	**$2,574,357**	**$263,578,354**	**$334,994,150**	**$335,418,150**

Program Description

This is a catch-all category that reports payments not directly related to the mission of the Department of Administrative Services.

Legislatively Adopted Budget

The legislatively adopted includes a $6.4 million General Fund payment to the federal government. The federal government is concerned that the state's practice of using a "blended" PERS rate on positions funded with federal revenues that did not separate out the different rates for general service and police/fire created an inordinate cost on the federal government. The federal government settled with the state on the $6.4 million payment to offset what it perceived to be the overcharge resulting from the blended rate practice. The state used a combined rate because the state's payroll system was not capable of charging separate rates without costly system enhancements. Paying this amount to the federal government provides a satisfactory resolution to a potentially contentious situation and is deemed to be in the best interest of the state.

Additional General Fund is as follows: $100,000 to the City of Gresham to help construct a center for the arts; $100,000 to the City of Hillsboro for cultural, economic, and community development grants; and $224,000 for the Oregon Law Commission to conduct a comprehensive project on reform of government ethics laws.

The Lottery Funds are used to pay debt service on Lottery Bonds issued for Oregon Public Broadcasting that were used on infrastructure development.

The Other Funds are for: debt service on the Pension Obligation Bonds ($240 million), which were approved by the voters in a special election; debt service on Appropriation Bonds issued to balance the 2001-03 budget ($87 million); and a $2 placeholder in the event the state would pay grants to help finance a major league stadium (see Chapter 808, Oregon Laws 2003).

Advocacy Commissions Office – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	0	0	375,000	333,203
Other Funds	0	0	84,129	184,672
Total Funds	**$0**	**$0**	**$459,129**	**$517,875**
Positions	0	0	4	4
FTE	0.00	0.00	2.26	2.26

Agency Overview

The Oregon Advocacy Commissions Office (ACO) is a new state agency. The Governor introduced legislation this session to established the Office. The ACO will provide staff support to the four advocacy commissions, each of which will otherwise continue to function independently. The four advocacy commissions are: the Commission on Asian Affairs, the Commission on Black Affairs, the Commission on Hispanic Affairs, and the Commission for Women. Each of these commissions is charged in statute with monitoring the impact of legislation and state programs on their respective constituencies, and with working to establish economic, social, legal, and political equality in Oregon.

The Commission for Women also receives funding from a federal AmeriCorps grant to administer the Communities in Partnership to Stop Violence Against Women and Children program. This program provides attorneys, paralegals, educators, and advocates to assist domestic violence victims. These grant monies are received as Other Funds. The current grant, which expires in September 2005, and which provides approximately $650,000 Other Funds per biennium on an ongoing basis, will provide slightly more than $75,000 in the 2005-07 biennium.

Revenue Sources and Relationships

General Fund will finance two full-time staff, plus related expenses, to assist the four advocacy commissions in the performance of their duties. The only dedicated source of Other Funds are monies received by the Commission for Women to administer the Communities in Partnership to Stop Violence Against Women and Children AmeriCorps program. Remaining Other Funds do not come from any dedicated source, but consist of donations, grants, and receipts from publication sales.

Budget Environment

General Fund was appropriated to support the operation of the four advocacy commissions, until that support was eliminated in the 2003 legislative session. Each commission received a separate General Fund appropriation and a separate Other Funds expenditure limitation. The Legislature suspended support for the commissions' operating costs, effective on April 1, 2003. This suspension was approved as part of a rebalance of the state's General Fund budget after the March 2003 Economic and Revenue Forecast indicated that revenues would not support all approved General Fund appropriations. The 2003-05 biennium budget continued the elimination of General Fund support approved for the last four months of the 2001-03 biennium.

For several biennia, the Legislature had expressed an interest in supporting advocacy commission fund raising activities by approving Other Funds expenditure limitations that accommodated expenditure of these funds, and even, in one biennium, provided a portion of General Fund support as a dollar-for-dollar match to donations raised. Except for the Commission for Women, the commissions were not successful in raising donation funds to significantly supplement their operating budgets. Much of the funds raised were used simply to finance the fund raising activities themselves. This included a Spanish language instruction program offered by the Commission on Hispanic Affairs, and an event to honor Asian American Heritage Month offered by the Commission on Asian Affairs. The Commission for Women was more successful, and generated approximately $36,000 per biennium from its annual Women of Achievement Dinner fundraiser – well exceeding the costs of hosting the dinner. The Commission for Women also received grants to administer healthcare and financial seminars for women, as well as the AmeriCorps grant.

General Fund support for the four advocacy commissions in the 1999-2001 biennium, the last biennium where General Fund was provided for the full 24 months, totaled $508,984. The moneys supported a full-time executive director for each of the four commissions, along with funds for the commissions' services and supplies costs. The cost to continue funding these expenses was projected to total approximately $645,000 in the 2003-05 biennium.

When General Fund support was suspended, the advocacy commissions had to rely on their Other Funds revenues to continue operations. The Commissions on Asian Affairs, Black Affairs, and Hispanic Affairs did not have sufficient funds to do so, and their operations were effectively shutdown. These three commissions have not been operating during the 2003-05 biennium. The Commission for Women has been able to continue operations, although its activities were reduced and its Executive Director was reduced to part-time status. The Commission for Women's Executive Director was eventually laid off at the end of the 2003-05 biennium because of lack of funds.

Legislatively Adopted Budget

The budget restores state support dollars for the advocacy commissions. A General Fund appropriation of $333,203 to the Oregon Advocacy Commissions Office will support two staff personnel and related expenses and assist the commissions in fulfilling their statutory charges. The staff will jointly administer the four commissions. The funding level includes $227,611 General Fund for salary and benefits for the two employees, and $105,592 General Fund for services and supplies (including $46,812 to pay state government service charges that will be assessed to the agency). Although the recommended budget funds only half of the staffing financed prior to the suspension of General Fund support, it provides significantly more funds for services and supplies than previously granted. The Legislature reduced General Fund from the level proposed in the Governor's budget by $41,797 (or 11.1%). The difference from the Governor's budget primarily reflects a reduction in funding for the agency to 23 months for the 2005-07 biennium, and elimination of General Fund for the Women of Achievement Dinner and Asian Heritage Month celebrations. Funding for these two activities was shifted to Other Funds, which have historically financed both of them in the past. Overall funding was reduced to 23 months because the new agency could not be established in time for a full biennium of activity in 2005-07. Funding will be phased-in to a full 24 months in the development of the 2007-09 biennium.

The $184,672 Other Funds expenditure limitation will support $75,129 of expenditures, and two positions (0.26 FTE), for the administration of the AmeriCorps grant through September 2005, when the existing contract expires. The agency will not administer this grant after the current contract expires, as the program is being transferred to the Department of Human Services. The expenditure limitation further accommodates up to $9,000 of compensation to commissioners for per diem and other allowable expenses. Additional Other Funds expenditure limitation is provided to allow expenditure of all but $30,000 of projected Other Funds revenues. These additional expenditures will supplement both Office and the advocacy commission activities.

Employment Relations Board (ERB) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	1,280,057	1,299,312	1,556,444	1,401,242
Other Funds	1,513,208	1,345,626	1,347,405	1,383,118
Total Funds	**$2,793,265**	**$2,644,938**	**$2,903,849**	**$2,784,360**
Positions	16	14	14	12
FTE	16.00	12.50	13.33	12.00

Agency Overview

The Employment Relations Board (ERB) is a three-member quasi-judicial board appointed by the Governor with Senate confirmation. ERB administers the collective bargaining laws that cover public employees and private employers who are not covered by the National Labor Relations Act, and conducts hearings on appeals under the State Personnel Relations Law.

Revenue Sources and Relationships

Other Funds revenue is generated primarily through as assessment to state agencies based on the number of covered employees. The 2005-07 projected revenue of $1.2 million assumes an assessment rate of $1.35 per employee per month with 37,000 covered state employees. The assessment was expanded to include employees from the Legislative and Judicial branches and temporary employees.

ERB also receives fees for services: contract mediation fees ($1,000); grievance and Unfair Labor Practice (ULP) fees ($500); interest based bargaining training fees (up to $2,500); and filing fees for ULP complaints ($250) and answers ($100).

Budget Environment

Since the early 1990s, the staffing level for this agency has been reduced by one-half and the General Fund support has declined from approximately 71% to 50% of the total budget. Fees for services to local governments were first added in 1993 and the rates have not increased since the 1995-97 biennium, however, total revenues never materialized at the original estimated level.

The 72nd Legislative Assembly directed ERB to develop a funding mechanism that was consistent with the workload requirements of each program and to ensure that the assessment only covered the costs associated with the state government cases. In cooperation with the Governor's Office, ERB met with representatives from local government employers and unions to discuss funding options for the Local Government program. The workgroup seemed to conclude that General Fund should be the primary support for services. If General Fund support proved to be insufficient, the workgroup seemed to prefer the status quo rather than reconfiguring or increasing fees.

During the 2003-05 biennium, the Emergency Board authorized two limited duration positions (0.50 FTE) pending an audit of ERB by the Department of Administrative Services. The audit team identified several areas for improvement including the need for research tools, equipment, training, better time management, segregation of administrative duties, and classification reviews.

ERB – State Government Labor Relations

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	1,256,785	1,094,104	1,091,025	1,107,628
Total Funds	**$1,256,785**	**$1,094,104**	**$1,091,025**	**$1,107,628**
Positions	6	6	4	4
FTE	7.12	5.62	5.12	5.12

Program Description

This program provides labor relation adjudication and dispute resolution, determines bargaining units, and conducts representation elections for state government.

Legislatively Adopted Budget

The legislatively adopted budget reflects a 1.2% increase over the 2003-05 legislatively approved budget. Two limited duration positions (0.50 FTE) established during the 2003-05 interim pending an internal audit were eliminated. The legislatively adopted budget addresses several of the areas identified for improvement in the internal audit by providing an additional $27,075 Other Funds for research tools, transcriptions, equipment, training, and position reclassifications.

The agency was directed to continue to identify efficiencies and to ensure that the assessment only covers the costs associated with state government services. If performance targets cannot be achieved, the Board is to prioritize the workload from state government before local government.

ERB – Local Government Labor Relations

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	1,280,057	1,299,312	1,556,444	1,401,242
Other Funds	256,423	251,522	256,380	275,490
Total Funds	**$1,536,480**	**$1,550,834**	**$1,812,824**	**$1,676,732**
Positions	10	8	10	8
FTE	8.88	6.88	8.21	6.88

Program Description

This program provides resolution of labor relations disputes for local government and covered private employers and labor organizations through use of mediation and adjudication, determines bargaining units, and conducts representation elections.

Legislatively Adopted Budget

The legislatively adopted budget reflects an 8.1% increase over the 2003-05 legislatively approved budget. The legislatively adopted budget addresses several of the areas identified for improvement in the internal audit by providing an additional $42,513 General Fund and $20,000 Other Funds to restore an existing legal secretary position to full-time and to support research tools, transcriptions, equipment, training, and position reclassifications.

Government Standards and Practices Commission – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	860,622	559,701	763,527	634,757
Other Funds	6,978	5,902	3,500	3,285
Total Funds	**$867,600**	**$565,603**	**$767,027**	**$638,042**
Positions	4	3	4	3
FTE	4.00	2.80	4.00	3.00

Agency Overview

The mission of the Government Standards and Practices Commission is to impartially administer the regulatory provisions of government standards and practices, lobby regulation, and certain public meeting laws. The Commission is required by law to meet specific timelines for the conduct of investigations. The Commission also educates public officials and lobbyists on the provisions of the Government Standards and Practices Law, the Public Meetings Law, and lobbying regulations. Client groups of the Commission include: all public officials who serve the state or any of its political subdivisions, whether paid or unpaid; registered lobbyists and their employers; and any citizen who requests a review of the conduct of a public official or lobbyist.

Revenue Sources and Relationships

The Commission is funded almost entirely by General Fund. The Other Funds portion, comprising less than 1% of the budget, is from reimbursements for the cost of printing and distributing Commission documents. Actual Other Funds revenue continues to decline with the increased availability of Commission documents on the Internet. Estimated for 2003-05 at approximately $6,000, actual receipts will be closer to $3,000. The Commission also collects revenues from fines and forfeitures based on its authority to impose civil penalties. These revenues are not included in the agency budget, however, but are transferred to the General Fund and are not available for Commission operations. The Commission estimates it will collect $60,000 in fines and forfeitures in 2005-07, down from a projected $67,000 in 2003-05 and $83,000 in 2001-03.

Budget Environment

The most significant factor affecting the Commission over the past two biennia has been the reduced level of funding. Although the total number of complaints filed with the Commission has been relatively constant, with complaint activity spiking slightly upward in election years, the Commission's 2003-05 adopted budget was 25% below 1999-2001 levels. Budget reductions during the 2003 legislative session left the agency with three positions: the executive director, one investigator, and a 0.80 FTE support specialist. With only one investigator position, any unexpected major investigation, such as the review of the State Accident Insurance Fund (SAIF) Corporation during 2004, results in a restricted ability to address other complaints filed with the Commission. Through August 2004, the Commission had turned down 14 requests for complaint investigation due to the lack of investigative resources. The Commission's executive director continues the education component of Commission responsibility with training presentations, but at a declining level due to the need to complete higher priority work. Training presentations totaled 55 in 2001, but declined to 34 in 2003.

A major variable in the Commission's budget is the level of Attorney General charges. These can vary greatly depending upon whether the Commission faces any contested cases. Generally, the legislatively adopted budget makes no allowance for exceptional contested case costs. Due to the unpredictable nature of such legal costs, including the award of attorney fees to prevailing parties, the Commission usually seeks supplemental funding from the Emergency Board during the interim or from the Legislature during session.

The Commission has also investigated alternative funding sources with little success. Currently, as an agency funded entirely by the General Fund, the Commission must seek funding approval from the same legislators that are subject to its review of conduct. There are an estimated 185,000 public officials subject to Commission jurisdiction, with the vast majority serving at the local government level.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for the Commission of $638,042 Total Funds represents a 13% increase from the 2003-05 approved level. The adopted budget is 17% below the Governor's recommended budget, primarily due to a decision to not add an additional investigator that was eliminated during the 2002 special sessions and 2003 regular session. The General Fund budget of $634,757 is also a 13% increase from the 2003-05 legislatively approved budget level, but remains approximately 26% below the 2001-03 actual expenditures of the agency. The agency encountered extraordinary expenses in the 2001-03 biennium from contested cases which caused a spike in both prevailing party attorney fees and Attorney General costs.

The legislatively adopted budget includes the restoration of the agency's only clerical support position from 0.80 FTE to full-time status at a cost of $18,512 General Fund. In addition to general office support, the Executive Support position performs all functions related to lobbyist registration and expenditure reporting as well as the processing of the required Annual Verified Statement of Economic Interest filings by government officials.

The adopted budget also includes reductions from the Governor's recommended budget totaling $7,927 as adjustments made for reduced Public Employees Retirement System rates and reduced assessments and charges from the Department of Administrative Services, Department of Justice, Secretary of State Audits Division, and State Library.

Acknowledging the continuing decline in Other Funds revenue, that category is reduced by $2,600 from the 2003-05 approved levels, as well as the use of that revenue for Attorney General expenses. As in previous biennia, the budget does not include funding for extraordinary legal costs resulting from contested cases.

Office of the Governor – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	9,952,667	8,087,646	8,465,814	7,905,686
Lottery Funds	0	610,000	663,456	1,722,608
Other Funds	1,020,701	1,581,417	1,775,434	1,137,334
Federal Funds	0	65,000	129,996	129,143
Total Funds	**$10,973,368**	**$10,344,063**	**$11,034,700**	**$10,894,771**
Positions	54	45	46	46
FTE	53.00	44.50	45.50	45.50

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 a State Affirmative Action Officer, a Citizen's Representative Office, a Minority and Women Business Advocate, and provides clerical support for appointing members to boards and commissions. The Office includes three policy offices: the Governor's Natural Resource Office, the Office of Education and Workforce Policy, and the recently established Office of Rural Policy. Two activities with statewide impact also are located in the Office of the Governor: the state's Economic Revitalization Team and the Arrest and Return program.

Revenue Sources and Relationships

The Office of the Governor is supported mainly by the General Fund. The Lottery Funds are for the Economic Revitalization Team (ERT). Other Funds includes a revenue transfers from the Departments of Administrative Services and Consumer and Business Services to finance the Affirmative Action and Minority and Women Owned Business programs. The Affirmative Action Program is funded from a Department of Administrative Services Human Resource Services Division assessment estimated at $315,000 for the biennium. The Minority Business Enterprises program is funded from assessments on agencies that have capital construction funded in their budgets and also receives funds from sponsoring conferences. Revenues from these sources are estimated at $469,000. The Federal Funds are from grants for the Office of Rural Policy. The cost of this office will also be paid with Other Fund transfers from involved state agencies that have sufficient cash balances to help support this activity.

Budget Environment

The budget is driven by the number of staff and programs operated out of the Governor's Office. No new programs have been placed in the Governor's Office in recent biennia. The transfer of budgetary accountability for the two policy offices was done to reflect actual programmatic responsibility and did not add new programs. The Economic Revitalization Team, formerly known as the Community Solutions Team, was transferred to the Office of the Governor from the Department of Administrative Services by the 2003 Legislature. The transfer included 7 positions (7.00 FTE) and $1.6 million in funding. The sources of funding included $400,000 General Fund, $610,000 Lottery Funds that would have otherwise been distributed to regions through the Economic and Community Development Department, and $360,000 from interest earnings on the Special Public Works Revolving Fund that would have otherwise been used for grants. The Legislature indicated its desire for a stable funding source for this activity to be identified by the Office of the Governor in the 2005-07 budget request. The Governor's recommended budget for the Economic Revitalization Team, however, continued the funding mix carried over from the 2003-05 biennium.

Legislatively Adopted Budget

The legislatively adopted budget of $10.9 million total funds continues existing programs and activities, including the Office of Rural Policy that was established by Executive Order during the 2003-05 biennium. The 2005-07 budget establishes two permanent positions (1.50 FTE) for the Office of Rural Policy. It also eliminates one vacant part-time position (0.50 FTE). The Legislature determined that the use of Lottery Funds is appropriate for the Economic Revitalization Team because its emphasis is economic development. This resulted in a shift of $1.1 million from General and Other Funds to Lottery Funds. The Legislature also reduced the General Fund budget for supplies and services by 3%, consistent with its reductions to other state agency budgets. The budget also reflects reduced costs of services provided by internal service agencies.

Oregon State Library (OSL) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	3,022,929	2,594,626	2,942,475	2,911,314
Other Funds	4,926,116	6,112,874	6,712,480	6,569,000
Federal Funds	3,945,263	4,128,563	4,635,649	4,630,839
Total Funds	**$11,894,308**	**$12,836,063**	**$14,290,604**	**$14,111,153**
Positions	45	44	44	44
FTE	44.38	43.63	42.72	42.47

Agency Overview

The Oregon State Library's (OSL) mission is to provide quality information services to state agencies, reading materials to blind and print-disabled individuals, and leadership, grants, and other assistance to improve local library service. Trustees of the State Library consist of seven members appointed by the Governor who are responsible for setting policy for OSL and adopting long-range plans for library services statewide.

