Analysis of the

2007-09

Governor's Budget

Legislative
Fiscal
Office

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

Following is the *Analysis of the 2007-09 Governor's Budget* prepared by the Legislative Fiscal Office staff. It provides a detailed description of the Governor's recommended budget by program area and agency. A summary document is also available.

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

Please call LFO if you have any questions. Documents can be obtained 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

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	416,402,144	433,067,380	433,770,398	508,038,707
Lottery Funds	49,000	0	0	0
Other Funds	11,789,583	90,488,832	90,688,831	178,621,379
Federal Funds	126,274,221	131,173,928	131,173,928	123,791,748
Federal Funds (NL)	9,321,985	12,000,000	12,000,000	5,968,831
Total Funds	**$563,836,933**	**$666,730,140**	**$667,633,157**	**$816,420,665**
Positions	47	50	50	65
FTE	45.70	49.70	49.70	64.20

Agency Overview

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

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

Revenue Sources and Relationships

The budget projects receipts of $130 million of Federal Funds revenue in the 2007-09 biennium. These include $112 million for regular WIA Title IB programs, $11 million for Adult Education and Family Literacy (WIA Title II) programs, and $6 million for the National Emergency Grant program. Federal Funds from these three programs are projected to decrease approximately 12% from the level that the Legislature approved for the prior biennium. However, the revenues will represent only a 0.6% reduction from now estimated 2005-07 biennium Federal Funds revenue amounts. Estimated 2005-07 biennium Federal Funds revenues are close to 12% below budget, primarily due to reduced Congressional appropriations for these programs. Because of the timing of the funding reduction, the Department anticipates that 2007-09 biennium funding will be sufficient to support these programs at current operating levels.

National Emergency Grant funds are received in a different manner than are other Federal Funds in the agency budget. CCWD must apply to the federal government for any NEG funds, and expenditures of these funds are Nonlimited in the state budget. The state is now anticipated to receive far fewer NEG funds in 2005-07 than were budgeted, due primarily to Oregon's improving economy and the allocation of a greater portion of the NEG funds to other states. NEG funds are currently projected to total $3.9 million in 2005-07 rather than the projected $12 million in the 2005-07 legislatively adopted budget. In 2007-09, NEG funds are projected to increase to $6 million. The final source of Federal Funds, the federal Incentive Grant, will provide $750,000 in 2007-09. This grant will expire one year into the biennium, and the 2007-09 biennium funding is approximately half the prior biennium level.

The Governor's budget also projects $178.6 million of Other Funds revenue in the 2007-09 biennium. Most of this ($174.3 million) consists of Article XI-G bond proceeds and community college matching funds that would finance the capital construction projects that the Governor is recommending. Excluding these funds, Other Funds for agency operations are projected to total $4.3 million in 2007-09, which is a 66% decline from the amount in the 2005-07 legislatively adopted budget. The largest single source of Other Funds are the revenues of the Oregon Youth Conservation Corps. At $2.3 million, OYCC Other Funds revenues are up 2.7% over the 2005-07 budget. Most of the remaining Other Funds are Carl D. Perkins funds from the federal government, which are characterized as Other Funds because they are transferred to CCWD through the Oregon Department of Education (ODE). Carl D. Perkins revenues, which are projected to total $1.4 million Other Funds, are used by the Department and community colleges to support development of Professional/Technical programs. The $1.4 million of revenue represents an 86% decline from the amount approved last session. This major decline reflects a realignment in the state budget of Perkins funds from CCWD to the Oregon Department of Education. The Perkins funds that are distributed to community colleges no longer pass through the CCWD budget as in the past. Instead, ODE now sends the funds directly to the colleges.

The remaining Other Funds include $0.7 million from fees for services in the General Educational Development (GED) and Tracking Outcomes for Programs and Students (TOPS) System programs and other miscellaneous revenues. Timber Tax revenues that are distributed to community colleges are also included in the agency budget.

CCWD – Office Operations

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	1,993,185	2,034,350	2,737,368	6,711,912
Other Funds	1,375,402	1,976,965	2,176,964	1,789,891
Federal Funds	8,219,784	7,558,482	7,558,482	7,821,480
Total Funds	**$11,588,371**	**$11,569,797**	**$12,472,814**	**$16,323,283**
Positions	44	47	47	62
FTE	42.70	46.70	46.70	61.20

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, course approvals, and oversight of state-supported community college capital construction projects.

Revenue Sources and Relationships

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

Governor's Budget

The Governor's recommended budget finances a substantial increase in the agency's Office Operations program. The budget increases General Fund support for Office Operations by 149% over the 2005-07 biennium level. Total funds support is increased 31%, and the proposed net addition of 15 positions (15.00 FTE) represents a 31% increase over current staffing levels. However these figures understate the expansion of Office Operations, since the increases are net of offsetting reductions for programs that are ending or shifted elsewhere. After taking these phase-outs into consideration, General Fund support is increased 210%, total funds are increased 38%, and positions/FTE are increased 35% over the essential budget level.

A number of programs are phased out of Office Operations, based on specific revenue reductions. The $664,400 General Fund appropriated in the 2005-07 biennium for the Integrated Data Transfer System (IDTS) is phased-out, consistent with legislative expectations that this appropriation represented one-time funding. In addition, $539,605 Other Funds are phased-out to reflect the reassignment of portions of the Carl Perkins program to ODE, and $63,333 Federal Funds is phased-out for the expiration of a federal Incentive Grant that was not renewed. There are no additional program cuts beyond those phased-out for these reasons.

Budget enhancements total $4.5 million General Fund, $4.9 million total funds, and 16 positions (16.00 FTE). The enhancements are for the following initiatives. Most of the enhancements include funds in both the Office Operations and the State Support to Community Colleges program areas, with the funds in Office Operations spent at the state level and the funds in the State Support to Community Colleges program spent at the community colleges. Two of the initiatives relate entirely to the state office and do not have funding impacts on community colleges. The first of these two includes $91,000 of Other Funds and Federal Funds to finance reclassifications of nine of the agency's 46 existing positions. The second such initiative, called Accountability and Education Alignment and Support, provides $1.1 million General Fund ($1.4 million total funds) to add nine positions (9.00 FTE) to agency staffing levels. These include three positions to support the agency's accounting and financial management functions, as well the agency's role in the community college capital construction program; and six positions relating to research, program development, and performance evaluation; plus $100,000 for additional professional services.

All of the remaining budget enhancements to Office Operations also include funds that are transferred to community colleges in the State Support to Community Colleges program. The titles of the enhancements, and their funding impact to Office Operations follow immediately. Descriptions of the enhancements, however, are provided in the State Support to Community Colleges program in the next section of this document. Funding for Office Operations is as follows: Statewide OFAX – $161,760 General Fund; Healthcare Workforce Initiative – $5,000 General Fund; Integrated Management Information System (IMIS) – $1.45 million General Fund; Workforce & Career Readiness Certification – $724,075 General Fund and three positions (3.00 FTE); Skill-up Oregon – $1.1 million General Fund and four positions (4.00 FTE).