Revenue Sources and Relationships

Other Funds revenues are generated from three main sources including an assessment on all state agencies, except the Department of Higher Education, for the portion expenditures that support state agencies; donations; and reimbursements from local libraries for their portion of costs associated with database licensing approved as part of SB 12 (2003). In 2005-07, OSL also anticipates receiving a grant from the Gates Foundation to provide computers and training to local libraries ($185,120). As part of the 2005-07 legislatively adopted budget, the agency was directed to reduce the assessment to state agencies by $375,000 for a total assessment of $4.97 million.

The 2005-07 projected ending balance for the State Library Donation Fund is approximately $740,000, including $688,000 for the Talking Book and Braille Services (TBABS) Endowment Fund. The Trustees of the State Library were permitted to establish an endowment fund by SB 307 (2001) as a sub-account of the Donation Fund. The Trustees have a policy of spending the Donation Fund on enhancements to programs and marketing costs only rather than for operating costs of programs. The Endowment Fund is non-expandable by Trustee policy as well.

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 grant requires a 52% match rate as well as a maintenance of effort based on the average of the last three years of non-federal library expenditures relevant to the priorities of LSTA. Reductions in state funding result in an identical percentage reduction in LSTA funding.

Budget Environment

Either through specific legislative directive or by policy of the Trustees of the State Library, assessment funding has been used for services that do not directly benefit state agencies. The 2003-05 legislatively adopted budget eliminated most of the General Fund support for Administrative Services and opted to use one-time, cash balances available from the assessment. Since 2001, the assessment has also supported a portion of the facilities costs associated with TBABS. The practice of using assessment funding to support services other than those that directly benefit state agencies will be discontinued in the 2005-07 biennium.

OSL – Administration

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	400,613	17,675	258,133	256,541
Other Funds	518,592	1,003,980	771,081	761,998
Federal Funds	0	0	107,482	106,803
Total Funds	**$919,205**	**$1,021,655**	**$1,136,696**	**$1,125,342**
Positions	6	6	6	6
FTE	5.63	5.63	5.63	5.63

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 legislatively adopted budget reflects a 10.1% increase over the 2003-05 legislatively approved budget. General Fund support for this program is restored rather than relying on one-time cash balances from the assessment to state agencies. The budget also reallocates expenditures to federal funds ($107,482) from General Fund support. In prior biennia, the Trustees opted to maximize grants to local governments by not allocating administration costs to federal funds.

OSL – Library Development

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	1,545,354	1,392,266	1,405,176	1,399,992
Other Funds	11,932	521,192	1,021,488	1,021,171
Federal Funds	3,945,263	4,128,563	4,528,167	4,524,036
Total Funds	**$5,502,549**	**$6,042,021**	**$6,954,831**	**$6,945,199**
Positions	5	6	6	6
FTE	4.75	5.50	5.50	5.50

Program Description

This program is responsible for assisting approximately 1,600 local libraries and improving the overall quality of library services in the state through distribution of federal (LSTA) and state (Ready to Read) grants, coordination of statewide, electronic database licensing, and consultation and dissemination of information on youth services, library statistics, and challenges to library materials.

Legislatively Adopted Budget

The legislatively adopted budget reflects a 14.9% increase over the 2003-05 legislatively approved budget. General Fund support for Ready to Read grants is approximately $0.84 per child ages 12 and under. While this maintains the rate per child from the 2003-05 legislatively approved budget, it is lower than the $1.00 per child approved for the 2001-03 biennium but subsequently reduced during special sessions. The budget also reflects expenditure levels to support anticipated increases in federal revenues from LSTA ($269,858), reimbursements from local libraries for database licensing ($302,065), and a grant from the Gates Foundation ($185,120). General Fund support for services and supplies and capital outlay was reduced by 3%.

OSL – Talking Book and Braille Services

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	1,076,962	1,184,685	1,279,166	1,254,781
Other Funds	113,185	186,466	309,620	307,125
Total Funds	**$1,190,147**	**$1,371,151**	**$1,588,786**	**$1,561,906**
Positions	11	10	9	9
FTE	10.75	10.25	9.50	9.50

Program Description

In cooperation with the Library of Congress, which provides books, tapes, recorders, and postage at no cost to Oregon, this program provides reading materials in audio-recorded or Braille formats to individuals with limited vision or other disabilities that prevent the use of books and printed materials. OSL is responsible for maintaining the inventory of materials and distribution.

Legislatively Adopted Budget

The legislatively adopted budget reflects a 13.9% increase over the 2003-05 legislatively approved budget. The staffing pattern for TBABS was reorganized in order to improve collection management, cataloging, and outreach efforts. Two library specialist positions (1.75 FTE) were abolished and replaced with a higher level librarian position (1.00 FTE). Interest earnings from the TBABS Endowment Fund will cover the incremental cost associated with the higher level position. General Fund support for services and supplies and capital outlay was reduced by 3%. The Governor's budget proposed to continue to fund a portion of the facilities costs for TBABS with funds from assessments on state agencies ($57,855 Other Funds). The agency was directed to discontinue this practice and to use another source of revenue besides the assessment to support the facilities or to reduce costs in other areas.

OSL – Government Research and Electronic Services

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	4,282,407	4,401,236	4,610,291	4,478,706
Total Funds	**$4,282,407**	**$4,401,236**	**$4,610,291**	**$4,478,706**
Positions	23	22	23	23
FTE	23.25	22.25	22.09	21.84

Program Description

Government Research and Electronic Services (GRES) provides research assistance to state government; develops and maintains the State Library collection, the OSL's on-line information services, and the Oregon.gov search engine; and coordinates a database of periodical holdings of Oregon libraries. In addition, the general public obtains special information concerning state government publications, Oregon history, and genealogy through a partnership with the Willamette Valley Genealogical Society.

Legislatively Adopted Budget

The legislatively adopted budget reflects a 1.8% increase over the 2003-05 legislatively approved budget. Current services will be maintained, however, services and supplies were reduced by $70,000 to align with historical expenditures. A technical adjustment was made to eliminate 0.25 FTE and $12,770 Other Funds. The position had been vacant since 2002, and 0.75 FTE was eliminated in TBABS as part of the Governor's budget.

Oregon Liquor Control Commission (OLCC) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	75,810,800	86,095,484	92,762,679	98,875,123
Other Funds (NL)	3,135,148	4,442,340	4,506,960	0
Total Funds	**$78,945,948**	**$90,537,824**	**$97,269,639**	**$98,875,123**
Positions	221	207	221	218
FTE	216.77	202.27	214.27	211.27

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 compliance action when necessary against those who violate liquor laws. The five-member Commission is appointed by the Governor and confirmed by the Senate.

Revenue Sources and Relationships

The Commission is entirely supported by Other Funds revenues generated from liquor sales (95%), privilege taxes on malt beverages (beer) and wines (4%), license fees and fines, server education fees, and miscellaneous income (1%). As required by law, 50% of the privilege tax revenues ($13 million for 2005-07) are first allocated for payments to the Mental Health Alcoholism and Drug Services Account, and an additional $382,442 is transferred to the Wine Advisory Board. The remaining privilege tax revenues, along with all other revenues (primarily from liquor sales), are first used to finance Commission operations (including liquor purchases). The excess balance ($194 million in the 2005-07 biennium) is apportioned to the state General Fund (56%), and to city (34%) and county (10%) general funds. The 2005-07 budget projects gross sales of $620 million, with $126 million transferring to the General Fund.

OLCC projects that per capita consumption of distilled spirits and case sales volume will remain stable during the biennium. The combination of population growth, greater customer demand for premium, higher-priced products, and rising wholesale liquor prices will cause a 9% increase in total dollar liquor sales from the 2003-05 estimated revenues. The Commission estimates that increased liquor sales will come from inflation in product cost and increasing preference for premium products. Per capita annual consumption is projected for malt beverages at about 22.8 gallons per person and for wine at about 2.83 gallons per person. This will be accompanied by an annual 1.1% increase in population through 2007. Actual privilege tax collections in 2003-05 are estimated to be $25 million.

Even though Other Funds revenues support OLCC operations, the agency's expenditures directly affect the General Fund. Each dollar spent by the Commission represents 56 cents in liquor revenues that will not go into the state's General Fund, and 44 cents that will not go to local governments. For this reason, an appropriate balance is sought between keeping operating costs as low as possible and making expenditures that are necessary to enhance the generation of revenue while maintaining a controlled distribution environment.

Budget Environment

Enforcing the state's liquor laws requires a variety of approaches to assist individual licensees, as well as the general community, in understanding the laws and regulations governing the proper and lawful operation of a licensed liquor establishment. Underage drinking, illegal alcohol, and sales to minors continue to be the highest compliance issues.

As Oregon continues to experience increases in total population and tourists, service permits and outlets licensed to sell alcoholic beverages increase. Demand is growing for customer-convenient retail locations to serve more complex, densely populated communities. At the same time, prime retail locations' price per square foot rent has grown more expensive.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $98.9 million total funds is $8.3 million or a 9% increase from the 2003-05 legislatively approved expenditure level, and $1.6 million more than the Governor's recommended budget. The adopted budget includes 218 positions (211.27 FTE). The adopted budget includes enhancement packages, totaling $8.3 million Other Funds, from the funding level necessary to continue current activities;

primarily for increases in agents' compensation and agency business operation needs. The adopted budget includes 11 new positions (9.00 FTE) for the agency's distribution center, license investigations, and modernizing the agency's technology systems. The adopted budget also results in an additional $12 million distribution to the General Fund as a result of an increase in projected liquor sales. Specific details are discussed under each program unit.

OLCC – Merchandising

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	6,569,787	5,992,160	6,730,506	11,179,358
Other Funds (NL)	3,135,148	4,442,340	4,506,960	0
Total Funds	**$9,704,935**	**$10,434,500**	**$11,237,466**	**$11,179,358**
Positions	50	50	58	58
FTE	49.17	48.17	54.42	54.42

Program Description

Responsibilities of the Merchandising program all relate to liquor sales and distribution. As a "control state," Oregon has granted the Commission sole authority to sell distilled spirits by the bottle. By marking up the wholesale price 106%, the Commission generates funds to finance its expenses and to produce revenue for state and local government general funds. There are two divisions within the Program:

- ***Purchasing and Distribution Division*** (45.42 FTE) responsibilities include analyzing trends in customer buying and new product availability; purchasing and securely warehousing the liquor; arranging for the shipment of products to the state's retail liquor stores; and settling claims for damaged or defective goods. The Division ensures adequate liquor inventories and a varied selection to satisfy consumer demand.
- ***Store Operations Division*** (9.00 FTE) oversees operation of the statewide retail liquor store system, which consists of 243 retail outlets run by contract agents. Funding for agents' compensation is in a separate program, although it is related to the Merchandising program.

Budget Environment

The focus of the Commission has been on achieving internal operating efficiencies through improvements in technology, contracting out where cost effective, and inventory cost savings. During the 1999-2001 biennium, OLCC established criteria for determining the number and location of liquor stores. OLCC added five new stores in the Portland metropolitan and Bend regions. Up to six new pilot program stores will open in 2003-05 as part of a Governor-endorsed experiment locating liquor stores within retail grocery stores in urban and suburban areas with large population or tourist growth. The Commission continues to consider additional stores to meet customers' growing needs during the 2005-07 biennium. The Commission's *Retail Business Plan for Year 2000 and Beyond* identifies the need to move toward modern electronic retail systems to keep pace with industry and customer needs. The plan calls for investing in capital improvements, modernizing stores, and improving the location of stores.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $11.2 million total funds and 58 positions (54.42 FTE) is $0.74 million or 6.9% more than the 2003-05 legislatively approved level and $60,000 less than the Governor's recommended budget. The adopted budget reflects an additional $60,000 to accommodate increased use of bank cards. In addition, the Legislature determined that the nonlimited expenditure for credit cards does not fit the criteria for a nonlimited expense. The adopted budget shifts the expense for bank cards from nonlimited expenditures to an expenditure limitation. The adopted budget includes an enhancement package to establish four permanent, full-time Liquor Distribution Equipment Operator positions (4.00 FTE) and four seasonal Liquor Distribution Worker 1 positions (2.00 FTE) totaling $0.5 million Other Funds to keep pace with increases in shipping and handling of distilled spirits being sold in the state and to assure timely handling and shipping of liquor store orders.

The remaining changes reflect applying the standard inflation rate for services and supplies, adjusted by the Legislature to reflect reductions in statewide governmental service charges, resulting in a net increase of $0.14 million Other Funds; and cost adjustments for unemployment assessments, PERS rates, overtime, temporaries, shift differentials, mass transit fees, and merit increases, resulting in a net increase of $80,000 Other Funds. In addition, the services and supplies budget was reduced by $40,000 to address the statewide shortfall of General Fund.

OLCC – Regulatory

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	12,358,070	13,374,556	13,513,705	13,076,836
Total Funds	**$12,358,070**	**$13,374,556**	**$13,513,705**	**$13,076,836**
Positions	106	95	96	93
FTE	104.00	93.00	94.00	91.00

Program Description

The Regulatory program is responsible for regulating the manufacture, distribution and sale of alcoholic beverages. The program issues liquor licenses and ensures compliance with liquor laws and OLCC regulations. The program consists of two sections:

- ***Regulatory Field Services Division*** (75.00 FTE) staff conduct license investigations, respond to complaints, investigate liquor law violations, and work with local groups to resolve problems. There are 10 offices statewide. The statewide Compliance Unit, which handles complex and high-risk license and enforcement cases, is also included.
- ***Regulatory Policy and Process Division*** (19.00 FTE) staff maintain records; issue and renew licenses; coordinate staff involvement in contested case hearings; develop, review, and amend administrative rules; provide technical support and training to Field Services staff; and administer the alcohol server education and minor decoy programs.

Budget Environment

The top priorities for the Regulatory Program are preventing sales to minors and visibly intoxicated persons, preventing disorderly establishments, and minimizing problems caused by alcohol businesses and their patrons near the businesses. Alcohol continues to be a major contributor in the four leading causes of death among teens and is linked to other crimes. OLCC participates in an interagency initiative led by the Office of Alcohol and Drug Abuse Programs to address the local community risk factors contributing to underage drinking, tobacco, and drug abuse. The agency intends to pursue an increase in regulatory staff to support efforts to enforce underage drinking laws and to reduce the over serving of alcohol.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $13.1 million Other Funds and 93 positions (91.00 FTE) is $0.3 million or 2.1% less than the 2003-05 legislatively approved budget level and $0.4 million less than the Governor's recommended budget. The adopted budget was reduced by 2.00 FTE and $0.2 million to reflect a transfer of functions to the Administration program and one time costs associated with Information Technology upgrades. The adopted budget includes $20,000 Other Funds expenditure limitation for overtime payments to provide services to the University of Oregon and Oregon State University sports programs. The overtime will be funded by the two universities. The adopted budget reflects applying the standard inflation rate adjusted by the Legislature to reflect reductions in statewide governmental service charges, resulting in a net decrease of $0.1 million Other Funds; and for cost adjustments for unemployment assessments, PERS rates, overtime, temporaries, shift differentials, mass transit fees, and merit increases, resulting in a net increase of $0.7 million Other Funds. In addition, the services and supplies budget was reduced by $30,000 to address the statewide shortfall of General Funds.

A package proposed in the Governor's budget adding 3 positions (3.00 FTE) and $0.3 million Other Funds was not approved. House Bill 2056 would have authorized an assessment for a non-refundable $400 licensing fee creating sufficient revenue to add the positions. Because the package was dependent on legislation that had not been approved at the time the budget was being adopted, the Legislature removed it from the budget.

OLCC – Administration and Support Services

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	11,880,899	13,125,603	17,277,364	17,130,825
Total Funds	**$11,880,899**	**$13,125,603**	**$17,277,364**	**$17,130,825**
Positions	65	62	67	67
FTE	63.60	61.10	65.85	65.85

Program Description

The Administration and Support Services program consists of three divisions:

- ***Administration*** (13.50 FTE) is responsible for overall administration of the agency; ensures that Commission and legislative policies are carried out; processes and refers cases to the Central Hearings Unit; develops administrative rules; and issues orders in all alcohol server education cases.
- ***Administrative Services*** (29.75 FTE) includes human resources management, information systems support, motor pool fleet management, non-liquor purchasing, mail delivery, and other routine support services.
- ***Financial Services*** (22.60 FTE) develops and implements systems that provide fiscal accountability for Commission operations, produces and maintains fiscal records, and develops and monitors execution of the agency's budget.

Budget Environment

Administration's focus in 2005-07 will be on continued development of interactive partnerships with groups affected by the OLCC's activities and decisions and leading the agency in modernizing and streamlining both merchandising and regulatory functions through technological improvements. The numbers of hearing requests are projected to be received at an overall rate similar to that of the current biennium. The division expects approximately 350 new requests for hearings in 2005-07; 75 that will be alcohol server education cases. The division also anticipates preparing and presenting 275 cases for contested case hearings.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $17.1 million Other Funds and 67 positions (65.85 FTE) is $4 million or 30.5% higher than the 2003-05 legislatively approved budget level and $0.1 million less than the Governor's recommended budget. The adopted budget reflects an increase of $3.6 million to establish 3 full-time permanent positions (3.00 FTE) to modernize the OLCC technology infrastructure with an expectation that OLCC will report to the Joint Legislative Committee on Information Management and Technology during the interim. The adopted budget also reflects an increase of $50,000 and 1.75 FTE from the 2003-05 legislatively approved budget level due to the transfer of functions from the Regulatory Program to Administration. The Legislature reduced the budget by $90,000 in services and supplies to address the statewide General Fund shortfall. A reduction in the anticipated usage of the Administrative Hearings Panel reduced the budget by $0.3 million. The remaining changes reflect applying the standard inflation rate, adjusted by the Legislature to reflect reductions in statewide governmental service charges, resulting in a net increase of $0.5 million Other Funds; and for cost adjustments for unemployment assessments, PERS rates, overtime, temporaries, shift differentials, mass transit fees, and merit increases, resulting in a net increase of $0.3 million Other Funds.

OLCC – Store Operating Expenses

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	44,809,260	53,384,458	55,037,338	57,284,338
Total Funds	**$44,809,260**	**$53,384,458**	**$55,037,338**	**$57,284,338**

Program Description

This program includes an expenditure limitation from liquor revenues to pay contract agents who operate the state's 243 retail liquor outlets. Agents are paid monthly using a formula based primarily on store sales and on whether the store is exclusive (i.e., sells only liquor and related items) or non-exclusive (store is run in conjunction with another business, such as a drug or grocery store). Out of the compensation, agents pay liquor store rent, insurance, telephone, utilities, business taxes, employee salaries and benefits, and other operating costs. From the remainder, they pay their own salaries, benefits, and personal taxes.

Budget Environment

The rate of monthly compensation for agents was originally determined annually. In 1979, the Commission started calculating compensation monthly as a percentage of actual monthly sales. Biennial adjustments were made to this basic formula until 1980. From 1980 to 1985 the basic formula did not change, but the Legislature added annual cost of living increases to the formula. In 1985, the Legislature directed OLCC to allocate agents' compensation based on a re-designed compensation schedule. The store formula is reviewed and adjusted by the agency every six months. The goal is to provide basic support, while encouraging sound retail practices and rewarding sales performance. During the 1997 session the formula, which had been in effect since 1993, was revised to provide the following compensation:

- ***Non-exclusive stores***: 14.25% of the first $10,000 of monthly sales; plus 7.75% of all monthly consumer sales (up from 7.15% in 2001-03); and 5.89% 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 average compensation rate of 8.88% of forecasted liquor sales for the biennium established by the Legislature resulted in an expenditure limitation of $53.4 million based on projected sales. Agents' compensation increases when consumption increases or as prices increase. OLCC typically requests an increase in the expenditure limitation from the Emergency Board during the biennium if actual sales exceed forecasted amounts. The Commission expects population growth and rising prices to increase total dollar liquor sales by 10.43% in the 2005-07 biennium. Agents' compensation would also increase by the same percentage. Some agents continue to incur costs (primarily store leasing and personnel) that are purported to rise at a faster rate, putting pressure on these agents' operations. Lack of data on the Oregon agents' actual costs and related items makes it difficult to develop a precise basis for conducting a market study to determine whether the Oregon liquor agents' compensation is fair in comparison to "market."

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $57.3 million Other Funds for this program maintains the average compensation rate of 8.88% of forecasted liquor sales for the biennium. This is $3.9 million or 7% higher than the 2003-05 legislatively approved budget level and $2.2 million higher than the Governor's recommended budget. The Legislature directed the agency to undertake a review of the current payment schedule for liquor agents and report results of the review to the interim Emergency Board no later than December 2006.

OLCC – Capital Improvements

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	192,784	198,990	203,766	203,766
Total Funds	**$192,784**	**$198,990**	**$203,766**	**$203,766**

Program Description

The Capital Improvement program reflects Commission costs of major deferred maintenance and improvements to Commission facilities. The Commission owns an office and warehouse complex in Milwaukie, which serves as the distribution center for all bottled distilled liquor and houses most agency personnel.

Budget Environment

In the past, the Commission and the Legislature have focused on implementing capital improvements that facilitate the generation of additional revenue or avoid the potential for lost revenue due to facilities or equipment breakdown. These improvements have included a major replacement of the warehouse conveyor system, warehouse heating system, and parking lot upgrades.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget of $0.2 million Other Funds is increased by 2.4% over the 2003-05 legislatively approved budget level. This level of funding will allow the agency to:

- replace rooftop heaters, estimated at $0.8 million;

- bring the warehouse and office complex building into compliance with current earthquake safety codes, estimated at $0.1 million to $0.15 million;
- replace carpet in the office building, estimated at $60,000;
- complete roof repairs, estimated at $80,000;
- replace steam coils, estimated at $40,000; and
- evaluate the heating and cooling system, estimated at $30,000 to $40,000.

Public Employees Retirement System (PERS) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	44,124,815	87,915,406	80,401,865	81,703,709
Other Funds (NL)	3,877,977,560	5,709,547,757	5,646,765,074	5,646,765,074
Total Funds	**$3,922,102,375**	**$5,797,463,163**	**$5,727,166,939**	**$5,728,468,73**
Positions	273	401	369	380
FTE	226.33	356.09	368.00	379.00

Agency Overview

The Public Employees Retirement System (PERS) administers the retirement system for all state and public school district employees; and most city, county, and special district employees in Oregon. PERS also administers deferred compensation programs for state employees and employees of local governmental units. It is responsible for all fiduciary activities performed on behalf of system members. This includes receipt of contributions into the retirement trust and deferred compensation trust funds, retirement counseling, retirement benefit determination, and retirement benefit payment. It is not responsible for investment of retirement system or deferred compensation plan assets. The Oregon Investment Council manages the investment of retirement system assets. Deferred compensation plan assets are managed by private fund managers. The 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.

PERS – Tiers 1 and 2 Plan

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds (NL)	3,877,977,560	5,709,547,757	5,641,669,074	5,641,669,074
Total Funds	**$3,877,977,560**	**$5,709,547,757**	**$5,641,669,074**	**$5,641,669,074**

Program Description

The Tiers 1 and 2 Plan program accounts for retirement benefit and health insurance premium subsidy payments attributable to Tier 1 and Tier 2 members. This program is now a closed program (no new members can be added to the Tiers 1 and 2 plans) because of PERS reform legislation passed during the 2003 legislative session. Tier 1 plan members are employees that were hired before January 1, 1996. The 1995 Legislature established a different level of benefits for employees hired on or after January 1, 1996. These employees are known as Tier 2 plan members. Administrative costs of this program are budgeted under PERS-Operations below. The administrative costs are funded by revenue transfers from this program to the Operations program where legislative oversight and control is provided through the budget process.

Revenue Sources and Relationships

The Other Funds revenue is mainly from employer contributions to the retirement system ($2.4 billion) and retirement trust fund investment earnings ($4.3 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 Legislature continued its practice of not subjecting these expenditures to budgetary limitation. This is a trust fund and payments of benefits and refunds of contributions are required by law.

PERS – Oregon Public Service Retirement Plan

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds (NL)	0	0	5,096,000	5,096,000
Total Funds	**$0**	**$0**	**$5,096,000**	**$5,096,000**

Program Description

The Oregon Public Service Retirement Plan (OPSRP) program accounts for anticipated payments out of members' individual accounts, predominately for third-party administrator costs to maintain the individual accounts. As part of the 2003 reform legislation, all active employee members (excluding judges) have their contributions (currently 6% of their pay) deposited into individual member accounts under the OPSRP. Upon retirement, or separation of service if it occurs before vesting, members are eligible for payments from their individual accounts. In the future, the budget will include retiree benefit payments. Because the reform legislation became effective August 29, 2003, members who started employment with a PERS member employer after that date are generally not yet eligible to receive retirement benefits, so no employer paid retirement benefits are budgeted for 2005-07. By law, the third party administrator costs of the Individual Account Program of OPSRP are paid out of the individual accounts and, therefore, are budgeted as Nonlimited Other Funds expenditures. The other administrative costs of this program are budgeted under PERS-Operations below. Those administrative costs are funded by revenue transfers from this program to the Operations program where legislative oversight and control is provided through the budget process.

Revenue Sources and Relationships

The Other Funds revenue is mainly from employer and employee contributions to the retirement system ($1.3 billion) and retirement trust fund investment earnings ($20.7 million). Employer contribution rates are established by the Public Employees Retirement Board based upon advice from its consulting actuary. Investment earnings are a best-guess estimate only, as the plan is yet in its infancy.

Legislatively Adopted Budget

The Legislature determined that these expenditures should not be subject to budgetary limitation. This is a trust fund and payments of benefits and refunds of contributions are required by law.

PERS – Operations

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	42,858,915	84,286,124	74,680,915	75,982,759
Total Funds	**$42,858,915**	**$84,286,124**	**$74,680,915**	**$75,982,759**
Positions	273	401	369	380
FTE	226.33	356.09	368.00	379.00

Program Description

The Operations program is responsible for the administrative costs of maintenance of employer and employee accounts, processing of retirements, determination of disability retirement benefits, and payment of retirement benefits. It also administers group health insurance plans for retirees. PERS also is the state administrator of the federally mandated Social Security Administration program. The Operations program also administers deferred compensation programs for state employees and employees of local governmental units. Operations activities have been divided into six separate divisions.

Central Administration provides the central direction, planning, and leadership for the PERS organization. It consists of the Director, Deputy Director, Human Resources, and Internal Audits. Services, including the health insurance programs that are not under a separate divisional head are also located in Central Administration.

Benefit Payments is primarily responsible for the maintenance of member accounts and the calculation and issuance of retiree benefits. Other responsibilities include processing divorce orders, disability claims, death benefits, and benefit adjustments.

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.

Information Systems provides all data processing and telecommunications services for the agency. It maintains the aging Retirement Information Management System (RIMS), and the newly acquired jClarety retirement system. The Division also provides systems development services, and schedules and processes agency data. It also is responsible for the management, retention, storage, and retrieval of agency records.

Policy, Planning, and Legislative Analysis is responsible for fiscal and administrative policy coordination, legal services management, contested case hearings, administrative and business rules, and legislative analysis. It is also responsible for the Social Security Administration program for Oregon's public employers.

Customer Services provides employer and employee member counseling, education, and communications services for the Tier 1 and 2 plans, the Oregon Public Service Retirement Plan, and the Deferred Compensation Plan. The Division has three operating sections described briefly here.

- ***Customer Services*** provides employee member education, counseling, and communication services.
- ***Member/Employer Relations*** provides member employers with training about the systems and obtains critical employee member information from employers.
- ***Deferred Compensation*** administers deferred compensation programs for state employees and employees of local governmental units.

Revenue Sources and Relationships

The Operations program revenue is mainly from revenue transfers received from the Tiers 1 and 2 and OPSRP programs ($70.7 million). Additionally, revenue to support the deferred compensation program is from a charge of 0.09 of 1% on deferred compensation trust fund assets ($1.1 million). Revenues also are from other administrative fees assessed on participants and employers for health fund and social security administration activities, and other miscellaneous non-customary services ($2.9 million).

Budget Environment

PERS Operations are in a state of transition. A new Board was appointed and began operating September 1, 2003. The Board replaced the former Director and new management has been brought in to direct the Information Systems, Fiscal Services, and Benefit Payments 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 is being 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.

All of this has put incredible stress on the agency. The Board has defined the 2005-07 biennium as the biennium of transition – from the chaos of the 2003-05 biennium to that of a stable, cost effective state agency operation. The budget request presented to the Legislature reflected a positive approach to deal with long-overdue operational issues at the agency. It is indicative of the Board's determination to understand and guide the agency while acknowledging its responsibilities to members, employers, and the public. In the past, a number of factors contributed to a disconnect between the Board and agency staff, and the public (through the Legislature). Much of the reform legislation passed in 2003 was crafted to remove those factors. One factor still remains however: proximity to Salem. While a move of agency headquarters from Tigard to Salem is not advisable during this period of transition, locating its operations in Salem in the future was discussed with the PERS Board chair during its budget hearings.

Legislatively Adopted Budget

The legislatively adopted budget provides staff and Other Funds expenditure limitation necessary to accomplish the Board's goal of stabilized operations by the end of the biennium. The Legislature has provided a significant number of limited duration positions for PERS to address its temporary workload needs. The budget continues along that line with more than 90 limited duration positions, throughout the agency, to clear the workload backlogs, support the RIMS replacement project, and improve customer response times. The approved budget also includes funding and 11 additional limited duration positions to implement the Supreme Court's ruling n the *Strunk v. PERS* case that challenged the 2003 PERS reform legislation. Certain elements of the 2003 legislation was struck down, thus requiring PERS to recalculate Tier 1 member account balances and to recalculate retirement benefits of recent retirees. The budget also reflects the restructuring of workload and adds key permanent positions to strengthen the agency's budget and human resources functions, and improve information systems capabilities. It includes $15.1 million to continue the RIMS migration project. The project will be completed in the 2007-09 biennium. Essentially, it moves necessary RIMS functional capabilities (for Tiers 1 and 2 members and judges) to the new operating system acquired for the OPSRP.

The budget is structured to provide better budgetary information to the Board, management, and other stakeholders such as the Department of Administrative Services and the Legislature. It strengthens budgetary and operational accountability within the agency. The legislatively adopted budget is presented here by the six operational divisions.

Central Administration - The budget request for this Division was 17 positions (17.00 FTE) and $3.8 million. The legislatively adopted budget is 17 positions (17.00 FTE) and $3.7 million.

Benefit Payments - The budget request for this Division was 99 positions (99.00 FTE) and $11.3 million. The legislatively adopted budget is 102 positions (102.00 FTE) and $11.6 million.

Fiscal Services - The budget request for this Division was 43 positions (43.00 FTE) and $10.1 million. The legislatively adopted budget is 43 positions (43.00 FTE) and $10 million.

Information Systems - The budget request for this Division was 94 positions (94.00 FTE) and $33.7 million. The legislatively adopted budget is 99 positions (99.00 FTE) and $34.7 million.

Policy, Planning, and Legislative Analysis - The budget request for this Division was 15 positions (14.5 FTE) and $3.8 million. The legislatively adopted budget is 16 positions (15.5 FTE) and $3.9 million.

Customer Services - The budget request for this Division was 101 positions (100.5 FTE) and $11.9 million. The legislatively adopted budget is 103 positions (102.5 FTE) and $12.1 million. The budget for the three operating sections is as follows:

- ***Customer Services -*** The budget request was for 52 positions (52.1 FTE) and $6.4 million. The legislatively adopted budget is 54 positions (54.1 FTE) and $6.5 million.
- ***Member/Employer Relations*** - The budget request was for 41 positions (41.00 FTE) and $4.5 million. The legislatively adopted budget is 41 positions (41.00 FTE) and $4.5 million.
- ***Deferred Compensation*** - The budget request was for 8 positions (7.4 FTE) and $1 million. The legislatively adopted budget is 8 positions (7.4 FTE) and $1 million.

PERS – Debt Service

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	1,265,900	3,629,282	5,720,950	5,720,950
Total Funds	**$1,265,900**	**$3,629,282**	**$5,720,950**	**$5,720,950**

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, and for the acquisition of the jClarety pension system for the new OPSRP.

Revenue Sources and Relationships

Revenue for the payment of debt service is transfers from the Tiers 1 and 2 Plan ($1.4 million) and the OPSRP ($4.3 million).

Legislatively Adopted Budget

The legislatively adopted budget provides expenditure limitation necessary to pay the required debt service.

Racing Commission – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds	3,986,857	5,575,855	5,296,621	4,253,696
Total Funds	**$3,986,857**	**$5,575,855**	**$5,296,621**	**$4,253,696**
Positions	25	23	23	16
FTE	17.68	17.50	17.50	12.98

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 several 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 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%. These live racing related revenues have been consistently declining as other forms of gambling gain in popularity.

The 1997 Legislature authorized the establishment of Hubs in Oregon and provided that up to 1% of gross wagering receipts, which is the pari-mutuel tax, could be collected. The Commission, by rule, has set the state share of Hubs gross wagering receipts at 0.25%. Of this amount, one-third is transferred to the General Fund. The remaining two-thirds is 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 purses at county fairs, make safety improvements at non-profit race meet sites, provide jockey incentives, promote thoroughbred breeding, and support adoption of racing greyhounds. The Commission also collects a license fee of $200 per operating day from Hubs. Revenue from the pari-mutuel tax on Hub wagers has been steadily increasing. This has resulted in increasing amounts being expended for the benefit of the Oregon racing industry and higher transfers to the General Fund.

Budget Environment

Live racing in Oregon is in an era of uncertainty. The company that offered live greyhound racing at Multnomah Greyhound Park is ending operations in December 2005 and no live greyhound racing is expected to occur during the 2005-07 biennium. This will fundamentally alter they way the Commission operates and caused significant reductions in the budget for the Commission. The Oregon horse racing industry has faired little better with competing forms of gambling only increasing with the addition of slot machine style gaming by the state and the possibility of two tribal casinos opening within a hour drive of Portland Meadows. It is possible that the company operating Portland Meadows, the same company that ceased greyhound racing at Multnomah Greyhound Park, may end horse racing there given they have operated at a loss the last few years and the land the race track is located on has significant commercial value.

Commission operations have become increasing dependent on the Hubs currently operating in the state. During the 2003-05 biennium a sixth Hub began operations. The 2005-07 budget assumes all six Hubs will continue to operate in Oregon despite the fact that other states now allow operation of Hubs. These states have become increasingly aggressive in trying to recruit Hubs to relocate to their states. The possibility of Hubs relocating operations outside of Oregon represents a risk to that portion of the Commission's revenue. To address this risk the Commission adopted rule changes in May 2005 that placed a cap on the total amount of pari-mutuel taxes any one Hub will pay in a fiscal year.

Legislatively Adopted Budget

The adopted budget is about 20% lower than the Governor's 2005-07 recommended levels. This decrease is due to a reduction of $757,718 Other Funds and the elimination of seven positions (4.52 FTE) to reflect the ending of greyhound racing. These positions and expenditures were those associated with regulating greyhound racing at Multnomah Greyhound Park. Special Payments from the Racing Development Fund used by the Commission for grants to benefit the Oregon pari-mutuel racing industry were reduced by $240,000 to reflect forecasted reductions in Hub revenue resulting from the decision to cap the amount of pari-mutuel tax paid by Hubs operating in Oregon.

The Commission's ending balance is maintained at a level that would support approximately six months of operating expenses due to concerns over future revenue being sufficient for Commission expenditures. Any monies in the Commission's ending balance above the six month requirement would be transferred to the General Fund at the end of the biennium. The Commission is expected to transfer $1.1 million to the General Fund in the adopted budget, which is $0.4 million less than the amount assumed in the Governor's budget. This reduction is due to declines in revenue related to the end of greyhound racing and the Commission's decision to cap Hub revenue.

Department of Revenue (DOR) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	116,288,504	120,434,536	138,510,750	132,677,797
Other Funds	18,476,886	54,591,342	28,648,232	29,238,461
Other Funds (NL)	194,969	219,100	224,358	224,358
Total Funds	**$134,960,359**	**$175,244,978**	**$167,383,340**	**$162,140,616**
Positions	1,035	1,087	1,101	1,094
FTE	947.74	987.73	1,007.06	1,004.91

Agency Overview

The Department of Revenue administers the state's income tax and property tax programs. In addition, the Department collects revenue from a variety of sources and transfers it to various state and local agencies. These revenue sources include taxes on: a) cigarettes and other tobacco products; b) amusement devices; c) payroll (for local mass-transit); d) timber, oil, and gas severance; and e) the harvesting of forest products. The Department also collects and distributes hazardous substance fees, court fines and assessments, and taxpayer check-off donations; serves as the collection agency for fines, forfeitures, and assessments owed to state agencies; and administers property tax relief programs for senior citizens and persons with disabilities. Altogether, the tax programs the Department administers generate 95% of General Fund revenue and 88% of local government revenue.

Revenue Sources and Relationships

The Department is mainly supported by the General Fund. Other Funds revenue is derived from charges to various Other Funds tax, fee, assessment, and other programs to cover the Department's administrative costs. Charges are based on time studies that determine the cost to each division of administering these programs. Other Funds also are received from the Assessor Funding Program. This program provides revenue to both the Department and to county governments from interest paid on delinquent property taxes and from a document-recording fee. A portion of each recording fee ($1) is dedicated to the development of a statewide mapping system (ORMAP) to improve the administration of the property tax system. These funds are distributed to counties for projects to meet that goal.