CCWD – State Support to Community Colleges

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	411,092,904	428,774,455	428,774,455	496,154,050
Lottery Funds	49,000	0	0	0
Other Funds	213,377	185,293	185,293	18,000
Total Funds	**$411,355,281**	**$428,959,748**	**$428,959,748**	**$496,172,050**

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

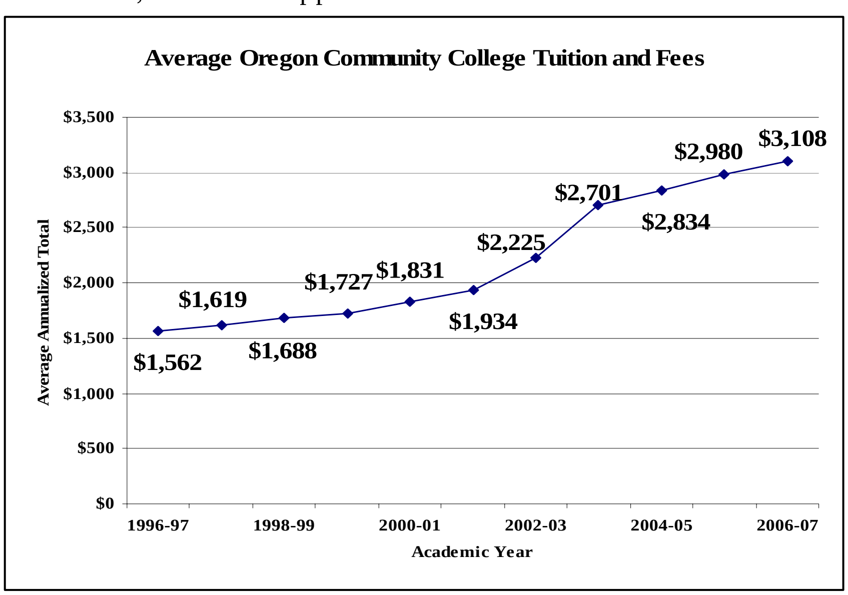
State support to community colleges is almost exclusively provided by the General Fund. In 1999, however, the Legislature changed the state's system of timber taxation. The new law eliminated the timber privilege tax distribution to community colleges and made this revenue a state resource. The law also 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.

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 $242 million of property tax collections are projected for community colleges in the 2007-09 biennium, providing approximately 23% of college operating revenue. Tuition and fee revenues, which are also not included in the state agency budget, are the third of the three principal fund sources for community college operations. Currently, state General Fund provides approximately 45% of the revenues from these three sources. In 1990, before the Measure 5 property tax limit was adopted, the state had provided only 29% of total funding. That percentage increased to as high as 55% in the late 1990s, but has fallen back to 45% since then as state appropriations to community colleges were cut. Local property taxes, which provided 50% of college funding before Measure 5, have provided only about 23% since Measure 5 reductions fully phased-in in 1995. The remaining funding is from tuition and fee revenues. The state replaced lost property taxes after Measure 5 to such an extent that the tuition and fee share of funding remained fairly constant in the 21-24% range through the 1990s. Since then, however, colleges significantly increased tuition rates to maintain programs as state support was being reduced in the early 2000s. Tuition and fee revenues now provide approximately 32% of the total revenue from these three major 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 essentially at 1999-2001 biennium levels.

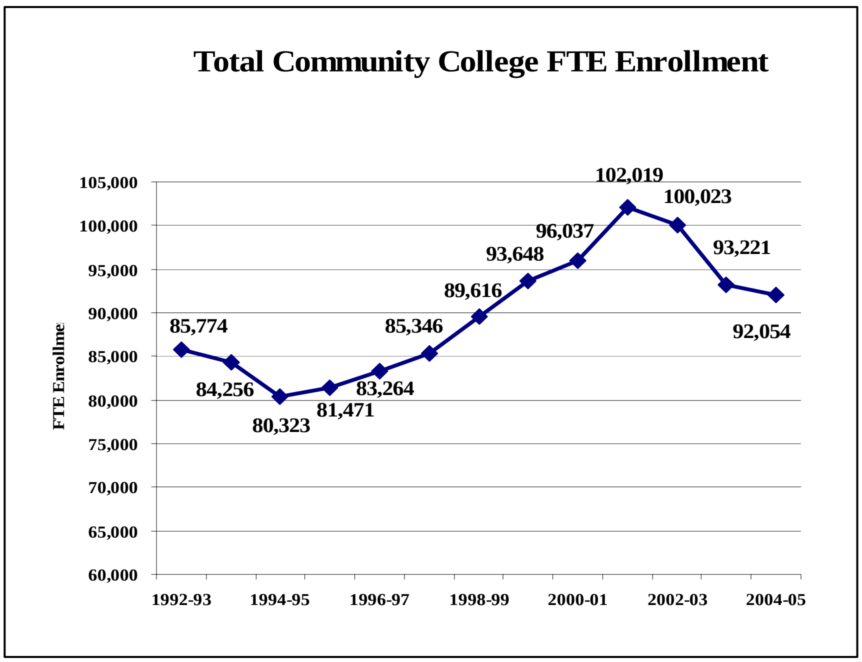
Funding was reduced further in the 2003-05 biennium. After adjusting for the one-time $56 million funding reduction for the payment shift, the 2003-05 legislatively adopted budget provided $14.8 million (or 3.4%) less than what the colleges effectively received for 2001-03 after all of the special session reductions. This reduction increased to $21.6 million (or 5%) when, in Measure 30, voters rejected temporary income tax increases that had been approved to balance the legislatively adopted budget. General Fund was reduced $6.8 million by the outcome of that vote. The Legislature also directed that state dollars not be used to support self-improvement courses that are not health-, safety-, or workforce-related. Funding reductions ended with the 2005-07 budget. In that biennium, the state increased General Fund support by $17 million (or 4.1%) over the prior biennium level. Nonetheless, total state support remained below the 1999-2001 biennium level.



Community college services are affected by changes in the economy, in community college tuition costs, and in the funding of and accessibility to the Oregon University System. An estimated 30% of the Oregon class of 2005 high school graduates went on to attend an Oregon community college in 2006. This was higher than the 22% who enrolled in the Oregon University System. Also, approximately 3,700 students transferred from community colleges to the Oregon University System in the 2005-06 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 27% of community college students (on a headcount basis) are in the traditional college age category of 18 to 24. Approximately 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.

Enrollments declined as community colleges increased tuition and fee rates after the passage of Measure 5. For three years, tuition and fee rates increased at annual rates of 15% or higher. After that, however, tuition and fee rate increases had moderated and had been below the rate of inflation. This period of moderate rate increases ended 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 15% in the 2002-03 academic year, and by an additional 21% in the 2003-04 academic year. Although tuition and fee rate increases have moderated since then, exhibiting 4-5% annual increases, the average cost of tuition and fees at community colleges has still risen more than 60% in the last five years.



Enrollment growth at first accelerated in the late-1990s. Total enrollment on a full-time equivalent (FTE) basis increased 6.2% in 2001-02 to an all time high of 102,019 FTE. In the following two years, however, as tuition rates increased and course section offerings were reduced (over 21,000 net course sections, or 23% of the total, were eliminated), enrollment began to decline. By the 2004-05 academic year, the last year for which full year data is available, enrollment had fallen to 92,054 FTE, an 9.8% decline from the peak, and was below the level it had been five years earlier. Unduplicated headcounts have declined even more rapidly. The 2004-05 unduplicated headcount of 346,206 represents a 15% drop from the peak level of two years earlier. Headcounts are falling more rapidly than FTE enrollment as average course load has fallen. Finally, since the 23% drop in course sections over the 2001-02 to 2003-04 period, most of the course sections have been restored, but the total is still 7% below the 2001-02 peak.

Governor's Budget

The Governor's recommended budget includes $496.2 million of state support to community colleges. This is equal to a $67.4 million (or 15.7%) increase from the 2005-07 biennium level, and a $84.7 million (or 20.6%) increase over the level two biennia ago. The preponderance of state support would be distributed to community college districts as unrestricted funds through the Community College Support Fund (CCSF). The Governor's budget includes CCSF funding of $483 million. The remaining $13.2 million is allocated to community colleges outside of the CCSF and is designated for specific programs. The unrestricted portion, allocated through the CCSF, is an increase of $54.9 million (or 12.8%) over the 2005-07 biennium level. The $13.2 million for specified programs all represent new enhancements above the essential budget level. None of these specified programs were funded by the state last biennium.