For the 2003-05 biennium, the Legislature approved the use of anticipated increased Cigarette and Other Tobacco Tax receipts to replace General Fund for Tobacco Task Force efforts and other departmental operations. The increased receipts were expected from increasing the Tobacco Tax Compliance efforts begun in the prior biennium. The $20 million of anticipated cigarette tax receipts did not materialize. In fact, the forecast for cigarette tax receipts fell $25 million from the original close-of-session forecast. The $20 million shortfall in the Department's 2003-05 budget caused the Emergency Board and Legislature to provide $16.8 million from the General Fund to maintain essential operations.

The following table displays sources and amounts of estimated Other Funds revenues for 2005-07:

SOURCE	2005-07 ESTIMATED
Cigarette and Other Tobacco Tax Collections	$ 3,800,000
State Agency Collections	$ 8,800,000
Assessor Funding Program	$ 5,400,000
Employer-Employee Taxes (primarily Tri-Met and Lane Districts)	$ 5,400,000
Senior and Disabled Citizens' Property Tax Deferral	$ 1,500,000
ORMAP	$ 3,400,000
Others	$ 1,000,000
TOTAL REVENUES	**$ 29,300,000**

Budget Environment

The Department projects modest population and economic growth for the 2005-07 biennium. Over the past several biennia, the Department has been successful in addressing funding constraints and increased workloads by developing and enhancing automated systems, implementing an aggressive employee training program, reorganizing, and revising operating procedures.

Legislatively Adopted Budget

The legislatively adopted budget restores the General Fund that had been reduced in 2003 in anticipation of increased Cigarette and Other Tobacco Tax receipts. The budgets of all sections and divisions are affected and reflect this fund shift. The Department continued the reorganization begun in the prior biennium. As a result, 30 positions were transferred from four operating divisions to the Information Processing Division and the 2005-07 budget reflects those personnel actions. Additionally, the Department phased out three positions, and eliminated 15 positions in order to provide permanent financing for position reclassifications. Eight of the 15 positions had to do with personnel actions begun before the 2003-05 biennium.

The budget reflects reductions to the Governor's recommended budget for lower-than-expected government service charges and a slightly lower-than-budgeted employer contribution rate to the Public Employees Retirement System (PERS). The budget provides additional General Fund for staff to address increased willful tax avoidance by corporations and individuals and address the increase in delinquent taxes. These two initiatives are expected to increase 2005-07 General Fund receipts by $23.2 million. It also provides additional Other Funds expenditure limitation for staff needed to administer the State Lodging Tax begun in 2003, and to enhance the Department's Other Agency Accounts Collections activities. These program enhancements are discussed in detail in the following analyses.

DOR – Executive Section

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	2,949,409	2,811,605	3,116,900	3,083,144
Other Funds	1,400,939	646,307	274,969	271,094
Total Funds	**$4,350,348**	**$3,457,912**	**$3,391,869**	**$3,354,238**
Positions	19	19	17	17
FTE	18.01	18.01	16.01	16.01

Program Description

The Executive Section is responsible for overall administration of the agency and for coordinating the agency's legislative, rulemaking, communications, and internal audit functions.

Legislatively Adopted Budget

The legislatively adopted budget maintains the activities of the Executive Section. It reflects the movement of staff from a departmental reorganization. The reorganization resulted in a decrease of two staff in the Section.

DOR – General Services Section

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	11,539,856	1,689,549	3,447,876	150,540
Other Funds	1,270,909	72,566	430,188	400,178
Total Funds	**$12,810,765**	**$1,762,115**	**$3,878,064**	**$580,718**

Program Description

The General Services Section (formerly called the Administrative Services Section) is used to budget for a portion of expected central agency costs for postage, legal expenses, and other expenditures that tend to vary from biennium to biennium between operating divisions. For internal budgetary purposes the flow of tax revenues are accounted for here.

Legislatively Adopted Budget

The legislatively adopted budget reflects an unspecified $3 million General Fund reduction. The Department is to determine where the reductions will occur.

DOR – Information Processing Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	31,507,851	35,563,455	43,711,879	43,138,551
Other Funds	3,770,697	12,958,517	4,426,673	4,407,710
Total Funds	**$35,278,548**	**$48,521,972**	**$48,138,552**	**$47,546,261**
Positions	338	343	367	359
FTE	278.95	281.99	306.83	304.68

Program Description

The Information Processing Division provides computer processing systems and support services to the agency's other divisions, processes incoming tax returns, scans returns for errors, processes and banks tax payments, enters and transfers taxpayer data to computer storage, and maintains information files. This division also provides the Department's purchasing, personnel, facilities management, and accounting and other fiscal support.

Budget Environment

Historically, the Division's activities have been carried out in a high-volume, production-type environment. As the Department adds new systems and becomes more dependent on automation, well-trained and experienced information systems staff are needed to maintain computer systems. However, increases in other divisions' operations necessitate some staff increases in the Information Processing Division.

Legislatively Adopted Budget

The legislatively adopted budget reflects the movement of staff from a departmental reorganization. The reorganization increased staff in the Division by 30 positions. This was offset, in part, by the elimination of six positions that were phased out or used as part of a permanent financing plan to fund position reclassifications. Additionally, eight vacant positions were eliminated as a result of increased productivity and efficiency gains. The budget provides $784,000 General Fund and $64,000 Other Funds expenditure limitation for staff to help address increased willful tax avoidance by corporations and individuals (four positions) and help address the increase in delinquent taxes (two positions). It also provides $279,000 Other Funds expenditure limitation for staff needed to support the enhanced Other Agency Accounts Collections activities (two positions).

The state in is the process of consolidating the data centers of twelve state agencies. The Department of Revenue is one of the twelve agencies affected. The budget reflects a staff reduction of 2.00 FTE as a result of the consolidation.

DOR – Property Tax Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	12,216,760	17,434,902	19,332,805	19,180,101
Other Funds	5,380,186	13,673,956	9,415,006	9,378,391
Total Funds	**$17,596,946**	**$31,108,858**	**$28,747,811**	**$28,558,492**
Positions	145	140	128	128
FTE	140.71	136.19	124.71	124.71

Program Description

The Property Tax Division oversees the property tax system and ensures that counties comply with all property tax laws and rules. To these ends, the Division develops procedures, advises and trains county staff, and conducts reviews of county actions. Responsibilities also include conducting appraisals on all industrial manufacturing plants valued at $1 million or more (currently valued at a total of $16.5 billion); appraising all utility, transmission, communication, and transportation properties (currently valued at $12.4 billion); and administering several timber tax programs.

The Division also oversees ORMAP, a project to develop the statewide base mapping system mandated by HB 2139 (1999) for improvement in the administration of the property tax system.

Budget Environment

In 1989, the Legislature created the Assessor Funding Program to supplement funding of property tax assessment and taxation functions. The Department uses its portion of the funding for appraising industrial properties valued between $1 million and $5 million, for training county personnel, and for conducting performance reviews of county programs. The 1999 Legislature modified the sources of funds for this program slightly by retaining the interest rate charged on delinquent property tax accounts, with a portion (generally 25%) of the interest collected transferred to the program, amending document recording fees, and expanding the base of documents subject to the fee. It also allowed the Department to receive up to 10% of the moneys in the County Assessment and Taxation Fund to pay for its appraisal of industrial properties and oversight of the property tax system. Additionally, $1 of each document recording fee is dedicated to the statewide mapping system. This fee is expected to generate more than $2 million biennially.

The Department views the Assessor Funding Program as an important tool in implementing Ballot Measure 50, which requires that property values be on the assessment rolls at real market value. The focus for the 2005-07 biennium is on continuing assistance to counties in adapting to the Measure 50 system. The system is more complex than originally thought. For example, Measure 50 requires counties to carry multiple values on the tax roll and, in some cases, as many as seven different values have to be tracked for one property.

Legislatively Adopted Budget

The legislatively adopted budget reflects the movement of staff from a departmental reorganization. The reorganization caused a staff reduction of nine positions. Added to the staff reduction was the elimination of three positions that were phased out or used as part of a permanent financing plan to fund position reclassifications. The budget has no program enhancements or reductions.

DOR – Personal Tax and Compliance Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	35,561,540	40,916,071	47,910,701	47,221,667
Other Funds	1,257,532	11,218,393	1,026,743	1,419,329
Total Funds	**$36,819,072**	**$52,134,464**	**$48,937,444**	**$45,376,397**
Positions	351	387	398	399
FTE	334.24	360.63	379.89	379.89

Program Description

The Personal Tax and Compliance Division administers the personal income tax program. Responsibilities include auditing and encouraging voluntary compliance for the personal income tax, collecting delinquent personal income taxes, and collecting local option taxes. In addition, the Division administers the Elderly Rental Assistance Program, and provides help to taxpayers by telephone (Tax Help Section) and through information publications.

Budget Environment

The Division's workload had been increasing over time as the state's population grew. The number of personal income tax returns filed annually has stabilized at 1.6 million. The Division has added and improved automated systems to help handle the workload. Compliance efforts are now affecting the Division's workload. As more taxpayer data becomes available from federal and other sources, the Department has increased its efforts to pursue non-filers, and those that may have under- or not-reported income, or over-reported deductions. The Department expects to address collection issues through re-engineering of existing systems and processes and through positions added by the Legislature to enhance revenue collections.

Legislatively Adopted Budget

The legislatively adopted budget reflects the movement of staff from a departmental reorganization. The reorganization reduced staff in the Division by four positions. Added to the staff reduction was the elimination of six positions that were phased out or used as part of a permanent financing plan to fund position reclassifications. Additionally, 14 positions were eliminated as a result of increased productivity and efficiency gains. The budget also provides $3.6 million General Fund and $128,000 Other Funds expenditure limitation for staff to address increased willful tax avoidance by corporations and individuals (16 positions) and address the increase in delinquent taxes (19 positions). These two initiatives are expected to increase General Fund receipts by $23.2 million: $6.2 million from willful tax avoidance; and $17 million increased collections of delinquent taxes. The adopted budget also shifts $392,000 from General Fund to Other Funds to reflect the proper funding sources.

DOR – Business Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	13,844,527	14,118,953	11,990,588	11,903,793
Other Funds	5,396,623	16,021,603	13,074,653	13,361,759
Total Funds	**$19,241,150**	**$30,140,556**	**$25,065,241**	**$25,265,552**
Positions	182	198	191	191
FTE	175.83	190.91	179.62	179.62

Program Description

The Business Division administers several tax programs, including corporate income and excise taxes, the employer withholding tax, the transit payroll and self-employment taxes, the fiduciary, inheritance, and cigarette taxes, and other agency accounts and special programs. Responsibilities include auditing tax returns and collecting delinquent taxes and other delinquent accounts. The Division also provides debt collection services for state and local agencies and for state and municipal courts in all 36 counties.

Budget Environment

Currently, the Division is collecting on 207,000 accounts owed to 218 state offices and agencies. The number of delinquent accounts is expected to increase. The Division is using more automation to help handle workload growth. Additionally, the Legislature has added positions to enhance revenue collections.

This Division also collects revenues from cigarette tax stamps. The 2001 Legislature provided additional staff and funding for a Tobacco Task Force that included personnel from the State Police and the Department of Justice. Increased tax collections attributable to the Task Force caused the 2003 Legislature to provide additional Task Force staff resources. The additional staff were provided with the intent that resulting increased Task Force-generated tax collections be used by the Department instead of General Fund. The anticipated increase in cigarette tax collections did not materialize, and the Department had to return to the Emergency Board for General Fund support.

Legislatively Adopted Budget

The legislatively adopted budget reflects the movement of staff from a departmental reorganization. The reorganization reduced staff in the Division by 15 positions. Added to the staff reduction was the elimination of three positions that were phased out or used as part of a permanent financing plan to fund position reclassifications. Additionally, 14 positions in the Tobacco Task Force were eliminated. These positions were added in 2003; the positions provided in 2001 are included in the budget to maintain compliance activities. An additional $350,000 of Other Funds expenditure limitation was provided to pay for Attorney General costs of prosecuting cases brought about because of Tobacco Task Force efforts during the prior biennium. Also, one position was eliminated as a result of increased productivity and efficiency gains.

The budget provides $377,000 General Fund and $137,000 Other Funds expenditure limitation for staff to help address increased willful tax avoidance by corporations and individuals (two positions), help address the increase in delinquent taxes (two positions), and administer the State Lodging Tax (one position). It also includes an additional 21 positions and $1.9 million Other Funds expenditure limitation for enhanced collection services for other state agencies. This program is funded entirely by collection fees.

DOR – Multistate Tax Commission

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
Other Funds (NL)	194,969	219,100	224,358	224,358
Total Funds	**$194,969**	**$219,100**	**$224,358**	**$224,358**

Program Description

Through the Department of Revenue, Oregon is a member of the Multistate Tax Commission, which is composed of 40 states that have joined together to promote uniformity in state taxation of corporate income. Dues to the Commission are proportional to the amount of tax revenue each state collects. The budget reflects the Nonlimited expenditures for these dues.

Budget Environment

The Commission expects to maintain its current level of services to members.

Legislatively Adopted Budget

The legislatively adopted budget is the state's expected assessment for operational expenses of the Multistate Tax Commission.

DOR – Elderly Rental Assistance

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	8,668,561	7,900,000	9,000,000	8,000,000
Total Funds	**$8,668,561**	**$7,900,000**	**$9,000,000**	**$8,000,000**

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 income under $10,000, household assets (if under age 65) that do not exceed $25,000, and gross rent in excess of 20% of household income. Through this program, payments are also made to local governments in lieu of property taxes on certain tax-exempt housing for the elderly.

Budget Environment

The program has experienced a steady decline in payments to renters over the last several biennia. In part this was because, as the Oregon economy improved, fewer individuals met the program's eligibility criteria (which are not indexed to inflation). Actual expenditures for 2003-05 fell to less than $8 million.

Legislatively Adopted Budget

The legislatively adopted budget is the amount of benefits expected to be paid during the 2005-07 biennium. It is about the same as the actual demand for the 2003-05 biennium.

DOR – Senior Citizens' and Disabled Citizens' Property Tax Deferral

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	0	1	1	1
Total Funds	**$0**	**$1**	**$1**	**$1**

Program Description

The Senior Citizens' Property Tax Deferral portion of this program allows homeowners age 62 and over who meet program income limits to defer payment of property taxes and special assessments until the owner dies, sells the property, or stops using it as a principal residence. The state pays the tax and obtains a lien on the property for the tax and for accrued interest at the rate of 6% per year. The deferred taxes and interest are collected when the property is disqualified. As properties are disqualified and their deferred taxes are paid, monies received finance the taxes the state pays under the program. The household income limit to qualify for the program is $32,000 beginning in 2002-03 and indexed to inflation thereafter. The program also is available to disabled persons meeting household income limits.

Budget Environment

The Senior Citizens' component of the program has about 10,000 accounts, with over $122 million deferred. The Disabled Citizens' component of the program has about 550 participants. Repayment of taxes has exceeded the amounts paid out in the recent past, and excess cash has been transferred to the General Fund from the Property Tax Deferral Account. Since 1999, the Department has transferred $68 million to the General Fund. The General

Fund makes up any shortfall in the program. Currently, it is self-supporting and no shortfall is anticipated this biennium.

Legislative Adopted Budget

The legislatively adopted budget has a $1 placeholder to highlight the potential obligation of General Fund to support the program. Latest forecasts indicate that the program will not need any additional General Fund support and the Department was directed to transfer an additional $10 million from the Property Tax Deferral Account to the General Fund by June 30, 2007. That amount is included as a General Fund revenue source in the close-of-session economic forecast.

Senate Bill 870 (2005) establishes the Oregon Project Independence Fund to provide a funding source for services to senior citizens. The bill requires that an additional $250,000 be transferred from the Property Tax Deferral Account to the Oregon Project Independence Fund during the 2005-07 biennium. Also, after June 30, 2007, any excess cash in the Property Tax Deferral Account will be transferred to the Oregon Project Independence Fund instead of the General Fund.

Secretary of State (SOS) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Secretary's Recommended *	2005-07 Legislatively Adopted **
General Fund	14,029,181	12,968,535	8,161,716	9,639,608
Other Funds	27,526,654	31,336,191	41,098,227	33,345,432
Federal Funds	102,137	10,530,177	5,543,662	5,151,161
Other Funds (NL)	101,345	172,328	174,790	0
Total Funds	**$41,759,317**	**$55,007,231**	**$54,978,395**	**$48,136,201**
Positions	207	208	231	203
FTE	205.67	207.50	230.50	198.08

** The Secretary of State was exempt from the Governor's budget review, but technical adjustments were made to the requested budget.*

*** The 2005-07 legislatively adopted budget number does not include a $1 million special purpose appropriation to the Emergency Board for the production and distribution of the 2006 primary and general election voters' pamphlets.*

Agency Overview

The Office of the Secretary of State is one of three established at statehood. The Secretary is auditor of public accounts, chief elections officer, and manager of the state's records, a role that includes preserving official acts of the Legislative Assembly and the Executive Branch. The Secretary of State serves with the Governor and Treasurer of State on the State Land Board which manages state-owned lands.

Revenue Sources and Relationships

Other Funds revenues are received from various sources, including:

- ***Assessments*** to state agencies based on a pro-rata share of four risk factors (cash, revenues, expenditures, full-time equivalent positions) are the primary funding source for the Audits Division. However, agencies whose operations are predominately funded with dedicated trust funds (e.g., Department of Transportation) are billed for actual audit costs rather than an assessment. The legislatively adopted budget includes an estimated ending balance of $1.7 million, which is equivalent to approximately three months of operating expenditures. The Archives Division also assesses agencies for the storage and retrieval of inactive, non-permanent records maintained by the division.
- ***Fees for services*** are collected from business filings, secured transactions, and notary public to support the Corporations Division; and municipal audits for the Audits Division. HB 3656 (2003) increased the business registry fees to $50 from $20 and directed the additional revenue be transferred to the General Fund. The Secretary of State anticipates $18.3 million will be transferred to the General Fund in the 2005-07 biennium. The Secretary may only retain a cash balance that is equivalent to two months of operating expenditures for the Corporation Division. Voters' pamphlet and election filing fees and penalties collected by the Elections Division are also deposited into the General Fund rather than directly supporting the agency's budget.
- ***Sale of publications***, including the annual Oregon Administrative Rules Compilation, the monthly Oregon Bulletin which provides updates to the Compilation, and the Oregon Blue Book, generate revenues for the Archives Division.
- ***Internal transfers*** are made to the Executive Office, Business Services, Information Systems, and Personnel Resources Divisions by the Audits and Corporations Divisions for a proportionate share of administrative costs.
- The ***Elections Fund***, established by HB 2145 (2003), received $270,000 from the General Fund to meet a portion of the state's 5% match requirement for the federal Help America Vote Act (HAVA). The legislatively adopted budget provides an additional $700,000 General Fund. Once the matching funds are transferred to the Elections Fund, they are spent as Other Funds.
- ***Miscellaneous*** document and copier charges are also collected by the Archives and Elections Divisions. Prior to the 2005-07 biennium, these funds were spent as Nonlimited Other Funds.

Federal Funds revenues are received primarily under HAVA. Oregon has received the full allocation of approximately $16 million for Federal Fiscal Year 2003. The legislatively adopted budget appropriates $700,000 General Fund in additional matching funds to receive an estimated $17.88 million available from Federal Fiscal Year 2004.

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. Since the Governor must propose a balanced budget that incorporates all agencies, several technical adjustments for Employment Relations Board assessments and pension bonds were incorporated, but no specific recommendations were made concerning the Secretary's recommended budget. However, the Secretary's recommended budget incorporated proposals that had implications for many other state agencies which were ultimately not included in the legislatively adopted budget. SB 1101 (2005) modified the statutes relating to the Governor's budget development and allotment system to include the Secretary of State and the State Treasurer in those processes.

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. However, as in the 2003-05 biennium, when statewide special elections are held, the Secretary will reimburse counties for those costs. Costs associated with the production and distribution of voters' pamphlets will also vary depending on the number of candidates, measures, and measure arguments filed.

Implementation of HAVA requirements will continue to influence the Secretary of State's budget in the foreseeable future. HAVA was passed in October 2002 and contains minimum federal standards on various aspects of election administration which include developing a centralized voter registration system, replacement of punch card machines, privacy and independence in the voting process, access for people with disabilities, and voter outreach. Much of the federal funding requires a 5% state match.

SOS – Executive Office

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Secretary's Recommended	2005-07 Legislatively Adopted
General Fund	1,124,679	324,176	291,295	287,758
Other Funds	246,293	951,385	1,099,350	1,086,945
Total Funds	**$1,370,972**	**$1,275,561**	**$1,390,645**	**$1,374,703**
Positions	6	6	6	6
FTE	6.00	6.00	6.00	6.00

Program Description

The Executive Office includes the Secretary and the Secretary's immediate staff. The office provides policy direction and daily management of the agency. The executive staff is responsible for strategic planning, policy development, and legislative and press relations. In addition, the office staffs the State Land Board.

Legislatively Adopted Budget

The Executive Office budget represents a 7.8% increase over the 2003-05 legislatively approved budget. Current services are maintained with the exception of a 3% reduction to General Fund support for services and supplies, and one position reclassification.

SOS – Archives Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Secretary's Recommended	2005-07 Legislatively Adopted
General Fund	3,344,252	3,416,985	129,965	3,424,697
Other Funds	1,001,700	1,809,644	5,711,133	2,280,204
Federal Funds	0	9,187	1	0
Other Funds (NL)	50,555	102,580	105,042	0
Total Funds	**$4,396,507**	**$5,338,396**	**$5,946,141**	**$5,704,901**
Positions	22	22	23	22
FTE	21.17	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

The Archives Division budget represents a 6.9% increase over the 2003-05 legislatively approved budget. The budget reclassifies three positions, reduces General Fund support for services and supplies by 3% ($42,650), and shifts $75,000 General Fund to Other Funds. The legislatively adopted budget does not incorporate the Secretary's proposal to shift funding of the Archives Division to an assessment on state agencies.

SOS – Audits Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Secretary's Recommended	2005-07 Legislatively Adopted
General Fund	0	50,000	0	0
Other Funds	11,894,881	12,773,460	16,733,944	12,959,302
Total Funds	**$11,894,881**	**$12,823,460**	**$16,733,944**	**$12,959,302**
Positions	78	76	96	72
FTE	78.00	76.00	96.00	72.00

Program Description

The Audits Division was created to carry out the Secretary's constitutional duties as auditor of public accounts to assure that public funds are properly accounted for and spent in accordance with legal requirements. The Division performs, or contracts for, financial and compliance audits and performance audits of state agencies.

Legislatively Adopted Budget

The Audits Division budget represents a 1.1% increase over the 2003-05 legislatively approved budget. The legislatively adopted budget eliminated four vacant positions (4.00 FTE) including three auditors and one support position. Consistent with the Governor's budget, the legislatively adopted budget does not include program enhancements that would have relied on increased assessments to state agencies or a transfer from the State School Fund.

SOS – Business Services Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Secretary's Recommended	2005-07 Legislatively Adopted
General Fund	576,312	319,614	339,626	283,368
Other Funds	1,884,310	2,182,259	2,451,670	2,427,534
Total Funds	**$2,460,622**	**$2,501,873**	**$2,791,296**	**$2,710,902**
Positions	17	16	16	16
FTE	17.00	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

The Business Services Division budget represents an 8.4% increase over the 2003-05 legislatively approved budget. Current services are maintained with the exception of a $51,906 General Fund reduction to services and supplies and capital outlay that was offered by the Secretary in response to a request to find efficiencies in administration.

SOS – Corporation Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Secretary's Recommended	2005-07 Legislatively Adopted
Other Funds	6,144,007	6,485,172	6,969,029	6,796,176
Total Funds	**$6,144,007**	**$6,485,172**	**$6,969,029**	**$6,796,176**
Positions	42	41	38	37
FTE	41.50	40.50	37.50	36.42

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 budget represents a 4.8% increase over the 2003-05 legislatively approved budget. Current services are maintained with the exception of elimination a vacant support position (1.00 FTE).

SOS – Elections Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Secretary's Recommended	2005-07 Legislatively Adopted
General Fund	7,314,721	7,749,927	5,843,433	3,810,090
Other Funds	148,075	0	984,552	119,748
Federal Funds	102,137	4,422,000	1,398,727	0
Other Funds (NL)	50,790	69,748	69,748	0
Total Funds	**$7,615,723**	**$12,241,675**	**$8,296,460**	**$3,929,838**
Positions	15	18	20	15
FTE	15.00	18.00	20.00	15.00

Program Description

The Elections Division administers state and federal elections laws, provides training to county and city election officials, political party representatives, and candidates; publishes statewide voter's pamphlets; and administers the filing and verification of initiative, referendum, and recall petitions.

Legislatively Adopted Budget

The Elections Division budget represents a 68% decrease from the 2003-05 legislatively approved budget. This sizeable decrease is due primarily to consolidating the staff and expenditures related to HAVA into a new program unit and eliminating approximately $3 million General Fund for two special elections that occurred during the 2003-05 biennium. Further, the 2003-05 legislatively approved budget included $1.2 million General Fund for the primary and general election voters' pamphlets. A $1 million special purpose appropriation has been made to the Emergency Board for the 2006 voters' pamphlets, but is not reflected in the numbers in the above table. The legislatively adopted budget reduces General Fund support for services and supplies by 3% ($43,375), and shifts $50,000 General Fund to Other Funds.

SOS – Information Systems Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Secretary's Recommended	2005-07 Legislatively Adopted
General Fund	785,664	1,057,112	1,499,402	1,076,869
Other Funds	5,207,071	6,226,628	6,662,234	6,493,654
Federal Funds	0	6,098,990	4,144,934	0
Total Funds	**$5,992,735**	**$13,382,730**	**$12,306,570**	**$7,570,523**
Positions	22	24	29	25
FTE	22.00	24.00	29.00	25.00

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 Information Systems Division budget represents a 43% decrease from the 2003-05 legislatively approved budget. The decrease is attributable primarily to consolidating the staff and expenditures related to HAVA into a new program unit. The legislatively adopted budget includes $1 million Other Funds in projects for the Corporation Division, including enhancements to the central business registry, electronic business registry, notary, and business registry certificates. Two limited duration positions (2.00 FTE) were added to support the implementation of these projects. Further a $98,094 General Fund reduction was taken in services and supplies. The reduction was offered by the Secretary in response to a request to find efficiencies in administration.

SOS – Personnel Resources Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Secretary's Recommended	2005-07 Legislatively Adopted
General Fund	98,314	50,721	57,995	56,826
Other Funds	397,341	423,294	486,315	481,869
Total Funds	**$495,655**	**$474,015**	**$544,310**	**$538,695**
Positions	3	3	3	3
FTE	3.00	3.00	3.00	3.00

Program Description

The Personnel Resources Division provides advice on human resources policies and procedures, maintains employee records, and provides recruitment and training services for the agency.

Legislatively Adopted Budget

The Personal Resources Division budget represents a 13.6% increase over the 2003-05 legislatively approved budget. Current services are maintained with the exception of a reduction in General Fund support for services and supplies of 3% and one position reclassification.

SOS – Help America Vote Act

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Secretary's Recommended	2005-07 Legislatively Adopted
General Fund	0	0	0	700,000
Other Funds	0	0	0	700,000
Federal Funds	0	0	0	5,151,161
Total Funds	**$0**	**$0**	**$0**	**$6,551,161**
Positions	0	0	0	7
FTE	0.00	0.00	0.00	2.66

Program Description

The federal Help America Vote Act requires states to implement a variety of election process reforms including replacing punch card voting systems, purchasing voting equipment that is accessible to people with disabilities, and developing a centralized voter registration system.

Legislatively Adopted Budget

The legislatively adopted budget consolidates the staff and expenditures related to HAVA into this program unit. Prior biennia expenditures were recorded in the Elections and Information Systems Divisions. A General Fund appropriation of $700,000 will serve as the matching funds necessary for the Secretary of State to certify for receipt of approximately $17.88 million in federal funds. Seven limited-duration positions are established for 9 months pending reports to the Joint Legislative Committee on Information Management and Technology and the Emergency Board on the progress in meeting federal requirements.

SOS – Cultural Trust Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Secretary's Recommended	2005-07 Legislatively Adopted
General Fund	785,239	0	0	0
Other Funds	602,976	484,349	0	0
Total Funds	**$1,388,215**	**$484,349**	**$0**	**$0**
Positions	2	2	0	0
FTE	2.00	2.00	0.00	0.00

Program Description

The 2001 Legislature created the Trust for Cultural Development within the office of the Secretary of State. With the passage of SB 931 (2003), the Legislature approved the transfer of this function to the Arts Program of the Economic and Community Development Department. The Secretary of State transferred personnel and funds to the Economic and Community Development Department early in the 2003-05 biennium.

Treasurer of State (Treasurer) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	160,973	0	0	0
Other Funds	16,704,829	18,486,357	20,393,914	23,272,285
Other Funds (NL)	5,886,245	5,530,000	5,675,000	3,500,000
Total Funds	**$22,752,047**	**$24,016,357**	**$26,068,914**	**$26,772,285**
Positions	78	75	75	75
FTE	77.25	74.60	74.60	74.60

Agency Overview

The Treasurer of State acts as the "banker" for all state agencies by maintaining their accounts and by investing their funds (Trust Funds, constitutional bond funds, and any funds not necessary to meet current expenditure demands). The Treasurer coordinates and approves state bond sales, acts as collateral pool manager for the state's largest banks, and pays on bonds submitted by bondholders. Additionally, the Treasurer invests excess funds for local governments. The Treasurer is also responsible for administration of the Oregon 529 College Savings Network (formerly the Oregon Qualified Tuition Savings Program).

Treasurer – Treasury Services

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	6,389	0	0	0
Other Funds	16,607,895	17,108,145	18,231,985	21,080,823
Other Funds (NL)	5,886,245	5,530,000	5,675,000	3,500,000
Total Funds	**$22,500,529**	**$22,638,145**	**$23,906,985**	**$24,580,823**
Positions	76	73	73	73
FTE	76.00	72.60	72.60	72.60

Program Description

Treasury Services is organized into five operating sections**:** ***Investment*** invests the state held funds; ***Oregon Short Term Fund*** invests state and local funds held in the short term fund; ***Finance*** provides banking services for all state agencies; ***Debt Management*** coordinates and approves issuance of state agency bonds; and ***Collateral Pool*** assures that public funds held in financial institutions are properly collateralized and acts as pool manager for the four largest Oregon banks.

Revenue Sources and Relationships

Other Funds consist mainly of revenue from a charge on investments managed. Statutes allow a charge of up to 0.435 of one percent on the Oregon Short Term Fund and up to 0.25 of one percent on other investments managed. Revenue from these charges is estimated to be $16.6 million. Other revenues include charges to banks that use the Treasurer as a collateral pool manager, estimated at $101,000; charges to state agencies for bond and coupon redemption on outstanding general obligation bonds and to state agencies and municipalities for bond issuance costs, estimated at $2.6 million; and charges to state agencies for banking services, estimated at $4.8 million. Included in the estimated revenues from investment and banking services is reimbursement of $3.5 million for direct expenses that are pass-through funds budgeted as non-limited expenditures.

Budget Environment

The budget is driven by the number and complexity of financial transactions, the complexity and diversity of investments, the number and kinds of bond transactions, and the number of programs operated out of the Treasurer's Office. The Oregon Public Employees Retirement Fund (OPERF), State Accident Insurance Fund (SAIF), Oregon Short Term Fund, and Common School Fund account for most of the Treasurer's investment activity. Generally, growth of these funds has increased investment costs and revenues. The Treasurer relies heavily on automation to service this growth, without a corresponding growth in personnel.

Legislatively Adopted Budget

The legislatively adopted budget makes no significant changes in Treasury Services operations. No program enhancements or reductions are included in the budget. Additional expenditure limitation was provided to fund positions that were vacant at the time the budget was submitted, but subsequently filled at steps higher than provided for during budget development. Additional expenditure limitation was also provided for revised estimated costs of investment consulting services and these expenditures are now subject to legislative control through the provision of expenditure limitation. In prior biennia, these expenditures were excluded from expenditure limitation. The budget continues to exempt pass-through banking service charges from expenditure limitation and the budget reflects the revised estimated cost of these services at $3.5 million. These expenditures are still classified as Other Funds Non-limited.

Treasurer – Oregon 529 College Savings Network

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	154,584	0	0	0
Other Funds	96,934	1,378,212	2,161,929	2,191,462
Total Funds	**$251,518**	**$1,378,212**	**$2,161,929**	**$2,191,462**
Positions	2	2	2	2
FTE	1.25	2.00	2.00	2.00

Program Description

The Oregon 529 College Savings Network (formerly the Oregon Qualified Tuition Savings Program) administers a savings program designed to encourage persons to set aside money for future educational costs. The Oregon 529 College Savings Board, which is chaired by the Treasurer of State, establishes policies and oversees the program. Participants can choose from a variety of investment options. Earnings on the investments are exempt from income taxes if used for qualified educational expenses when withdrawn. Although administered by the Treasurer, participant enrollment, investment management, and participant support is provided by third party contractors.

Revenue Sources and Relationships

The program originally was funded with advances from the General Fund. The program receives Other Funds from an annual assessment on plan assets of 10 basis points (0.10 percent). It also will receive $700,000 annually from contract service providers for marketing, auditing, and other board-related expenses. The program has grown in size to the point that the annual assessment is sufficient to cover the Treasurer's administrative costs. The program expects to repay the balance of the General Fund advances ($154,000) by June 30, 2005.

Budget Environment

The program was initiated during the 1999-2001 biennium and now has 50,000 participant accounts, totaling more than $300 million. The Treasurer expects the program to continue to grow during the 2005-07 biennium.

Legislatively Adopted Budget

The legislatively adopted budget includes an increase of $700,000 for professional services directly related to program education, awareness, and promotion. It also includes the reclassification of the administrative support position, in recognition of the changing responsibilities of program staff.

LEGISLATIVE BRANCH

Legislative Branch (LEG) – Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended *	2005-07 Legislatively Adopted
General Fund	52,570,894	58,744,569	55,666,243	61,786,370
Other Funds	5,263,138	1,652,713	3,272,297	5,795,326
Other Funds (NL)	1,976,114	3,310,305	1,571,489	1,572,116
Total Funds	**59,810,146**	**63,707,587**	**60,510,029**	**69,153,812**
Positions	724	682	683	685
FTE	415.75	394.47	394.86	393.36

** Historically, the Governor's recommended budget has accommodated the entire agency request for agencies exempt from the Governor's budget review (Legislative and Judicial Branches, State Treasurer, and Secretary of State). The 2005-07 Governor's recommended budget, while making no specific recommendations, funded the Legislative Branch at $55.7 million General Fund, approximately 5.2% below the 2003-05 legislatively approved budget. The net effect was a $5.5 million reduction to the Legislative Branch General Fund budget request, which was based on a calculated average of overall reductions made to agencies in the Executive Branch. All of this reduction was taken from the Legislative Administration Committee budget. This reduction effectively eliminated $150,000 General Fund in Legislative Branch policy packages (two in Legislative Counsel); and then reduced the amount necessary for the Legislative Branch to continue all current activities in 2005-07 by $5.4 million General Fund, or approximately 9%. The actions necessary to operate within such a reduction were the subject of considerable discussion during the legislative budget review process.*

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.

LEG – Legislative Assembly

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Legislative Branch's Recommended	2005-07 Legislatively Adopted
General Fund	22,654,440	27,278,488	26,703,822	26,907,691
Other Funds	192,958	193,182	196,988	196,988
Other Funds (NL)	57,328	86,789	86,789	86,789
Total Funds	**$22,904,726**	**$27,558,459**	**$26,987,599**	**27,191,468**
Positions	455	443	443	444
FTE	223.62	216.31	216.20	216.95

Program Description

The Legislative Assembly budget includes salaries and per diem for legislative members and their staffs, the leadership and caucus offices, the Chief Clerk of the House, the Secretary of the Senate, 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. The Account is used to pay for the costs of food served in members' lounges.

Budget Environment

Except for Executive Appointments, the Legislative Assembly budget is divided to reflect session and interim activities as well as House and Senate costs. A significant cost driver for the Assembly's budget is the length of the legislative session. Although the legislative session covers approximately 25% of the budget period, it accounts for 40% of costs, primarily due to member per diem payments and session-only staff salaries. Interim costs are driven by the number of interim committees and the number of times the committees meet.

The primary responsibility of the Legislative Assembly is to produce a balanced budget that complies with state and federal laws and represents the policy choices and priorities established by the Legislature on behalf of the citizens they represent.

The agency's 2001-03 General Fund budget was reduced by $3.6 million based on special session actions during the interim and only partial funding of salary and benefit cost increases. These reductions were one-time in nature and required delays in computer purchases, temporary roll-back of member salaries, reductions to member travel reimbursements, and reductions to the operating budgets for leadership offices.

Legislatively Adopted Budget

The legislatively adopted General Fund budget funds the Legislative Assembly at 1.3% ($366,991) below the 2003-05 legislatively approved budget. The primary reason the adopted budget is less is because the 2003-05 legislatively approved budget included $2.1 million in one-time funds that were carried over from the Assembly's 2003 regular session budget. All but approximately $270,000 of these funds were spent to cover the costs of the 2003 regular session, which did not end until August 27, 2003. The Legislature reduced the request budget based on a reduction in the PERS employer contribution rate, a reduction in the Attorney General hourly charge rate, and a reduction in the Department of Administrative Services (DAS) and Secretary of State (SOS) assessments. One policy package was approved that added $133,066 General Fund to cover the costs of a limited duration committee assistant, travel, and per diem expenses linked to passage of SB 1084, which created the Public Commission on the Legislature. Additionally, a one-time $200,000 General Fund appropriation was provided so the Assembly could contract with an experienced Information Technology consultant to perform various quality assurance activities in support of interim committees.