A summary of Governor's budget for the State Support for Community Colleges program area is included below:

- **Community College Support Fund (CCSF) – $483 million General Fund** (all but $18,000 of timber tax revenues in this total being General Fund), an increase of $54.9 million (or 12.8%) above the prior biennium level. Because of increases in property taxes that are projected for community colleges in the 2007-09 biennium, the essential budget level for state funding was essentially flat at the prior biennium level (i.e., increases in property taxes should be sufficient in themselves to fund cost increases associated with the essential budget level on a systemwide basis). Therefore, the CCSF funding level is also equal to $55 million above the essential budget level.

- **Career Pathways – $985,000 General Fund**, a new funding initiative above the essential budget level. These funds will support half the cost of establishing a Pathways to Advancement coordinator at each of the 17 community colleges. The colleges are expected to pay for the other half of the cost from other funds available to them. Pathways to Advancement is an initiative to revise college curriculums to enable students to more quickly attain skills needed for certain identified high-demand occupations, and to expedite professional and technical certificate and degree programs.

- **Statewide OFAX – $276,240 General Fund**, a new funding initiative above the essential budget level. The total amount added in the agency budget for Statewide OFAX is **$438,000 General Fund**, with the rest of the addition in the Office Operations program. Statewide OFAX (Oregon Financial Aid Data Exchange System) would finance expansion of an existing student financial aid data system to all community colleges, OUS institutions, and OHSU, thereby facilitating the awarding of financial aid to students enrolled in more than one institution. Currently, OFAX only covers five OUS campuses and five community colleges. CCWD would transfer approximately $54,000 to OHSU and the Department of Higher Education to fund their institutions' participation in OFAX.

- **Healthcare Workforce Initiative – $2.2 million General Fund**, a new funding initiative above the essential budget level. The total amount added in the agency budget for the Healthcare Workforce Initiative is **$2,205,000 General Fund**, with the rest of the addition in the Office Operations program. These funds represent the portion of a $15.2 million General Fund program in the Governor's budget to expand healthcare workforce programs that is allocated for community colleges. The Governor's budget also allocates $7.4 million to the Department of Higher Education and $5.6 million to the Oregon Health and Science University School of Nursing. (The Governor's budget also has funds to expand capacity in OHSU's Medicine and Dentistry Schools, but the Legislative Fiscal Office is not including these in its analysis of the Healthcare Workforce Initiative.) The community college funding will be used to convert programs and courses to distance learning format and expand distance learning technical infrastructures, purchase simulation equipment used in healthcare training programs, add onsite courses, expand student advising services, and train faculty in distance learning techniques.

- **Integrated Management Information System (IMIS) – $255,000 General Fund**, a new funding initiative above the essential budget level. The total amount added in the agency budget for IMIS is **$1.7 million General Fund**, with the rest of the addition in the Office Operations program. IMIS is the proposed consolidation of the Department's five existing data systems to develop a central system that collects required financial data in a standard format from all 17 community colleges.

- **Virtual Learning – $150,000 General Fund,** a new funding initiative above the essential budget level. This funding package is proposed in connection with a similar package in the Oregon Department of Education budget to expand the access of virtual (distance) learning opportunities for high school students by financing an expansion of community college virtual course offerings.

- **Workforce & Career Readiness Certification – $420,238 General Fund**, a new funding initiative above the essential budget level. The total amount added in the agency budget for the Workforce & Career Readiness Certification is **$1,144,313 General Fund**, with the rest of the addition in the Office Operations program.

These funds would be used to develop a credential for career and workforce readiness that employees could earn in support of their employment efforts.

- **Skill-up Oregon – $8.9 million General Fund**, a new funding initiative above the essential budget level. The total amount added in the agency budget for the Workforce & Career Readiness Certification is **$10 million General Fund**, with the rest of the addition in the Office Operations program. These funds would be used to provide training services to workers who are unemployed, on public assistance, or who are deficient in certain basic job skills. The Governor has indicated that under the December 2006 state revenue forecast, his support for funding this program is contingent upon approval of the increase he has proposed in the minimum corporate tax.

CCWD – Federal/Other Support

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	8,277,047	9,303,595	9,303,595	396,074
Federal Funds	118,054,437	123,615,446	123,615,446	115,970,268
Federal Funds (NL)	9,321,985	12,000,000	12,000,000	5,968,831
Total Funds	**$135,653,469**	**$144,919,041**	**$144,919,041**	**$122,335,173**

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 28,000 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 (more than 50) are laid off because of poor economic conditions. CCWD must apply to the federal government for any NEG funds. These applications are specific to particular layoff events, and the grant funds are spent as Nonlimited Federal Funds.

The Adult Education and Family Literacy (WIA Title II) funds are received from the U.S. Department of Education and distributed to community colleges to support programs in developmental education for adults. Approximately 32,000 clients are served by these funds each year.

Budget Environment

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

Governor's Budget

The Governor's recommended budget supports these programs at the projected Federal Funds and Other Funds revenue levels, including 2007-09 biennium expenditures of grant funds received in 2005-07. The budget projects that Federal Funds will decline by approximately 15% from the 2005-07 biennium legislatively approved budget level. This includes a 12% reduction in the Federal Funds expenditure limitation, and a 50% decline in Nonlimited NEG grant funds. It is difficult to know now, however, what the eventual biennial funding for these programs will be. In the 2005-07 biennium, actual Federal Fund revenues were 16% below the level budgeted. The Governor's budget is therefore projecting Federal Fund revenues of approximately 1% more than were actually received in 2005-07, even though this same projection is 15% below the legislatively approved budget for 2005-07.

The Other Funds decline from the prior biennium budget is due almost entirely to a reduction in the expenditures under the Carl D. Perkins program that are accounted for in the CCWD budget. These expenditures are projected to decline 86% from the amount approved last session. This major decline reflects a realignment in the state budget of Perkins funds from CCWD to the Oregon Department of Education. The Perkins funds that are distributed to community colleges no longer pass through the CCWD budget as in the past. Instead, ODE now sends the funds directly to the colleges.

CCWD – Debt Service

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	3,316,055	2,258,575	2,258,575	5,172,745
Total Funds	**$3,316,055**	**$2,258,575**	**$2,258,575**	**$5,172,745**

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 in the period between the 1979 session and the 2005 session. Debt service requirements were declining until the 2005-07 biennium, as the existing bonds were paid off. Debt service payments on bonds issued through the 1979 session will be completed in the 2007-09 biennium.

Debt service for pre-2005 bonds will equal approximately $705,000 in 2007-09. The 2007-09 biennium will be the first biennium when General Fund will be appropriated to pay debt service on community college capital construction project Article XI-G bonds authorized after the 1979 session. The debt service on bonds issued for all projects approved in the 2005-07 biennium would be approximately $5.6 million. The combined total debt service of $6.3 million is almost triple (2.8 times) the prior biennium level of $2.26 million. Actual 2007-09 biennium debt service requirements will be lower than $6.3 million, because not all of the authorized bonds are actually being issued at this time.

Governor's Budget

The Governor's recommended budget over-funds 2007-09 biennium debt service costs by an unknown amount. The amount in the budget finances debt service to cover the bonds approved for all of the capital construction projects approved last session, with the exception of the Klamath Community College project. Klamath Community College is not proceeding with its approved project at this time. It now turns out, however, that Tillamook Bay, along with Klamath, will not participate in the March 2007 bond sale. The Governor's budget includes $709,400 General Fund for debt service on Article XI-G bonds for the Tillamook Bay project. None of these funds will be needed if Tillamook Bay does not proceed with its project before the Spring 2009 bond sale. Only a portion of these funds will be needed if bonds are issued for Tillamook Bay before Spring 2009. The amount needed will depend on the timing of the bond sale.