LEG – Legislative Administration Committee

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Legislative Branch's Recommended *	2005-07 Legislatively Adopted
General Fund	18,691,131	19,390,674	21,141,810	21,554,179
Other Funds	4,509,617	1,949,674	1,827,799	4,357,110
Other Funds (NL)	460,691	597,528	597,683	597,615
Total Funds	**$23,661,439**	**$21,937,876**	**$23,567,292**	**26,508,904**
Positions	172	152	152	151
FTE	117.63	107.39	107.39	103.39

** The Governor's budget included $15.6 million General Fund for the Legislative Administration Committee—a reduction of $5.5 million from the $21.1 million General Fund agency request. The reduction consisted of a 9% reduction to the amount needed for the entire Legislative Branch to continue all current activities ($5.4 million) plus the value of the policy option packages in the Legislative Counsel budget ($150,000).*

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 supports 90% of LAC's requested expenditures. Other Funds revenue is derived 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. For 2005-07, $2.3 million is estimated to be available from these sources. LAC adopts the same rental rate for occupants of the Capitol as the rate imposed by the Department of Administrative Services for occupants of other state buildings. For the 2005-07 budget, the rate increases from $1.33 per square foot for office space to $1.40 per square foot—a 5.3% increase. 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. For 2005-07, $0.6 million is estimated to be available from these sales.

Budget Environment

Significant factors affecting LAC costs are the demand for increased security; improved information systems; maintenance and repair of the Capitol; and meeting the needs of legislative committees. The length of legislative sessions and the number of bill introductions, amendments, and committee hearings also affect the agency's workload and costs.

The Legislative Branch has been engaged in a major technology transition program to replace existing mainframe application systems with new graphical systems based on current technology. As a result of this focus, the Information Systems unit has become the largest component of the LAC budget. The technology transition is nearly complete. During 2001-03, the majority of core legislative business systems (publications, measure tracking, executive appointments, docketing systems, and Legislative Counsel's indexing, amendment, and repeals/measure conflicts tracking systems) were migrated. Project plans for the 2003-05 biennium included development of a new bill drafting system; purchase of infrastructure improvements for a recording and archiving system; improved access to legislative publications on the web; and maintenance of projects released in the prior two biennia. However, progress on the bill drafting system and the recording and archiving system was not made due to funding and staff resource constraints. The bill drafting project has an estimated cost of $2 million and the recording and archiving improvements have an estimated cost of $0.5 million. LAC presented information on the bill drafting project during the 2005 session. Since the supplier of the key components of the current bill drafting system is no longer supporting it, highly specialized outside consultants (who are also becoming scarce) have had to be utilized. The system is totally relied upon to prepare legislative measures, perform law searches, change bills into statutes, and publish adopted laws.

Another major cost driver for LAC is maintenance and repair of the Capitol. Several large projects were completed prior to the 2003-05 biennia. They include re-roofing, replacing aging wiring and transformers, upgrading elevators to meet building code requirements, remodeling of hearing rooms A through F and the galleria, and planning for the upgrade of the wings. LAC expressed a desire to upgrade the infrastructure (plumbing, electrical, fiberglass fiber in ceilings, and carpet) of the two wings of the Capitol during 2003-05, but it was not authorized by the 2003 Legislative Assembly due to budget constraints. While it is likely that Other Funds in the Capitol Operating Account will be available to assist with certain electrical system upgrades, completion of remaining infrastructure upgrades is expected to require Other Funds revenue derived from the sale of Certificates of Participation.

The agency's 2001-03 General Fund budget was reduced by $3.7 million based on special session actions during the interim and only partial funding of salary and benefit cost increases. The reductions were one-time in nature and required delays in filling vacant positions, reductions in debt service payments, deferral of computer system maintenance projects, training reductions, and delayed supply/equipment purchases.

Legislatively Adopted Budget

The legislatively adopted budget funds Legislative Administration at 11% ($2.2 million) above the 2003-05 legislatively approved budget. The adopted budget provides for continuation of agency operations; provides funding to replace an electrical gear box ($516,482 General Fund and $516,482 Other Funds from the Capitol Operating Account); provides $425,060 General Fund for hardware and software upgrades necessary to support a new bill drafting system; and provides $468,977 General Fund for debt service payments so that Certificates of Participation can be sold to finance development of a new bill drafting system. The adopted budget was reduced approximately $913,000 General Fund based on the elimination of a vacant Accountant position ($101,050); reduction of three vacant Committee Administrator positions to session-only positions ($391,910); reduction of a Library Generalist position to session only ($100,462); reductions to services and supplies ($309,849); reductions to task force budgets ($6,733); PERS rate reductions ($85,492); attorney General hourly charge rate reductions ($180); and DAS/SOS assessments ($18,069).

LEG – Legislative Counsel Committee

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Legislative Branch's Recommended	2005-07 Legislatively Adopted
General Fund	5,853,492	6,286,407	7,019,490	6,836,661
Other Funds	560,100	1,161,663	1,241,097	1,235,303
Other Funds (NL)	1,458,095	968,396	887,017	887,712
Total Funds	**$7,871,687**	**$8,416,466**	**$9,147,604**	**8,959,676**
Positions	72	62	63	63
FTE	50.50	45.77	46.27	46.27

Program Description

Legislative Counsel (LC) staff drafts legislation for legislators, legislative committees, and state agencies. LC also provides research services and legal advice to legislators and legislative committees. The Office of the

Legislative Counsel prepares indexes and tables for all measures introduced during a legislative session and, 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. Increasingly, legislative priorities have not left time and resources for the Legislative Counsel to devote to the Commission. At its April 2000 meeting, the Emergency Board allocated $100,000 from the Emergency Fund to purchase outside services to supplement those provided by the Legislative Counsel. This amount was used for added services during the last half of the 1999-2001 biennium. The Commission selected a proposal by Willamette University whereby its College of Law houses and shares the cost of an executive director and related support services for the Commission. In the 2005-07 agency request budget, $210,084 General Fund is included to continue existing services. The Commission requested an additional $130,000 so Willamette University could cover the costs of an additional staff attorney.

Revenue Sources and Relationships

The General Fund supports 76% of LC's expenditures. Other Funds are derived from sales of the *Oregon Revised Statutes*, *Oregon Laws*, bill drafting services, and other LC publications. In 2005-07, Other Funds receipts are estimated at $1.9 million.

A small portion of the publication sales income is expended as limited Other Funds and used to defray that part of the agency's General Program expenses that are related to *ORS* publication editing. The balance of the publication sales income is expended as nonlimited within the *ORS* Publications Program.

During 2001-03, LC began utilizing its statutory authority to charge state agencies and other entities for drafting legislation. The concept was discussed during 2001 budget hearings, and LC was encouraged to develop a plan for implementing drafting charges. In November 2002, the Emergency Board approved a $74,999 Other Funds expenditure limitation increase, so LC could spend the newly generated revenue. During 2001-03 and 2003-05, the bill drafting services income was expended as limited Other Funds and primarily used to cover the costs of providing the services. In 2005-07, LC expects to receive approximately $120,000 Other Funds from bill drafting services.

Budget Environment

The number of bills and amendments being drafted fluctuates from session to session, but overall the trends are fairly flat. During the last three regular sessions, 3,624 to 4,385 bill drafts were requested and 4,569 to 5,894 amendments were prepared. As of December 2004, bill draft requests for the 2005 regular session were up by approximately 6% over the same time two years ago. The primary driver for the increase is a roughly 15% increase in 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. The decline is also due to a private company's efforts to create and sell a competing product. Prior to the 2003-05 biennium, LC attempted to reach a revenue neutral arrangement with the private vendor; however, its attempts were not successful and the prospects of a future agreement appear to be extremely unlikely. In spite of declining sales and the competing company, 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. LC plans to continue expansion of its specialty publications and more actively market its products. LC's marketing plans include appearing at trade shows; joining the Brand Oregon program; developing and using an identified brand; opening an electronic store; surveying its customer base; offering promotional discounts; and placing ads in legal publications. If Other Funds receipts were to decline, additional General Fund support may be needed for *ORS* publication.

The agency's 2001-03 General Fund budget was reduced by $178,409 based on special session actions during the interim and only partial funding of salary and benefit cost increases. The reductions were one-time in nature and required delays in computer purchases, reduced computer support services, reduced employee training, and delayed filling of vacant positions. In November 2002, the Other Funds expenditure limitation was increased $74,999 by the Emergency Board, so revenue derived from bill drafting services could be used to cover associated costs. In January 2003, $42,875 was appropriated, partially restoring the second special session reduction, for replacement of 25 personal computers.

Legislatively Adopted Budget

The legislatively adopted budget funds the Legislative Counsel's office at 6.5% ($543,210) above the 2003-05 legislatively approved budget. The adopted budget eliminated $150,000 General Fund requested in two policy packages; increased Other Funds expenditures by $60,013 and 0.50 FTE based on a third policy package, so that additional editorial/indexing resources, funded from publication sales revenue, would be available; and reflects reduced PERS rates and DAS/SOS assessments. Most of the increase over the 2003-05 budgeted amounts is due to personal services adjustments related to PERS and health benefits; pension obligation bond debt service costs; and funding for merit increases for eligible employees. The adopted budget allows the agency to continue existing operations.

LEG – Legislative Fiscal Office

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Legislative Branch's Recommended	2005-07 Legislatively Adopted
General Fund	3,688,524	4,025,515	4,402,128	4,598,743
Total Funds	**$3,688,524**	**$4,025,515**	**$4,402,128**	**4,598,743**
Positions	17	17	17	19
FTE	17.00	17.00	17.00	18.75

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. The Office determines the fiscal impact of all legislative measures and, when applicable, publishes fiscal impact statements that accompany bills through the legislative process. The Office provides staff support for the Joint Legislative Committee on Information Management and Technology (JLCIMT), including budget analysis and non-technical policy recommendations concerning state agency information systems projects. During the interim, the Office also conducts reviews and performance audits of selected programs for the Joint Legislative Audit Committee and provides staff support for special interim committees. The Office produces various publications to guide Ways and Means processes; address specific budgetary topics; provide legislative members, agencies, and the public with detailed and summary information as each budget is presented and after it is adopted; and annually reports on the status of all liquidated and delinquent accounts, as well as agency efforts to collect on such accounts.

Budget Environment

As with other committee staffs, the work of the Legislative Fiscal Office changes focus between legislative sessions and the interim between sessions. During sessions, budget analysis and the number of bill introductions and amendments creates the workload for the agency. The Office reviews all measures to determine if they have a fiscal impact. The continuous increase in bills and amendments requires the staff to write more fiscal impact statements. During approximately eight months of the 2003 legislative session, LFO analysts reviewed nearly 4,400 bills to determine their fiscal impact. They researched and issued fiscal impact statements on 2,153 bills – an average of 270 per month.

During the interim, workload is driven by the number, length, and complexity of special sessions necessary to rebalance the statewide budget; the number and complexity of Emergency Board requests; the number of meetings and issues before the JLCIMT and special interim budget review committees; and the number and depth of performance audits or program evaluations required by the Joint Legislative Audit Committee. The turnover in members continues to cause the Office to spend a significant amount of time educating members and their staffs about the budget process.

The agency's 2001-03 General Fund budget was reduced by $109,046 based on special session actions during the interim and only partial funding for salary and benefit increases. The reductions were one-time in nature and required the agency to delay hiring of two analysts and reduce services and supplies expenditures.

Legislatively Adopted Budget

The legislatively adopted budget funds the Legislative Fiscal Office at 14.2% ($573,228) above the 2003-05 legislatively approved budget. The adopted budget eliminates the rotational analyst program and redirects funds budgeted for this program to support the restoration of a permanent fiscal impact analyst and provides additional funds for an additional permanent analyst to coordinate the office's ongoing efforts to implement and improve Oregon's performance measurement system. The budget also increases based on personal services adjustments related to PERS and health benefits; pension obligation bond debt service costs; funding for merit increases for eligible employees; and two position classification changes linked to reassignment of duties and responsibilities.

LEG – Legislative Revenue Office

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Legislative Branch's Recommended	2005-07 Legislatively Adopted
General Fund	1,396,109	1,464,474	1,551,399	1,552,964
Total Funds	**$1,396,109**	**$1,464,474**	**$1,551,399**	**1,552,964**
Positions	6	6	6	6
FTE	6.00	6.00	6.00	6.00

Program Description

The Legislative Revenue Office (LRO) provides staff assistance to the House and Senate Revenue Committees during legislative sessions and 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.

Budget Environment

As with other committee staffs, the number of bill introductions and amendments create the workload for the agency during session. 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.

The agency's 2001-03 General Fund budget was reduced by $20,227 based on special session actions during the interim and only partial funding of employee salary and benefit increases. The reductions were one-time in nature and required the agency to postpone certain projects, reduce employee training, and reduce services and supplies expenditures.

House Joint Resolution 42 (2003) required the Legislative Revenue Office to provide staff support to a Joint Interim Committee on Tax Reform during the 2003-05 interim. No funds were specifically appropriated for expenses incurred for this activity; however, $35,000 General Fund was reserved within the general purpose appropriation to the Emergency Board. The agency did not seek any supplemental funding, as member per diem and mileage expenses were covered by the budget adopted for the Legislative Assembly.

Legislatively Adopted Budget

The legislatively adopted budget funds the Legislative Revenue Office at 6% ($88,490) above the 2003-05 legislatively approved budget. The adopted budget funds existing activities of the Legislative Revenue Office and provides an additional $10,000 for on-going costs to replace lap-top computers, desk top computers, and statistical analysis software. The budget increase is primarily due to personal services adjustments related to

PERS and health benefits; pension obligation bond debt service costs; and funding for merit increases for eligible employees.

LEG – Commission on Indian Services

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Legislative Branch's Recommended	2005-07 Legislatively Adopted
General Fund	287,198	299,011	337,270	336,132
Other Funds	463	5,786	5,925	5,925
Total Funds	**$287,661**	**$304,797**	**$343,195**	**342,057**
Positions	2	2	2	2
FTE	2.00	2.00	2.00	2.00

Program Description

The Commission on Indian Services compiles information on services available to Indians, assesses state programs and services, serves as a forum for considering Indian problems, and advises on matters relating to the preservation and protection of Indian historic and archaeological resources. The Commission, created in 1975, has 13 members appointed by the President of the Senate and Speaker of the House of Representatives for two-year terms. In addition to one senator and one state representative, each of Oregon's nine federally recognized tribal groups is entitled to one member. The remaining two members are from the Portland area and Willamette Valley Indian communities.

Various statutes require that the Commission be consulted on matters related to the preservation and protection of Indian fish, wildlife, historic, and archaeological resources. SB 770 (2001) requires state agencies to take Oregon's nine federally recognized tribal governments into account when developing policies and implementing programs that may affect tribal interests. The law also requires the Governor to annually convene a meeting of agency representatives and the tribes, the Department of Administrative Services to provide annual training to agency managers and employees that have regular contact with tribes, and state agencies to submit annual reports to the Governor and the Commission on their activities with tribes.

Revenue Sources and Relationships

Other Funds revenue is from registration and other fees derived from sponsorship of special meetings. The funds are used to cover costs associated with the events.

Budget Environment

Staff salaries and Commission member travel are the primary costs in this budget. The Commission holds regular quarterly meetings, as well as special meetings at the call of the Chair. It advises the legislative and executive branches on ways to improve communication and coordination with tribes in an effort to avoid unnecessary court disputes and highlight shared interests.

The Commission reports that governmental (federal, state, and local) and non-governmental entities are increasingly relying on the Commission for technical and coordination services and the volume of phone and mail transactions is increasing. It is also increasingly being asked to provide trainings for effective government-to-government relationships; conduct meetings with agencies and their tribal counterparts by program and issue area; answer questions from various state agencies on how to establish and maintain effective relationships with tribes; and discuss various points of law and strategies. Some of the primary drivers of increases in statutorily-required activities include the Department of Transportation statewide transportation and bridge improvements project; the Oregon Economic and Community Development Department's industrial lands initiative; the Department of Environmental Quality's brownfields redevelopment project; and the Department of State Land's ocean shore permitting and removal-fill permitting projects. Tribal initiated activities related to their various programs and significant events have also increased.

The Commission's 2001-03 General Fund budget was reduced by a total of $21,475 based on special session actions during the interim and only partial funding of employee salary and benefit increases. The reductions were one-time in nature and required the agency to delay filling an executive assistant position that was vacant due to a retirement and to reduce services and supplies expenditures for postage, printing, travel, and equipment maintenance.

Legislatively Adopted Budget

The legislatively adopted budget funds the Commission on Indian Services at 12.4% ($37,121) above the 2003-05 legislatively approved budget. The adopted budget funds the existing activities of the Commission. The budget increase is primarily due to personal services adjustments related to PERS and health benefits; pension obligation bond debt service costs; and funding for merit increases for eligible employees.

JUDICIAL BRANCH

Council on Court Procedures – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Judicial Branch's Recommended *	2005-07 Legislatively Adopted
General Fund	79,612	0	101,671	10,000
Other Funds	8,000	8,000	8,000	8,000
Total Funds	**$87,612**	**$8,000**	**$109,671**	**$18,000**
Positions	2	0	2	0
FTE	0.71	0.00	0.71	0.00

** Technically, the Governor's recommended budget restores General Fund support for the Council. However, the policy intent of the Governor was to make "no recommendation for this budget, as it is a separate branch of government," thereby not supporting restoration of Council funding.*

Agency Overview

The Council on Court Procedures (CCP) is responsible for reviewing and amending the Oregon Rules of Civil Procedure (ORCP). The ORCP are the rules of procedure which govern civil proceedings in all civil courts of the state. The rules govern trial procedure, instructions to the jury, pleading, subpoenas, summons and jurisdiction and other rules that do not alter the substantive rights of a litigant. Rules of evidence and appellate court procedure are not included as part of the ORCP. Council adopted rule changes are presented to the Legislature at the beginning of each session. Rule changes via legislative measures may also be proposed by entities, agencies, or individuals other than the Council. By statute, the Legislature may amend, repeal, or supplement any ORCP rule. Legislatively adopted rule changes become effective on January 1 of the following even numbered year unless an earlier effective date is stipulated. Once approved, the ORCP carry the weight of Oregon law.

The Council itself is comprised of 23 members: one Supreme Court Justice; one Court of Appeals judge; eight circuit court judges; 12 attorneys; and one member of the public. Oregon State Bar appointed members are from geographically different parts of the state and areas of civil practice. The Council meets three to four hours a month, or approximately 12 days each interim.

Revenue Sources and Relationships

Prior to the 2003-05 biennium, the Council was funded predominately with General Fund. However, due to a statewide budget shortfall, all General Fund support for the Council was eliminated. Since 1993, the Oregon State Bar Association (OSB) has provided $8,000 biennially in Other Funds revenue to support Council members' travel. Additionally, the Council has relied upon in-kind support from the OSB, the University of Oregon Law School, and the Oregon Judicial Department (OJD). The OSB provided meeting facilities and telephonic services. The Law School provided for one part-time office support staff, office workspace, office expenses, and allowed the Council's current executive director, who is also a facility member at the UO Law School, to volunteer his services. OJD provided financial and budgetary support as well as paid judiciary members travel expense.