There are no funds included for debt service on the $81,150,000 million of Article XI-G bonds that that the Governor's budget authorizes for twelve new community college capital construction projects in 2007-09. This additional debt service is projected to total $12.7 million per biennium when fully phased in. Any 2007-09 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 the new bonds beginning in the 2007-09 biennium. General Fund debt service costs in the 2009-11 biennium would increase by an estimated 250% over the 2007-09 biennium level.

CCWD – Community College Capital Construction

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	0	77,000,000	77,000,000	174,300,000
Total Funds	**$0**	**$77,000,000**	**$77,000,000**	**$174,300,000**

Program Description

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

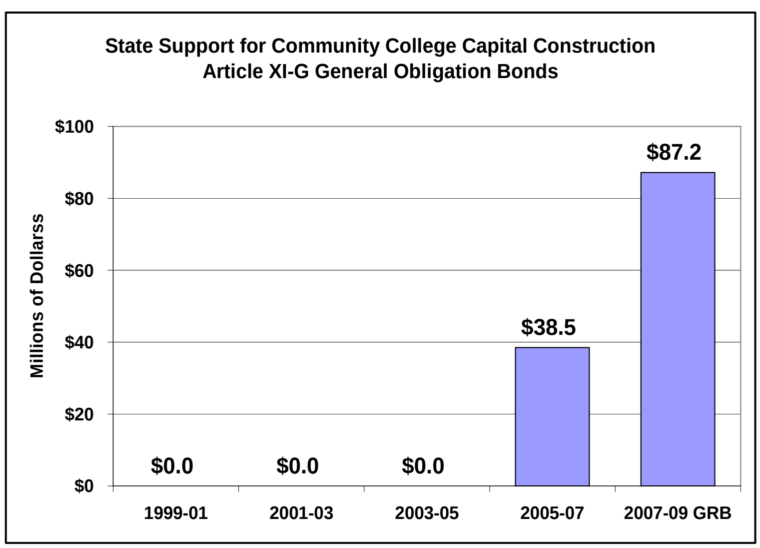
The 2005-07 biennium legislatively adopted budget included, for the first time since the 1979-81 biennium, state support for community college capital projects. The 2005-07 biennium budget authorized $38.5 million of Article XI-G bonds for community college capital construction projects at seven community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

The 2005-07 budget did not include General Fund to pay debt service on the Article XI-G bonds. The bond issue will be delayed until March 2007 to postpone any debt service costs until the 2007-09 biennium. The sale will include $25.9 million of the $38.5 million authorized. Bonds will not be issued for the Klamath or Tillamook Bay projects, because these campuses have not raised the required matching funds. The authorization for the capital construction projects extends through the 2009-11 biennium, however. The campuses can still proceed with their projects until then, if the Legislature reauthorizes authority for the $12.6 million of Article XI-G bonds in the bond limitation bill in the 2007-09 budget.

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

Governor's Budget

The Governor's recommended budget includes $87,150,000 of Article XI-G bonds to finance $174.3 million of capital construction projects in 12 community college districts. The 12 districts include three that received capital construction funds in the 2005-07 biennium budget, and nine additional districts that did not. If this budget is approved, every community college district except Mt. Hood Community College will receive capital construction financing from the state over the two-biennia period beginning in 2005-07. The recommendation is a 126% increase over the level of Article XI-G bonds approved for community college capital construction projects in the 2005-07 biennium.



The Governor's budget does not conform to the budget policy that the Legislature adopted in the 2005 Session, i.e., that total debt service costs on all outstanding Article XI-G bonds, issued on or after July 1, 2005 for community college capital construction projects, not exceed $6.5 million per biennium. That policy limits new Article XI-G bond authorizations to no more than $6.2 million. The $87.15 million of Article XI-G bonds in the Governor's budget alone will generate projected biennial General Fund debt service costs, beginning in the 2009-11 biennium, of approximately $12.7 million. This debt service, added to the debt service on bonds approved in the 2005 session, will yield total General Fund debt service costs of $18.3 million per biennium, or almost triple (2.8 times) the approved budget policy limit.

A list of the recommended projects is included below:

Department of Community Colleges and Workforce Development
2007-09 Governor's Recommended Capital Construction Budget

Project List	Article XI-G Bonds	Community College Match	Approved Total
(1) Blue Mountain Community College			
Hermiston University Center	$4,000,000	$4,000,000	$8,000,000
(2) Central Oregon Community College			
Science & Allied Health Instructional Building	7,500,000	7,500,000	15,000,000
(3) Chemeketa Community College			
Classroom & Health Sciences facility	7,500,000	7,500,000	15,000,000
(4) Clackamas Community College			
Allied Healthcare Center of Excellence	7,500,000	7,500,000	15,000,000
(5) Clatsop Community College			
New campus	17,500,000	17,500,000	35,000,000
(6) Columbia Gorge Community College			
Workforce building	7,500,000	7,500,000	15,000,000
(7) Lane Community College			
Health & Wellness Building	7,500,000	7,500,000	15,000,000
(8) Linn-Benton Community College			
Library and Student Services Renovation	3,500,000	3,500,000	7,000,000
(9) Oregon Coast Community College			
Expansion of Aquarium Building, South County Campus & Central Campus Land	7,500,000	7,500,000	15,000,000
(10) Portland Community College			
Washington County Educational Center	7,500,000	7,500,000	15,000,000
(11) Treasure Valley Community College			
Community College/University Center	2,150,000	2,150,000	4,300,000
(12) Umpqua Community College			
Regional Health Occupational Training Center	7,500,000	7,500,000	15,000,000
Grand Total	**$87,150,000**	**$87,150,000**	**$174,300,000**

CCWD – Oregon Youth Conservation Corps

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	1,923,757	2,022,979	2,022,979	2,117,414
Total Funds	**$1,923,757**	**$2,022,979**	**$2,022,979**	**$2,117,414**
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 – involves approximately 600 youths (ages 13-24) each year, and operates during the summer supporting at least one youth crew in every county who work on natural resource and conservation projects. The second program – the Community Service Corps – offers alternative education programs to approximately 500 at-risk youths during the school year through hands-on environmental projects.

Revenue Sources and Relationships

The OYCC last received General Fund in the 2001-03 biennium. Since then, it has operated entirely on Other Funds. Other Funds are primarily from the Amusement Device Tax. The Amusement Device Tax is levied on the state's video lottery terminals. OYCC also receives transfers from other state agencies (Marine Board and the Parks and Recreation Department), and Workforce Investment Act funds, as Other Funds for contract work.

Governor's Budget

The Governor's recommended budget supports the OYCC at the essential budget level, equal to a 4.7% increase over 2005-07 biennium expenditures.

Department of Education (ODE) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended *
General Fund	4,703,675,734	5,075,292,291	5,110,244,131	5,852,600,672
Lottery Funds	507,799,698	461,524,403	503,769,403	590,557,320
Other Funds	44,697,469	55,116,367	57,730,244	58,463,871
Federal Funds	653,913,539	733,271,172	755,474,273	755,067,301
Other Funds (NL)	98,086,244	94,756,586	94,756,586	77,701,142
Federal Funds (NL)	228,129,649	227,855,675	227,855,675	235,556,640
Total Funds	**$6,236,302,333**	**$6,647,816,494**	**$6,749,830,312**	**$7,569,946,946**
Positions	486	480	483	494
FTE	445.39	441.05	442.89	452.86

** The distribution formula that funds school districts and education school districts also utilizes local revenues. The Governor's recommended budget anticipates an additional $2.8 billion in local revenues that will be distributed but are not included in the numbers shown.*

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 re-elected in May 2006.

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 2007-09 Governor's budget of $7.57 billion total funds is an $820.1 million, or 12.2%, increase over the 2005-07 legislatively approved budget. Over $750 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 several policy packages and an increase in federal funding available for grants to local programs.

- The budget provides $6.06 billion in state support for K-12 school funding. This is an increase of $754.4 million, or 14.2%, over the 2005-07 legislatively approved budget of $5,305.6 billion. Local formula revenues, mainly from property taxes, are estimated to be $201 million higher in 2007-09. Together, state and local support increase by $975 million, or 12.1%, from 2005-07 to 2007-09.
- The budget for Department Operations increases from $95.6 million total funds in 2005-07 to $106.9 million total funds in 2007-09. General Fund support is $45.5 million, an increase of 32.5% from the 2005-07 budget of $34.3 million. The largest portion of the increase is a package to continue the data integration project between school districts.
- The budget includes $263.1 million General Fund for Grant-in-Aid programs that provide support to school districts and other local programs. This amount is 31.6% more than the 2005-07 General Fund budget of $200 million. The majority of the increase is a proposal to fund the Oregon Pre-Kindergarten program at 80% of all eligible children. The Governor is proposing that the increase be funded with an increase in the minimum payment under the corporate income tax.

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

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	34,405,543	31,798,657	34,324,012	45,467,639
Other Funds	6,527,151	9,409,227	11,692,324	11,912,236
Federal Funds	32,149,820	41,992,817	44,753,089	44,570,831
Other Funds (NL)	4,015,245	4,856,586	4,856,586	5,007,142
Total Funds	**$77,097,759**	**$88,057,287**	**$95,626,011**	**$106,957,848**
Positions	266	260	263	274
FTE	259.68	255.25	257.09	267.44

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.

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.

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

Revenue Sources and Relationships

Other Funds revenues include indirect cost recovery from federal programs; fees for fingerprinting and background checks; funds from the Department of Human Services for health-related and other programs;

funds from the Department of Community Colleges and Workforce Development (DCCWD) for professional/technical education services and administration; fees for licensing private vocational schools; tuition protection fees from private vocational schools to reimburse students in case of closure of these schools; textbook review fees; and miscellaneous fees, contracts, and grants.

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

Budget Environment

The agency took a new approach to the budget building process in the creation of their proposed operations budget for 2007-09. They contracted with Public Strategies Group and used the "Budgeting to Results" method for budget development. They formed groups around their three agency goals and created "buying" teams that had to decide what would be included in the budget from "selling" teams. The agency estimates that more than half of the staff were involved in the project in some capacity. The staff believes that it helped break down the traditional work area biases and allowed the budget to be developed in a more collaborative way across the entire Department. It also allowed them to create a budget that more closely aligns with their business goals.

Governor's Budget

The Governor's recommended budget is an 11.9% increase over the 2005-07 legislatively approved budget. The General Fund is increased by 32.5%, Other Funds expenditure limitation is increased by 2.2%, and Federal Funds expenditure limitation is decreased by 0.4%. The budget funds all current services as well as three new projects and the continuation/enhancement of two projects that are funded in the current biennium.

The Governor's budget includes:

- A package to implement Phase III of the Pre-K-12 Integrated Data Systems (KIDS) project. This project allows school districts to electronically transfer comparable data and is helping to meet NCLB and Adequate Yearly Progress reporting requirements. Phase II is currently piloting this project. Phase III is expected to roll-out the project on a statewide basis. The cost of Phase III is $8,440,894 General Fund and includes 11 positions (9.00 FTE).
- The continuation of the Oregon Virtual School District (OVSD). In the 2005-07 legislatively approved budget, $2 million was transferred from the State School Fund to fund the implementation of the OVSD. The Governor proposes continuing the program with the same funding mechanism. While this program is funded with $1,800,598 Other Funds expenditure limitation, the source of the funds would be the State School Fund.
- The development and implementation strategies needed for the creation of a growth model for assessing academic achievement at the student, school, and district levels. This will allow the agency to measure student learning growth over time. Currently, Adequate Yearly Progress reporting looks at the percentage of students in certain categories without tracking their progress. The total cost is $1,830,787 General Fund and includes two positions (1.25 FTE).
- Providing support to teachers and administrators in the use of statewide and local assessment data (assessment literacy). The cost is $1,652,562 General Fund and includes 2 positions (2.00 FTE).
- Implementation of a cross-office data management system. The project is designed to streamline data flow in the agency. The cost is $493,877 General Fund and includes 4 positions (3.58 FTE).

ODE – Special Schools

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	16,796,984	16,988,568	17,712,390	18,369,944
Other Funds	2,750,736	3,310,184	3,457,300	3,508,939
Federal Funds	855,637	368,197	514,867	382,848
Total Funds	**$20,403,357**	**$20,666,949**	**$21,684,557**	**$22,261,731**
Positions	191	191	191	191
FTE	156.71	156.80	156.80	156.54

Program Description

The School for the Blind (OSB), with 11 structures on a 7-acre campus, annually serves approximately 33 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; donations; Medicaid reimbursements; transfers from the Commission for the Blind; fees from local school districts for services provided to their students; nutrition reimbursements; and other miscellaneous sources. Federal Funds are from the Individuals with Disabilities Education Act.

Budget Environment

Enrollment at OSB has dropped over the last few years. It had ranged from 41 to 48 students, but current enrollment is 33 students. Over the same period, annual enrollment at OSD has ranged from 121 to 129 students.

Currently the agency is completing a cost-benefit analysis of moving the OSB program to the OSD campus. This began at the direction of a budget note that was put in the agency's budget during the last legislative session. Completion of the study is expected in February 2007 and will probably have an effect on the budget. The Governor's budget does not address the issue.

Governor's Budget

The Governor's recommended budget is a 2.7% increase over the 2005-07 legislatively approved level and essentially continues existing operations.

ODE – Youth Corrections Educational Program

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	19,307,304	24,358,569	24,542,233	25,350,608
Federal Funds	2,372,943	2,462,874	2,915,939	2,546,002
Total Funds	**$21,680,247**	**$26,821,443**	**$27,458,172**	**$27,896,610**
Positions	29	29	29	29
FTE	29.00	29.00	29.00	28.88

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. The program now is treated as a separate school district with per student revenues distributed through the formula. Concerns were raised during the 2005 legislative session about using the State School Fund to pay for the program when there a number of students who have already received a diploma.

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

Budget Environment

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 2006 close custody population forecast projects the demand for beds to remain stable from July 2006 to July 2007 at about 1,120. The population is projected to drop slightly to 1,085 by July 2009. The Governor's budget funds about 90% of the demand with 995 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. 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.

Governor's Budget

The Governor's recommended budget is a 1.6% increase over the 2005-07 legislatively approved budget and essentially retains current services with increases for standard inflation.

ODE – Grant-in-Aid

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	190,114,745	192,112,725	200,015,388	263,147,320
Other Funds	10,910,649	14,894,661	14,894,661	15,201,745
Federal Funds	618,535,139	688,447,284	707,290,378	707,567,620
Federal Funds (NL)	228,129,649	227,855,675	227,855,675	235,556,640
Total Funds	**$1,047,690,182**	**$1,123,310,345**	**$1,150,056,102**	**$1,221,473,325**

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 No Child Left Behind Act, special education, and teacher quality programs.

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

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 of those children. This program receives the largest portion of the General Fund budget for Grant-in-Aid programs.