Budget Environment

For the 2005-2007 biennium the Legislature chose to reinstate General Fund support for the Council. To operate effectively the Council will need to continue to rely upon the financial support of the OSB as well as other in-kind support. The UO Law School has stated that it is no longer able to continue in-kind support indefinately. The UO decision lead the Council to enter into a letter of understanding with the privately funded Lewis and Clark Law School (LCLS). LCLS will provide, in-kind, a part-time executive director, office space, and minimal services and supplies for Council operations. The current UO executive director has volunteered to assist in the transition, which is expected to be completed prior to the end of the biennium. Council documents and equipment will move to LCLS by October 1, 2005.

Legislative concerns over the Council's future, and its transition to a privately funded institution, led to the adoption of the following budget note:

> Legislative Leadership will appoint a work group to evaluate the role, function, and composition of the Council on Court Procedures. The workgroup will specifically address the Council's continuation as an independent state agency. The workgroup shall complete its work and make a formal report to the Interim Committee on Judiciary by September 2006. Upon receipt of the report, the Committee on

Judiciary shall consider the workgroup's recommendations when determining whether to propose any necessary substantive legislation change to the Council's statutes for the 2007 Legislative Session.

The work group shall be comprised of the following representatives:

- At least one member of the Interim Committee on Judiciary who will serve as chair of the workgroup
- Judiciary Committee Counsel
- Legislative Counsel
- Legislative Fiscal Office

The workgroup may also include representatives of the following, who will serve as ex officio members:

- Council on Court Procedures
- Oregon Judicial Department
- Oregon State Bar
- Oregon Law Commission

Legislatively Adopted Budget

The legislatively adopted budget of $10,000 General Fund and $8,000 Other Funds represents a $91,671 or 83.59% reduction from the Governor's recommended budget. The budget does not allow for any position authority. General Fund is for services and supplies and is to be used to complete the requirements of the budget note as well as provide for a nominal level of operating expense including the transition to the LCLS. As noted, the source of the Other Funds is the OSB and is related to reimbursement of Council member travel expense. State government service charges for the Council collected by the Department of Administrative Services are to be waived for the second biennia in a row. OJD will continue to provide, in-kind, financial and budgetary support for the Council.

Judicial Department (OJD) – Agency Totals *

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	222,154,156	237,654,982	249,762,817	271,530,503
Other Funds	17,424,895	30,775,154	23,510,763	23,641,495
Federal Funds	1,189,291	2,333,247	892,247	1,390,110
Other Funds (NL)	0	5,949,864	8,220,055	8,220,055
Total Funds	**$240,768,342**	**$276,713,247**	**$282,385,882**	**$304,782,163**
Positions	1,992	2,023	2,079	2,029
FTE	1,778.79	1,841.73	1,888.96	1,851.25

** The Public Defense program is responsible for providing legal counsel to indigent persons at the trial court level. This program, which was part of the Judicial Department, was transferred to the Public Defense Services Commission on July 1, 2003. In order to accurately reflect changes to the Judicial Department budget over time, the table above excludes all public defense expenditures, including administrative and support services.*

Agency Overview

The Oregon Judicial Department includes:

- ***Appellate Courts***, which are the Supreme Court, Court of Appeals, Tax Court, and legal support cost.
- ***Administration and Central Support***, that includes the Office of the State Court Administrator, information systems management, and fiscal and human resources management, and centralized state agency assessments.
- ***Trial Courts***, which are the courts of general jurisdiction. District courts were abolished effective January 15, 1998 and circuit courts assumed jurisdiction for all state trial court functions.
- ***Mandated Payments***, that includes the cost of providing trial and grand jurors, court interpreters, civil appellate transcript costs for indigent persons, and Americans with Disabilities Act accommodation services.

Revenue Sources and Relationships

The 2003 Legislature, in HB 2759, created a temporary 30% surcharge on filing fees for the circuit and appellate courts; established the Judicial Department Operating Account and continuously appropriated funds in the Account to the Department for operating expenses; established and increased various court fees; increased the maximum fines for felonies, misdemeanors, and violations; increased the unitary assessment; and increased the base fine and reduced judicial discretion to waive the base fee. The 30% surcharge provided $6.6 million in revenue that was used to offset General Fund operating expenses.

The 2005 Legislature, in HB 3124, delayed the effective date of the base filing fee increase authorized in HB 2759 (2003) from July 1, 2005 to January 1, 2007, and extended the temporary fees or surcharges that were originally to sunset on June 30, 2005 to December 31, 2006. The Legislature approved a fund shift that restored the $6.6 million General Fund, and offset those costs with the revenues from HB 3124. The 2005 Legislature, in HB 3124, delayed the effective date of the base filing fee increase authorized in HB 2759 (2003) from July 1, 2005 to January 1, 2007, and extended the temporary fees or surcharges that were originally to sunset on June 30, 2005 to December 31, 2006. The revenues will be deposited into the state General Fund instead of into the OJD Operating Account.

According to the end of session revenue forecast, OJD is expected to generate $221.3 million in revenue for the biennium from fines, assessments, forfeitures, filing fees, and indigent defense partial payments. OJD will retain approximately 8% of these revenues to fund revenue administration and collection costs, including credit card fees and amounts paid to the Department of Revenue and private collection agencies for collection of delinquent debt. Compensatory fines and restitution are also collected by the courts and distributed to individual victims. Because these are trust funds, they are not accounted for in the Department budget.

Other sources of 2005-07 operating Other Funds revenue include the sale and distribution of court publications ($1.7 million); fees charged for public access to the Oregon Judicial Information Network ($2.1 million); State Law Library fees ($1.5 million); fees charged for the interpreter and shorthand reporter certification programs ($0.3 million); fees collected in the Application Contribution Program ($2.3 million); grants from the Department of Human Services for the Citizen Review Board ($0.7 million); and various grants from other state agencies

($0.3 million). Federal Funds of $0.9 million support assessments of state foster care and adoption laws and judicial processes ($0.4 million) and the drug court in Benton county ($0.5 million).

The Department projected an Other Funds ending balance of $2.3 million, which is used to ensure that cash is available to make payment obligations in a timely manner.

Budget Environment

The temporary graduated income tax assessments adopted by the 2003 Legislature as part of HB 2152 were rescinded by the vote on Ballot Measure 30. As a result, $13,015,940 (which is the agency share of $544.6 million) was disappropriated from Judicial Department operations. The Chief Justice managed this reduction primarily by delays in filling vacant positions.

The Governor's 2005-07 budget had an unspecified reduction of $64,253,489 to the Chief Justice's Recommended Budget. The Governor makes no recommendation on the services affected by proposed reductions to Judicial Branch budgets. The Governor's budget was an unspecified reduction of $24.7 million General Fund to the budget level required to maintain current operations and pay jurors. The budget did not restore the Ballot Measure 30 reduction of $13 million or the $6.6 million General Fund restoration that would be required to maintain current services after 30% filing fee surcharge, that had been approved in HB 2759 (2003) sunset on July 1, 2005. The budget did include the reduction in Other Funds that would occur when the filing fee surcharge sunset. In addition to the specific effects of the Governor's reduction, there was an additional $5,031,278 in unspecified reductions.

The 2005 Legislature determined that without a restoration of the Governor's budget reductions, the Judicial Department would have implemented a case processing priority plan, similar to the plan enacted by Chief Justice order during the 2001-03 and 2003-05 biennia. This would have delayed processing civil matters, including small claims cases, delayed adjudicating non-person misdemeanors, and could have affected state revenue if delays resulted in the inability to collect fines, costs, and assessments from misdemeanor and violation cases. The Legislature provided $19 million General Fund to restore the Ballot Measure 30 reductions and $6 million of the $6.6 million to replace filing fee surcharge revenue.

The 2005 Legislature enacted several other measures with budgetary impact, including:

- A methamphetamine package that included $942,679 General Fund and 9 positions (7.75 FTE) for drug court operations. The drug courts had previously been funded with grant funds, which would have expired during the 2005-07 biennium.
- Establishment of 4 new judgeships with support staff. The 2005-07 cost is $722,00 General Fund and 16 positions (4.00 FTE). The full operating cost for these new judgeships will be $2.4 million in the 2007-09 biennium.
- Established a State Court Facilities Security Account funded with a surcharge on county court assessments, and added 1 position and $139,671 Other Funds to manage the program.
- A technical adjustment of $800,000 that shifted alternative dispute resolution funding from a filing fee surcharge back to the General Fund. The fund shift to Other Funds occurred in the 2003-05 biennium as part of the dispute resolution program adjustment made by the 2003 Legislature.

Legislatively Adopted Budget

The 2005 Legislature funded the Judicial Department at $3.9 million below the Chief Justice Maintenance Level budget. The budget included standard adjustments for employee compensation, inflation, state government service charges and roll up costs for legislative changes. The Legislature approved a budget of $304.8 million and 2,029 positions (1,851.25 FTE) for the Department. This was an increase of $28.1 million (10.1%) above the 2003-05 legislatively approved budget. This included a restoration of $19 million General Fund, that included the $13 million Ballot Measure 30 cut and the fund shift of $6 million, as discussed above.

The Legislature also approved $2.5 million General Fund for the policy bills detailed in the previous section. The remaining adjustments included reductions to state government and Attorney General rates. The 2005 Legislature allowed the Judicial Department to retain savings from the reduction in the Public Employee Retirement System (PERS) rate and did not reduce the General Fund services and supplies budget by 3%, as was standard for other state agencies. These actions reduced the $5.7 million gap between the Chief Justice Maintenance Level budget and the adopted budget to the $3.9 million, as noted above.

OJD – Appellate and Tax Courts

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Chief Justice's Recommended	2005-07 Legislatively Adopted
General Fund	13,715,355	15,950,369	18,169,638	16,749,566
Other Funds	89,448	167,131	203,506	203,506
Total Funds	**$13,804,803**	**$16,117,500**	**$18,373,114**	**$ 16,953,072**
Positions	94	91	95	92
FTE	91.07	87.57	93.05	90.89

Program Description

The Appellate and Tax Courts program includes the Oregon Supreme Court, the Court of Appeals, and the Tax Court. The Chief Justice of the Supreme Court is responsible for the administration of the Judicial Department within the Judicial Branch of state government. The Supreme Court consists of 7 justices elected to serve 6-year terms. The Court of Appeals consists of 10 judges who hear appeals from trial courts, agencies, and boards. Currently, there is one Tax Court judge who hears matters arising from Oregon tax law. A Tax Magistrate Division was created in 1997 to replace the informal administrative tax appeals process conducted by the Department of Revenue. In 2003-05, the Tax Magistrate Division had six magistrates.

Revenue Sources and Relationship

Estimates of 2005-07 Other Funds revenue include the portion of the appellate filing fee designated for the Appellate Mediation program ($0.1 million).

Budget Environment

The number of cases filed in the Court of Appeals for calendar year 2003 increased by 37 cases over calendar year 2002. The 2002 case filings were 3,277 compared to 3,314 for 2003. The Tax Magistrate Division has had 11,002 cases filed since September 1, 1987. The number of direct review cases filed in the Supreme Court in 2003 was 218, down from a high of 279 cases in 2001 and 362 cases in 2000.

Legislatively Adopted Budget

The legislatively adopted budget is $16.9 million and 92 positions (90.89 FTE). This is an increase of $0.8 million (5.2%) above the 2003-05 budget. The budget includes $1,023,552 General Fund to restore the 2003-05 Ballot Measure 30 reduction, plus standard adjustments for inflation and employee compensation, and adjustments to the state government service charge.

OJD – Administration and Central Support

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Chief Justice's Recommended	2005-07 Legislatively Adopted
General Fund	38,186,632	34,393,039	62,349,553	46,398,859
Other Funds	7,366,016	16,631,115	8,542,798	9,058,530
Federal Funds	552,569	374,836	404,013	404,013
Other Funds (NL)	0	5,699,864	7,040,677	7,040,677
Total Funds	**$46,105,217**	**$57,098,854**	**$78,337,041**	**$62,902,079**
Positions	213	218	210	198
FTE	200.30	204.05	198.58	191.16

Program Description

The State Court Administrator serves under the direction of the Chief Justice of the Supreme Court. The State Court Administrator is responsible for centralized functions of the Oregon courts system, including budget and finance, personnel management, information systems, legal counsel, internal audit, judicial and staff education, and trial court program coordination, analysis, and technical assistance. Management and oversight of the Citizens Review Board, Interpreter Certification program and the administration of the Appellate Court Records Office and the Supreme Court library are funded within the Office. Centralized assessments and costs are also managed and paid by this office.

Revenue Sources and Relationship

Estimates of 2005-07 Other Funds revenue include grants from the Department of Human Services for the Citizen Review Board ($0.7million), revenue from the sale and distribution of court publications ($1.7 million), fees charged for public access to the Oregon Judicial Information Network ($2.1 million), fees charged for the interpreters and short hand reporter certification programs ($0.3 million), reimbursement of costs for administration of the court revenue administration and collection activity ($0.9 million), fees from the 30% civil filing fee surcharge approved in HB 2759 ($0.6 million), fees from the dispute resolution surcharge for court mediation and arbitration services ($0.2 million); fees collected in the Application Contribution Program ($0.2 million); and payments made to the Department of Revenue and private collection agencies for the cost of collecting delinquent debt ($7.4 million). Federal Funds from grants are used for assessments of state foster care and adoption laws and judicial processes.

Budget Environment

The Administration and Central Support function was segregated from the Appellate and Tax Court function by direction of the 2003 Legislature. The State Court Administrator and support staff continue with efforts to streamline and modernize court operations through ongoing implementation of improvements in automation and processes. Efforts include implementation of technology to facilitate the use of uniform documents and statewide case management systems. Other efforts include developing a plan to improve automated accounting and completion of a financial systems review using the services of a consultant and a technology strategic plan that addresses the overall Oregon Judicial Information Network. The Department will use existing resources to begin implementation of these plans.

Legislatively Adopted Budget

The legislatively adopted budget is an increase $5.8 million (10.2%) and a decrease of 20 positions (12.89 FTE) from the 2003-05 legislatively approved budget. The positions were reduced as a result of the gap between the Chief Justice Maintenance Level budget and the legislatively adopted budget. Adjustments include a fund shift of $6 million from Other Funds to the General Fund, as discussed above, from the actions of HB 3124, and a $3,712,289 General Fund restoration of Ballot Measure 30 reductions. Other adjustments include standard reductions to state government service charges.

The budget includes $139,671 Other Funds and 1 position (.75 FTE) for management of the State Court Facilities Security Account established in HB 2792.

OJD – Trial Court Operations

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Chief Justice's Recommended	2005-07 Legislatively Adopted
General Fund	159,442,080	175,471,561	217,252,562	195,856,278
Other Funds	9,969,431	13,976,908	14,759,492	14,379,459
Federal Funds	636,722	1,958,411	488,234	986,097
Other Funds (NL)	0	0	779,378	779,378
Total Funds	**$170,048,233**	**$191,406,880**	**$233,279,666**	**$212,001,212**
Positions	1,672	1,695	1,748	1,719
FTE	1,474.82	1,532.54	1,572.75	1,549.60

Program Description

Trial Court Operations includes the funding and operations of all state trial courts, which, effective in 1998, are the circuit courts. The program also includes staff to verify the indigency of applicants for representation at state expense. There are circuit courts in each of the 36 counties, served by 169 judges (173 effective 01/01/07). These courts adjudicate matters and disputes in criminal, civil, domestic relations, traffic, juvenile, small claims, violations, abuse prevention act, probate, mental commitments, adoption, and guardianship cases.

Revenue Sources and Relationships

The state trial courts are primarily funded with the General Fund. Other Funds revenue includes fees collected in the Application Contribution Program ($2.1 million); a portion of the 8% retained by the OJD for revenue administration and collection costs ($9.6 million); and fees from the dispute resolution surcharge for court mediation and arbitration services ($0.7 million). There was a 2006 sunset on the distribution of this surcharge. The 2005 Legislature shifted this funding back to the General Fund. Federal grant revenue of $0.5 million supports the drug court in Benton County.

Budget Environment

Case filings in 2003 show an increase of 9,618 compared to 2002 and an increase of 20,073 compared to 1999. Overall, filings have increased from a low of 555,141 in 1994 to 655,574 in 2003, an increase of 18.1%. Although, 50% of current case filings are violations, primarily traffic violations, these cases have the lowest workload impact on judicial and staff resources. More serious felony filings have increased from 30,725 in 1994 to 36,508 in 2003 (18.8%). Misdemeanor cases increased from 61,794 in 1994 to 69,055 in 2003 (10.5%). These criminal case types have the greatest workload impact on judicial and staff resources. Civil cases increased from 68,469 in 1994 to 76,963 in 2003 (12.4%). Domestic relations filings declined by 11,537 cases during that same period (18.6%), primarily in administrative order and judgment-related matters.

There is increasing need to use technology for case management to increase productivity of limited support staff. Increased flexibility is also needed in automated systems to meet the changing data requirements, especially for innovative programs such as therapeutic drug or family courts.

OJD has also been active in developing new methodologies for resolving disputes, including appropriate dispute resolution programs, family law courts, drug courts, and improvements in the jury system and use of interpreters.

Legislatively Adopted Budget

The legislatively adopted budget is $212 million and 1,719 (1,549.60 FTE). The budget is an increase of $20.6 million (10.8%) and 24 positions (17.06 FTE) from the 2003-05 legislatively approved budget. The budget includes restoration of $13,035,135 General Fund from Ballot Measure 30 reductions and standard reductions to state government service charges.

The budget includes $722,200 and 4 positions (16.00 FTE) for four new judgeships that the Legislature created in HB 2278, and $942,679 and 9 positions (7.75 FTE) from the methamphetamine package that retained drug courts whose grant funds would have expired during the 2005-07 biennium.

OJD – Mandated Payments

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Chief Justice's Recommended	2005-07 Legislatively Adopted
General Fund	10,810,089	12,110,669	16,249,549	12,525,800
Other Funds (NL)	0	250,000	400,000	400,000
Total Funds	**$10,810,089**	**$12,360,669**	**$16,649,549**	**$12,925,800**
Positions	13	19	26	20
FTE	12.60	17.57	24.58	19.60

Program Description

The Mandated Payments budget funds the cost of providing trial and grand jurors, court interpreters, civil appellate transcript costs for indigent persons, and Americans with Disabilities Act accommodation services.

Budget Environment

The 1999 Legislature approved a requirement that certified interpreters be provided for all judicial and administrative proceedings. The Judicial Department was given responsibility for the certification process. Staff cost for this activity is paid through the Administration budget.