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

Governor's Budget

The Governor's recommended budget is a 6.2% increase over the 2005-07 legislatively approved budget. Within this overall increase, General Fund support is increased by 31.6%, Other Funds expenditure limitation increases by 2.1%, and federal resources grow by 0.9%. The General Fund increases are mostly in policy packages and include the following:

- Funding the Oregon Pre-Kindergarten program at 80% (up from 60% in the 2005-07 biennium) of eligible children and families living at or below the federal poverty level. It is expected that this funding level would serve 100% of those that choose to participate. The cost is $39 million General Fund and the Governor is proposing raising the minimum payment under the corporate income tax to fund the enhancement of the program.
- Mandated caseload increases in the Early Intervention / Early Childhood Special Education program. This program serves children from birth to the start of Kindergarten that have developmental and other disabilities. New caseload projections have added $11.9 million in General Fund.
- Initiation of a program to provide mentors for new teachers and principals during the first three years of employment. This is based on a program that is used in California. The cost is $5 million General Fund.
- Continuing improvements in classroom technology and school connectivity ($2.6 million General Fund).
- Pass-through funding to the Commission on Children and Families for the partial funding of a position and grants for Community Schools ($500,000 General Fund).
- Grants for faculty professional training on civics ($175,000 General Fund) and a grant to the Chess for Success Program ($75,000 General Fund).

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

2007-09 Governor's Recommended Budget – Grant-in-Aid Programs ($ in millions)				
Program Name	General Fund	Other Funds	Federal Funds	Total Funds
Early Intervention/Early Childhood Special Ed	105.5	0	29.5	135.0
Oregon Prekindergarten	96.1	0	0	96.1
Regional Programs	31.8	0	23.8	55.6
Long-Term Treatment & Hospital Programs	19.8	11.7	2.2	33.7
Title 1 Low-Income & Migrant Education	0	0	281.7	281.7
Nutrition Programs	0.2	0	235.6	235.8
Local & Other Special Education Programs	0	0	189.8	189.8
Title II Teacher Quality	0	0	56.1	56.1
Vocational Education	0	0	29.5	29.5
Comp Teacher/Admin Quality Programs (Mentoring)	5			5.0
Connectivity	3.2			3.2
Other Programs (primarily under the NCLB Act)	1.5	3.5	95.0	100.0
TOTAL EXPENDITURES	263.1	15.2	943.2	1,221.5

ODE – School Funding

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	4,462,358,462	4,834,392,341	4,858,192,341	5,525,615,769
Lottery Funds	452,100,536	405,057,659	447,302,659	534,142,231
Other Funds	1,570,220	950,000	950,000	242,000
Total Funds	**$4,916,029,218**	**$5,240,400,000**	**$5,306,445,000**	**$6,060,000,000**

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 began 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. The Governor's 2007-09 budget includes General Fund of $5,525.6 million and net unobligated lottery resources of $534.1 million. State timber tax revenues are estimated to be $242,000.

Budget Environment

Currently, there are 198 elementary and secondary school districts and 20 education service districts, serving about 535,000 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, but just slightly, in 2007-09.

There has been a significant change in student demographics over the last decade. 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 67% in 2005-06. 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 NCLB 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. 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.

Governor's Budget

The Governor's recommended budget provides $6.06 billion in state support for K-12 school funding. This is an increase of about $754.4 million, or 14.2%, above the 2005-07 legislatively approved budget of $5.3 billion. Of the total budget, $5,525.6 billion is from General Fund support, $534.1 million is from lottery support, and $242,000 is from state timber taxes (expended as Other Funds). General Fund is increased by $668 million and Lottery Funds are increased by $86.8 million from the 2005-07 legislatively approved budget.

Currently, the 2007-09 essential budget level for the state-supported portion of the State School Fund is estimated at $5,806.1 million. The essential budget level 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 2007-09 essential budget level include, among other factors, a 17.66% PERS rate; increases of 9% annually in health benefits costs; about a 2% annual increase in teacher salaries; and growth in student counts of 0.64% for 2005-06 and 0.56% for 2006-07.

The Governor's budget is about $254 million above the essential budget level and is comprised of two components. The first $194 million brings the state-supported funding level to $6.0 billion. The Governor is also proposing an additional $60 million to be used as an investment fund. Currently, he is proposing distributing the funds through the process defined in statute for the School Improvement Fund. The funds are distributed as grants that school districts may apply for, from the Department of Education. The grants are designed to improve student achievement and the criteria include class size reductions, increases in instructional time, professional development and others. The budget would earmark $10 million of the $60 million for implementation of Oregon's new high school diploma requirements.

The proposed State School Fund budget includes $400,000 General Fund for local option matching grants to eligible districts that have passed local option levies. Given the estimated need of $1 million for local option matching grants, approximately $600,000 will be needed to fully fund the program.

During 2007-09, local revenues, which are primarily property taxes, are expected to be $2.8 billion or about $200 million more than estimated for 2005-07. Combined state and local support would be increased by 12.4% from 2005-07 to 2007-09 (from $7.885 billion to $8.860 billion).

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

($ in millions) Fiscal Year	State funding	Local funding	Total	Percent change	State share	Fiscal Year	State funding	Local funding	Total	Percent change	State share
1990-91	626	1598	2224	-	28%	2000-01	2437	995	3432	4.2%	71%
1991-92	818	1561	2379	7.0%	34%	2001-02	2537	1040	3577	4.2%	71%
1992-93	1100	1490	2590	8.9%	42%	2002-03	2358	1112	3470	-3.0%	68%
1993-94	1132	1343	2475	-4.4%	46%	2003-04	2591	1134	3725	7.3%	70%
1994-95	1427	1178	2605	5.3%	55%	2004-05	2326	1202	3536	-5.1%	66%
1995-96	1750	902	2652	1.8%	66%	2005-06 Est	2566	1278	3844	8.7%	67%
1996-97	1760	956	2716	2.4%	65%	2006-07 Est	2739	1331	4070	5.9%	67%
1997-98	2078	896	2974	9.5%	70%	2007-08 GRB	2970	1381	4351	6.9%	68%
1998-99	2250	889	3139	5.5%	72%	2008-09 GRB	3090	1418	4508	3.6%	69%
1999-2000	2326	967	3293	4.9%	71%						

ODE – Debt Service

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Lottery Funds	55,699,162	56,466,744	56,466,744	56,415,089
Other Funds	3,631,409	2,193,726	2,193,726	2,248,343
Other Funds (NL)	94,070,999	0	0	0
Total Funds	**$153,401,570**	**$58,660,470**	**$58,660,470**	**$58,663,432**

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).

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.

Governor's Budget

The Governor's recommended budget provides $56.4 million Lottery Funds and $2.2 million in other interest income from debt service-related accounts.

ODE – Common School Fund Distributions

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds (NL)	0	89,900,000	89,900,000	72,694,000
Total Funds	**$0**	**$89,900,000**	**$89,900,000**	**$72,694,000**

Program Description

This program reflects the transfers of Common School Fund distributions from the Department of State Lands to the Department of Education for distribution to K-12 school districts.

Previously, the Department of State Lands distributed these monies to county treasurers, who in turn made payments to school districts. HB 3183 (2005) made the Superintendent of Public Instruction responsible for making these distributions to the districts.

Budget Environment

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

The maximum amount of 5% has been distributed each year from 2003 through 2006. However, more conservative long-term fund growth projections combined with the new 3-year rolling average policy have created an estimated distribution of $72.7 million in 2007-09, a decrease for K-12 schools of about $17.2 million over the 2005-07 amount of $89.9 million.

Governor's Budget

The Governor's recommended budget includes $72.7 million in Other Funds for distributions to K-12 schools in 2007-09.

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

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	84,379,467	73,337,168	73,337,168	94,235,981
Other Funds	124,669,705	31,975,150	31,975,150	31,978,666
Total Funds	**$209,049,172**	**$105,312,318**	**$105,312,318**	**$126,214,647**

The tables for OHSU only show expenditures of state funds in the OHSU budget. Total OHSU expenditures for operations in the 2007-09 biennium are projected to exceed $2.7 billion.

Agency Overview

The Oregon Health and Science University (OHSU) is the only academic medical center in the state. OHSU's mission includes education, research, clinical care, and public service. The university had operated at two main sites: its main campus on Marquam Hill in downtown Portland, and on the site of the Oregon Primate Research Center and the Oregon Graduate Institute (West Campus) in Washington County. The university recently expanded to a third major site in Portland's North Macadam Urban Renewal Area (the emerging South Waterfront Campus). The University's academic programs include degree programs in Medicine, Dentistry, Nursing, Allied Health Professions, and biomedical research; and graduate programs in Engineering and Management through the Oregon Graduate Institute (OGI) School of Science and Engineering. In addition to its three main sites, OHSU also has clinical facilities throughout the Portland metropolitan area, and teaching programs in various locations throughout the state, including nursing degree programs on the campuses of Eastern Oregon University, Southern Oregon University, and the Oregon Institute of Technology.

OHSU has been organized as a public corporation since 1995. Prior to that, the university was one of eight academic institutions in the Department of Higher Education. The change in status was granted to allow OHSU to operate more efficiently and to respond 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 $73.3 million in the 2005-07 biennium. The state also provided $32 million of Tobacco Master Settlement Agreement funds for debt service on $200 million of bonds the state issued in the 2001-03 and 2003-05 bienniums to finance the Oregon Opportunity Program – OHSU's expansion of its research programs in genetics and biotechnology. Total state support in the 2005-07 biennium therefore equaled $105.3 million.

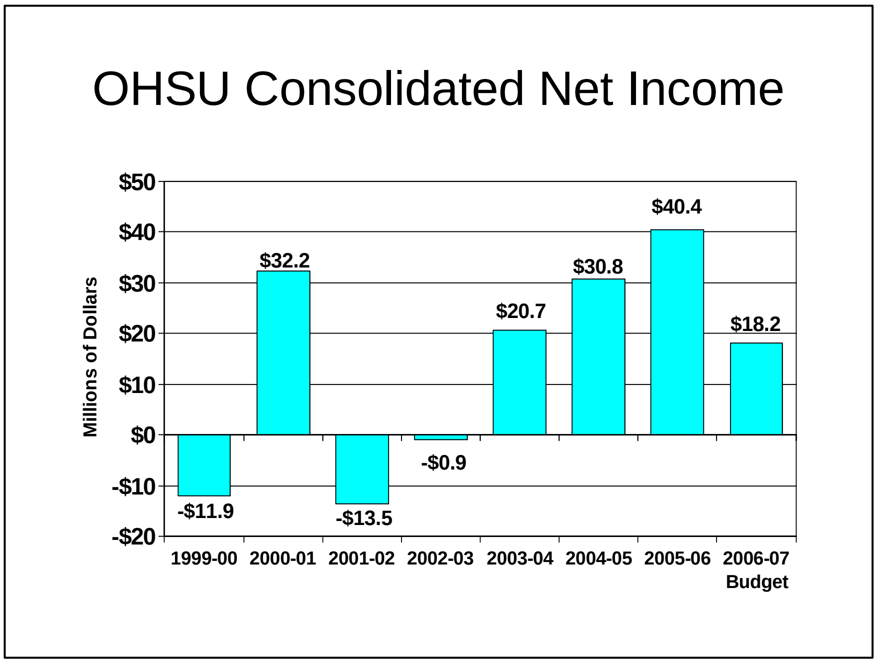
Budget Environment

State support for OHSU's education and clinical programs has declined since the institution was reorganized as a public corporation. OHSU received $125.1 million from the state in 1993-95, the last biennium that it was a part of the Department of Higher Education. This level declined 15% when OHSU was turned into a public corporation in the 1995-97 biennium, and was again about 16% below the 1993-95 biennium level in 2005-07. The state transfers General Fund to OHSU to support the institution's operating budget, and uses Tobacco Master Settlement Agreement funds to pay debt service on the state bonds that were issued to support the Oregon Opportunity Program (these latter funds are not transferred to OSHU but instead paid directly to bondholders by the state).

For the 2005-07 biennium, the largest source of revenue in the OHSU operating budget is the net patient service fee revenue generated by its hospitals and clinics, projected to total almost $1.4 billion per biennium and to contribute over 54% of total operating revenue. Another 35% of operating revenue comes from gifts, grants, and contracts. State support is projected to fall to only 3% of total operating revenue, student tuition and fees will contribute 3%, and the sales and services of education departments will contribute another 1.4%. The remainder is divided among various miscellaneous revenue sources.

Outside of its operating budget, the university is also significantly expanding and upgrading its capital plant. In addition to its $2.5 billion of biennial operating expenditures, OHSU is spending about $338 million this biennium on capital projects. The institution finances approximately $140 million of capital expenditures per biennium out of its operating cash. The remainder is financed from a combination of OHSU-issued revenue bonds, and gifts and grants. The major capital projects recently completed include: a new $113 million, 274,000 sq. ft. Biomedical Research Building, on the main campus and opened in Spring 2006, primarily financed by Article XI-L bonds; a new $216 million, 11-story, 335,000 sq. ft. patient care facility, the Peter O. Kohler Pavilion, on the main campus that will eventually include 120 beds and was opened in Summer 2006; and a new $145 million, 400,000 sq. ft. OHSU Center for Health and Healing, opened in Fall 2006, as the first phase in the development of a new South Waterfront Campus for the university.

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 was operating at capacity, and the university is expanding the hospital to allow it to serve more patients and to increase medical fee revenue. OHSU projects that the facility expansions will 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, excluding the earnings of the OHSU Foundation. 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. State support dollars are also included in the figure, with the effect that if state support for the 2005-06 fiscal year were reduced by $40.4 million, and the university did not change its expenditures, it would show a 2005-06 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 $53 million per biennium. In the 2005-07 biennium, the university should cover $33 million of this loss with investment and other non-operating income. Including these non-operating incomes, the educational operations are projected to post a net loss of $20 million in the 2005-07 biennium, an improvement over the $26 million loss in 2003-05. OHSU, by generating net income from its hospital and clinical operations and investments forecasted at almost $79 million in 2005-07, should be able to finance the educational costs, and still realize a $59 million consolidated net income during the 2005-07 biennium. The downturn in consolidated net income in 2006-07 largely reflects increases in operating costs relating to the completion of the university's three major capital projects discussed earlier. In particular, the new patient care facility increases hospital capacity at OHSU at a time when other Portland area hospitals are also expanding. This increase in regional hospital capacity will make it more difficult for OHSU to maintain the high occupancy rates necessary to generate high net incomes.

OHSU had earlier planned to eliminate any net loss in educational operations by the 2004-05 fiscal year, but the university no longer maintains this as a financial target. The operating margin on educational operations is budgeted to be -8.3% in 2006-07, and the university now projects ongoing negative margins to continue indefinitely. Operating margins for hospital and clinical operations, which reached 6% in 2005-06, are projected to fall to only 2.1% in 2006-07, and then to recover to about 3% by the end of the current five-year budget plan.

The university worked with the Joint Legislative Audit Committee prior to the 2001 session to develop a number of performance measures relating to its education, patient care, research, and public service missions. The university also tracks measures reflecting its economic impact. The institution did not report targets for these performance measures, but it did report on changes to them. The 2005 Legislative Assembly formally approved a set of performance measures and directed the university to establish targets for them. The Joint Legislative Audit Committee in 2006 recommended reducing the number of performance measures.

The university's research performance measures track total dollar awards and national rankings. Total research awards reached $273.5 million in the 2004-05 fiscal year, an increase of 6.5% over the fiscal year two years earlier, and more than triple the 1995 level when OHSU assumed its public corporation status. In 2004, the School of Medicine ranked 23rd in terms of National Institutes of Health support to medical schools, an improvement over its 32nd rank the year earlier. 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).