Juror payment increases approved by the 1999 Legislature in SB 1304 were to change the per diem and mileage rates effective July 1, 2001, with an estimated roll-up cost of $5.8 million for the 2001-03 biennium. The 2001 Legislature deferred implementation of these changes for six months, to enable OJD to provide jury services within the adopted budget. In the 2002 second special session, the Legislature reduced juror per diem from $50 to $25 for the third and subsequent days of service and reduced the mileage reimbursement to 20 cents per mile. The 2003 Legislature also approved the transfer of contractual interpreter services to permanent staff and approved 19 positions to be funded out of existing General Fund resources that had been used for these contracts.

Legislatively Adopted Budget

The legislatively adopted budget is $12,925,800 and 20 positions (19.60 FTE). The budget is an increase of $565,131 and 1 position (2.03 FTE) from the 2003-05 legislatively approved budget. The budget includes restoration of $1,229,024 General Fund from Ballot Measure 30 reductions and standard reductions to state government service charges.

Commission on Judicial Fitness and Disability – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Judicial Branch's Recommended	2005-07 Legislatively Adopted
General Fund	185,580	161,762	179,066	175,983
Total Funds	**$185,580**	**$161,762**	**$179,066**	**$175,983**
Positions	2	1	1	1
FTE	0.75	0.50	0.50	0.50

Agency Overview

The Commission on Judicial Fitness and Disability receives and investigates complaints concerning the conduct of justices of the peace, circuit court judges, and appellate court judges. A 2003 Supreme Court decision determined that the Commission lacks jurisdiction over municipal court judges.

The Commission receives approximately 250 written complaints each biennium. Each complaint is reviewed by the Commission which makes an initial determination as to whether a violation of the Code of Judicial Conduct has occurred. The majority of complaints are based on the court's decision rather than being a violation of the conduct of a judge and therefore are dismissed. However, if an initial investigation reveals a possible violation of conduct by a judge, the Commission investigates the complaint. If a departure is found, a formal charge is issued to the judge and a public hearing is held. The Commission then makes a recommendation concerning dismissal or discipline to the Supreme Court which makes the final determination. Besides dismissal, the Commission's recommendation can include: censure, suspension, or removal from the bench. The Commission itself can issue a warning to a judge if conduct approaches, but does not violate the Code of Judicial Conduct. In a matter where a judge's conduct is determined to be the result of a physical or mental disability, the Commission refers the matter directly to the Chief Justice for disposition.

The nine-member Commission is comprised of three lawyers, three judges, and three members of the public.

Revenue Sources and Relationships

General Fund supports the Commission. 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.

Budget Environment

The Commission budgets for normal and extraordinary expenditures. The normal operating budget pays for the half-time executive director, office expense, meeting accommodations, travel reimbursements, and initial investigations. The extraordinary budget is used to pay for formal investigations and disciplinary proceedings. Such costs include contracted services for investigators, attorneys, court reporters, and hearing expense.

Legislatively Adopted Budget

The Commission's legislatively adopted budget is $175,983 which is 1.7% less than the Governor's recommended budget, but 8.8% above the prior biennium's legislatively approved budget. The normal operating budget is $148,000 or 84% of the total budget and as noted includes one permanent part-time position (0.50 FTE). The extraordinary budget falls under the professional services line-item and is $27,983 or 16% of the total budget. While the 2005 budget includes a $2,341, or 3%, services and supplies reduction in the normal operating budget, it also remedies a seven-year-old discrepancy between the executive director's actual and budgeted salary rates by adjusting upward budgeted salary. Additionally, the budget was adjusted downward by $742 to reflect the following rate and assessment reductions: Public Employee Retirement System ($569), Department of Administrative Services ($149), Oregon State Library ($19), and Secretary of State Audits Division ($5).

Although unlikely given the current number and type of disciplinary proceedings being pursued by the Commission, there remains a possibility that if the Commission is unable to manage extraordinary expenses within its total budget it many need to request additional (supplemental) funds from the Legislative Emergency Board. The Commission has not been to the Emergency Board since April 1998. The last three such Emergency Board requests for extraordinary expense funding occurred in 1995, 1996, and 1998. The Board appropriated $20,000, $50,000, and $43,000, respectively.

Public Defense Services Commission (PDSC) – Agency Totals

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund	151,553,739	165,421,598	159,440,519	175,292,811
Other Funds	531,989	1,107,063	957,723	953,206
Total Funds	**$152,085,728**	**$166,528,661**	**$160,398,242**	**$176,246,017**
Positions	64	60.00	61	57.00
FTE	61.44	58.45	59.45	55.45

Agency Overview

Eligible persons are entitled to adequate 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.

The 1999 Legislature approved a temporary Public Defense Services Commission to evaluate the delivery of trial and appellate public defense services, and to make recommendations to the 2001 Legislature. The Commission's recommendations, which included establishment of a trial and appellate defender office separate from the Judicial Department, was adopted by the Legislature in SB 145 (2001). SB 145 created a Public Defense Services Commission, transferred the State Public Defender's Office to the Public Defense Services Commission effective October 1, 2001, and transferred the Judicial Department's Indigent Defense Account and public defense support staff to the Public Defense Services Commission effective July 1, 2003. With these actions, the Legislature created a unified program to provide trial court and appellate level services to financially eligible persons.

The agency is organized into three divisions. The Legal Services Division consists of state-funded public defense attorneys who represent eligible persons at the appellate court level. The Public Defense Services Account consists of the funding, primarily for the trial court level, for contract defense services, including attorneys, investigators and expert witnesses. The Contract and Business Services Division is responsible for administering the public defense contracts that provide legal representation for eligible persons, and for processing requests and payments for non-contract fees and expenses.

Budget Environment

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. The program, which was housed in the Judicial Department, managed the first reduction of $12.4 million through the implementation of Early Disposition Programs in some counties, and because of slowing caseload growth. At its January 2003 meeting, the Emergency Board allocated $5 million from the Emergency Fund to partially restore the 2002 third special session reductions. Even with the Emergency Fund restoration, there was insufficient funding for representation for all public defense cases. The Chief Justice issued an order that allowed courts to suspend proceedings on non-person criminal post-conviction relief cases that were ranked at a lower priority.

The 2003 Legislature approved a budget of $169.4 million total funds for the Public Defense Services Commission. This budget was $3 million below the 2001-03 legislatively adopted close-of-session budget. The 2003 budget included a $7 million special purpose appropriation to the Emergency Board for public defense cases above a base caseload of 334,358 cases. This special purpose appropriation was intended to fund those cases deferred into the 2003-05 biennium and other caseload growth. At its January 2005 meeting, the Emergency Board allocated the $7 million special purpose appropriation.

Legislatively Adopted Budget

The Governor proposed a budget that was $15.8 million below the funding required for the projected 2005-07 public defense caseload. The Governor made no recommendation on the services affected by this reduction. The 2005 Legislature restored this funding, with standard adjustments to state government and Attorney General rates, and the Public Employee Retirement System (PERS) rate. The General Fund services and supplies operating components of the budget were reduced by 3%.

The 2005 Legislature passed a package of methamphetamine-related bills that expanded the severity of potential sentences, and could result in more persons being prosecuted. The Legislature added $450,000 General Fund resources to the Commission to cover the projected cost.

The 2005 Legislature approved an unspecified General Fund reduction of $270,000 that was allocated among the Public Defense Services Commission programs. The budget for the Contract and Business Services Division was reduced by $4,207, the budget for the Legal Services Division was reduced by $9,446, and the budget for the Public Defense Services Account was reduced by $256,347.

PDSC – Legal Services Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Judicial Branch's Recommended	2005-07 Legislatively Adopted
General Fund	5,854,016	5,071,836	7,119,319	6,054,463
Other Funds	121,926	0	0	0
Total Funds	**$5,975,942**	**$5,071,836**	**$7,119,319**	**$6,054,463**
Positions	40	38	41	37
FTE	39.62	37.20	40.50	36.50

Program Description

The Legal Services Division is responsible for providing legal representation on criminal matters for eligible persons at the appellate court level.

Revenue Sources and Relationships

The General Fund supports the program. The agency has occasionally had Other Funds revenue from the sale of surplus property. These funds are used for attorney education costs.

Budget Environment

The workload is driven by the number of criminal and parole appeals filed and the legal complexity of the appealed cases. Statutory changes and ballot initiatives also affect the number of appeals that are filed. The agency experienced significant workload growth because of statutory and ballot initiative changes in the late 1990s. The 1999 Legislature added 6.25 FTE to deal with this workload, including converting limited duration attorney and clerical support positions to permanent funding, and financing three new attorney positions and two clerical positions. The agency also received additional funding from the Emergency Board in the 1999-2001 interim to deal with workload and agency management problems. With these adjustments, the workload was stabilized, and no significant changes were projected.

The 2001 Legislature restructured appeals from orders by the Board of Parole and Post-Prison Supervision. While reducing appellate workload overall, it added workload for the Public Defender. The Legislature appropriated $174,088 General Fund and added 2 positions (1.07 FTE) to handle this workload. Other issues included addressing time limits for extensions on appeal established by the Court of Appeals.

The Court of Appeals may order the dismissal of pending cases that exceed 350 days, which could eventually result in higher cost if the Federal courts find that Oregon is not providing adequate representation. The agency continues to work towards reducing its backlog of cases that are pending more than 210 days. PDSC reduced this backlog from 184 cases in 2001 to 114 in 2004, through improved case management practices.

In June, 2004 the United States Supreme Court issued a decision entitled *Blakely v. Washington,* 542 US 296 (2004), which invalidated much of Oregon's sentencing scheme and increased the appellate workload. Within months of that decision, the number of appeals filed increased. As of August 2005, the backlog was 229 cases, which is an all-time high for the agency.

Legislatively Adopted Budget

The 2005 Legislature approved a budget of $6,054,463 General Fund and 36.50 FTE, which is an increase of $982,627 (19.4%) above the 2003 Legislatively Approved budget, and a reduction of 1 position (.70 FTE). The General Fund increase is primarily attributable to standard adjustments for employee compensation and inflation.

The Governor recommended a budget that was $551,691 below what would be required to meet 2005-07 appeals caseload. The Governor's budget would have resulted in the elimination of 3.0 attorney and 1.5 support FTE, with a resulting increase in the timelines and backlog of appeals. The 2005 Legislature restored those reductions, with standard adjustments to state government and Attorney General rates, and the PERS rate. The General Fund services and supplies budget was reduced by 3%.

The Legislature did not include funding of $223,801 for a policy package to make appellate attorney compensation commensurate with Department of Justice appellate attorneys. The agency has requested commensurate compensation for its attorneys for at least four biennia.

PDSC – Public Defense Services Account

	2001-03 Actual	2003-05 Legislatively Approved*	2005-07 Judicial Branch's Recommended	2005-07 Legislatively Adopted
General Fund	144,118,428	157,782,856	176,992,037	166,543,539
Total Funds	**$144,118,428**	**$157,782,856**	**$176,992,037**	**$166,543,539**

*Includes the $7 million special purpose appropriation allocated by the Emergency Board at its January 2005 meeting.

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 costs of all transcripts and the cost of appellate legal representation for cases not represented by the Legal Services Division.

The Public Defense Services Commission will continue to primarily contract with nonprofit public defenders, law firms, consortia, or individual attorneys to provide services.

Revenue Sources and Relationships

The General Fund supports the program.

Budget Environment

The public defense cost increases are primarily due to caseload increases. The levels of resources available to law enforcement, prosecution, juvenile departments, mental health and alcohol/drug treatment, parole and probation services, and jail and prison space are primary factors in caseload growth.

The 1999-2001 legislatively adopted budget was based on caseload growth projections of 4% per year. The caseload growth between fiscal years 1998 and 1999 had slowed to 4%. However, caseload growth between fiscal years 1999 and 2000 was actually 7.2%. Caseload growth data for 2003-05 is skewed by the restrictions on appointments during the 2001-03 biennium. The total projected 2003-05 caseload is 338,395, which included 8,630 cases that were deferred from the 2001-03 biennium. It should be noted that the increasing complexity of cases arising from new laws and ballot measures also affect the cost of services.

The 2003 Legislature approved a budget of $153.7 million General Fund for the Public Defense Services Account. This appropriation, combined with the $7 million special purpose appropriation to the Emergency Fund for caseload growth, provided a total budget of $160.7 million. At its June 2004 meeting, the Emergency Board allocated $4.1 million from the special purpose appropriation for cases above the budgeted base, and allocated $2.9 million from the general purpose Emergency Fund for partial restoration of Ballot Measure 30 reductions. These allocations left PDSC with a resource gap of $7 million, which would have required the

Commission to cease payment for appointed counsel and related expense in the last quarter of the 2003-05 biennium. The Emergency Board, in January 2005, allocated the $7 million to fund this gap.

The total 2003-05 expenditures from the Public Defense Services Account of $157,782,856 was $2.9 million below the legislatively adopted budget of $160,694,576 (including the special purpose appropriation of $7 million).

Legislatively Adopted Budget

The 2005 Legislature approved a budget of $166.5 million General Fund that is $7.7 million (4.9%) above the 2003-05 legislatively approved budget, to fund anticipated caseload. The budget includes $450,000 General Fund for anticipated caseload from the methamphetamine package passed by the Legislature.

The Legislature restored cuts in the Governor's budget of $14,971,490 below what would be required to meet the projected 2005-07 trial court caseload, and that did not include the allocation of the $7 million special purpose appropriation approved by the Emergency Board at its January 2005 meeting. The 2005 Legislature evaluated the impact of this reduced funding, which included potentially reducing criminal penalties and thereby reducing the number of cases on which counsel must be appointed, or providing the necessary funds to support the anticipated caseload. The Legislature funded the anticipated caseload.

The Legislature did not include funding of $10,642,151 for a policy package to provide parity between local defense attorneys and their district attorney counterparts, and to increase the hourly rate for investigators and hourly paid attorneys. These rates have not been adjusted for over a decade.

PDSC – Contract and Business Services Division

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Judicial Branch's Recommended	2005-07 Legislatively Adopted
General Fund	1,581,295	2,566,906	2,729,853	2,694,809
Other Funds	410,063	1,107,063	957,723	953,206
Total Funds	**$1,991,358**	**$3,673,969**	**$3,687,576**	**$3,648,015**
Positions	24	22	20	20
FTE	21.82	21.25	18.95	18.95

Program Description

The Contract and Business Services Division is responsible for administering the public defense contracts that provide legal representation for financially eligible persons, and for processing requests and payments for non-contract fees and expenses.

Revenue Sources and Relationships

The General Fund supports the program. The program will receive approximately $1.7 million in the 2003-05 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 and for operating expenses for public defense administration. The Commission entered into an intergovernmental agreement with the Judicial Department regarding use of these fees for public defense verification staffing.

Budget Environment

This program administers 96 contracts, receives and verifies invoices for payment on contractual services, and issues over 20,000 payments per year.

Legislatively Adopted Budget

The 2005 Legislature approved a budget of $3,648,015 total funds, which was a reduction of $25,954 and 2 positions (2.30 FTE) from the 2003-05 legislatively approved budget. The reduction primarily reflects the transfer of the Application Contribution Program staffing of 1 position (1.45 FTE) and $201,542 Other Funds to the Judicial Department. The Judicial Department budget reflects this transfer. The General Fund budget is an increase of $127,903 (5%) above the 2003-05 legislatively approved budget and includes standard adjustments to state government and Attorney General rates, and the PERS rate. The General Fund services and supplies budget was reduced by 3%.

The Legislature restored cuts in the Governor's budget of $245,696 General Fund below what would have been required to meet the contract services workload related to 2005-07 trial court caseload, and would have required the elimination of approximately 3.00 FTE. This would have resulted in delays in paying contract caseload costs and an inability for staff to audit contractor caseload reports.

EMERGENCY FUND

Emergency Fund – Totals *

	2001-03 Actual	2003-05 Legislatively Approved	2005-07 Governor's Recommended	2005-07 Legislatively Adopted
General Fund		18,639,980	175,000,000	193,800,764
Total Funds		**$18,639,980**	**$175,000,000**	**$193,800,764**

** The 2003-05 legislatively approved total in the above table reflects the $9.6 million unallocated general purpose and special purpose appropriations (which reverted to the General Fund 2003-05 biennium's ending balance) and the $9 million salary and benefit adjustment (which was allocated by the Board, but not included in individual agency tables in this document).*

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:

	1999-2001 Adopted	2001-03 Adopted	2003-05 Adopted	2005-07 Adopted
General Purpose Emergency Fund	41,900,000	40,000,000	40,000,000	30,000,000
Salary & Benefit Adjustment	40,000,000	100,000,000	9,000,000	140,000,000
Special Purpose Appropriations	64,267,351	85,860,033	47,442,994	23,800,764
Total	146,167,351	225,860,033	96,442,994	193,800,764

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.

Budget Environment

The size of the general purpose Emergency Fund has not expanded in the past several biennia proportionately with the growth in the General Fund budget. Unused special purpose appropriations have augmented the general purpose Emergency Fund.

The actual cost of implemented salary and benefit increases has significantly exceeded the amounts appropriated to the Emergency Board in each of the past three biennia. Appropriations in 1995-97 and 1997-99 financed approximately 70% of the actual increases. The $40 million appropriated in 1999-2001 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.

Legislatively Adopted Budget

The 2005-07 legislatively adopted budget for the Emergency Board includes a $30 million general purpose Emergency Fund, $130 million for state employee salary and benefit adjustments, $10 million for home care worker benefit adjustments, and $23.8 million in special purpose appropriations for specific agency needs.

The $130 million for state employee salary and benefit adjustments represents full coverage of the estimated General Fund cost to state agencies for the salary and health benefit adjustments based on the negotiated settlements with collective bargaining units. The Department of Administrative Services will develop a plan for the distribution of these funds based on the negotiated needs for the 2005-07 biennium and request an allocation of the funds from the Emergency Board. The plan will also include agency requests for related Other Funds and Federal Funds expenditure limitation adjustments for salary and benefit costs covered by these sources. The Department of Human Services will seek allocation of the $10 million special purpose appropriation for negotiated benefit adjustments for home care workers.

The $23.8 million in special purpose appropriations for agencies include:

- $4.9 million for caseload growth in the Department of Education's Early Intervention/Early Childhood Special Education program;
- $4 million for either the Insurance Pool Governing Board or the Department of Human Services' Medical Assistance Program for maintenance of effort requirements either in the FHIAP or OHP programs;
- $3.6 million for the Department of Forestry for forest fire suppression severity and fire insurance premium costs;
- $2.5 million for the Department of Human Services for child welfare staffing and legal representation issues;
- $2.5 million for the Criminal Justice Commission for a drug court grant program related to the methamphetamine issue;
- $2.1 million for the Department of Higher Education for costs related to the development of an integrated K-16 student data system;
- $1.8 million for the Department of Education for costs related to the development of the integrated K-16 student data system;
- $1 million for the Secretary of State for voters' pamphlet costs;
- $0.8 million for the Department of Education for local option equalization grants; and
- $0.7 million for the Department of Community Colleges and Workforce Development for costs related to the development of the integrated K-16 student data system.

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