Governor's Budget

The Governor's budget recommends substantial increases of approximately 40% over the 2005-07 biennium level in state support for the OHSU School of Medicine, School of Nursing, and the Area Health Education Centers (AHEC) / Office of Rural Health programs. The budget has a smaller (5.5%) increase in funding for the School of Dentistry, and increases state support for other programs supported in 2005-07 – the Child Development and Rehabilitation Center and the Oregon Poison Center – by 3.1% for inflation. Debt service is fully funded at essentially the same level as the prior biennium. As in 2005-07, no direct state support is provided for the hospital and clinics budget outside of the Oregon Poison Center.

OHSU – Education and General/Hospitals and Clinics/CDRC

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	84,379,467	73,337,168	73,337,168	94,235,981
Other Funds	1,400,000	0	0	0
Total Funds	**$85,779,467**	**$73,337,168**	**$73,337,168**	**$94,235,981**

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 2005 of 2,511 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 443 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 25,000 patient discharges, about 44,000 emergency room visits, and about 2,800 births each 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.

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

Revenue Sources and Relationships

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

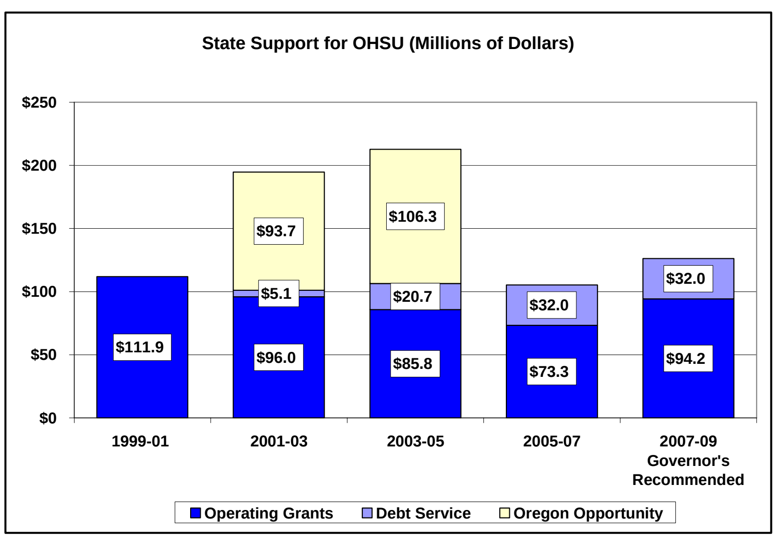
Other Funds in the Hospital and Clinics program were never limited by the Legislature. The primary source of these funds are payments for services by patients and third party payers. These revenues have not been included in the state budget since OHSU became a public corporation.

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. The $1.4 million shown as Other Funds in the 2003-05 biennium reflects the use of Other Funds from the Criminal Fines and Assessments Account to fund a portion of state support to the institution that biennium.

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.



Governor's Budget

The Governor's recommended budget sharply expands state General Fund support to the Schools of Medicine and Nursing, and the Area Health Education Centers (AHEC) / Office of Rural Health program. Compared to the funding levels provided in both the 2003-05 and 2005-07 biennia, state General Fund support to the School of Medicine is increased 42%, support to the School of Nursing is increased 40%, and support for the (AHEC) / Office of Rural Health program is increased 39%. A smaller 5.5% increase is supported for the School of Dentistry.

The Governor's budget continues the policy that the Legislature adopted last session of not providing any direct state support for OHSU Hospital and Clinic programs, outside of the Oregon Poison Center. Funding for the Oregon Poison Center and for the Child Development and Rehabilitation Center (CDRC) are both increased 3.1%, which is the increase allowed in the essential budget level calculation of inflation on special payments. OHSU would be expected to maintain its current services in both program areas at 2005-07 biennium levels.

State General Fund Support for OHSU Operations

	2005-07 LAB	2007-09 Gov Rec	Increase	New Initiatives
School of Medicine	$28.9 million	$41.0 million	41.9%	$11,214,000
School of Nursing	$15.3 million	$21.4 million	39.6%	$5,598,000
School of Dentistry	$12.5 million	$13.2 million	5.5%	$300,000
Child Development and Rehabilitation Center (CDRC)	$9.7 million	$10.0 million	3.1%	$0
Area Health Education Centers (AHEC)/Office of Rural Health	$4.2 million	$5.8 million	39.2%	$1,513,361
Oregon Poison Center	$2.7 million	$2.8 million	3.1%	$0
Hospital and Clinics	$0.0 million	$0.0 million	0.0%	$0
OGI School of Science & Engineering	$0.0 million	$0.0 million	0.0%	$0
Total General Fund Support	**$73.3 million**	**$94.2 million**	**28.5%**	**$18,625,361**

The increases to the Schools of Medicine and Nursing, and the AHEC increase, are designated for specified new program initiatives. The increase for the School of Dentistry is not. Specifics of these increases are described below. The Governor's budget would fund the following initiatives:

School of Medicine – $11,214,000 General Fund Total (42% increase over 2005-07 biennium funding)

- **Increase in MD program class size from 108 to 120 students ($4.12 million General Fund) –** These funds would compensate OHSU for costs incurred when it expanded the class size (cohort) in its MD program from 108 to 120 students during the 2005-07 biennium. OHSU would use these one-time funds to reimburse both operating and capital costs associated with that expansion. Because the MD is a four-year program, the 12-student per class expansion will phase in to a 48 student enrollment increase in four years. Beginning in the 2009-11 biennium, the incremental costs associated with the expansion cost would be entirely financed by the incremental tuition and fee revenue generated from expanding the program.

- **Develop School of Medicine hub sites in Eugene, Corvallis, Bend, and in Eastern and Southern Oregon ($7.09 million General Fund) –** The funds would allow OHSU to establish five regional off-campus sites for training MD students. MD students would then be sited off-campus for part of their curriculum. The regional sites would allow OHSU to expand its capacity in the MD program to 160 students per class while reducing the need to expand physical capacity at its Portland campus. At least some of the MD students would take their first-year basic science classes at the University of Oregon beginning in Fall 2008, and at Oregon State University beginning in Fall 2009. Third- and fourth-year MD students would complete part of their studies at these two sites plus three additional sites in Bend, Eastern, and Southern Oregon, beginning in Fall 2007. Capital expenses would be funded from other sources. OHSU projects that the cost of this expansion would decline to $6.07 million in 2009-11 biennium as the program expansion phases-in and it receives more tuition and fee revenue.

School of Nursing – $5,598,000 General Fund Total (40% increase over 2005-07 biennium funding)

- **Oregon Consortium for Nursing Education (OCNE) Program ($1.72 million General Fund) –** These funds support OHSU participation in the Governor's proposed Healthcare Workforce Initiative – a $15.2 million General Fund effort to expand healthcare workforce programs. The OCNE funding supports OHSU efforts to partner with community colleges and universities to increase the number of Nursing B.S. graduates by 100 per year. OCNE will support students who wish to obtain a Bachelor's degree in nursing at OHSU while taking their initial course work at a community college or OUS institution. The funds will be used to support articulation between nursing programs at OHSU and community colleges and Oregon University System schools, thereby increasing access to and the speed of progression in nursing education. OCNE will also work to standardize and upgrade the quality of the various nursing programs throughout the state. OHSU has indicated that this program will have significant roll-up costs if approved. The cost of maintaining this program will increase by 50% in the 2009-11 biennium.

- **B.S. Nursing Basic Capacity Expansion ($1.47 million General Fund) –** The funds would allow OHSU to increase capacity at its four nursing program sites: Portland, Ashland (SOU), La Grande (EOU), and Klamath Falls (OIT). The total capacity at the four campuses combined would expand the number of B.S. Nursing graduates by 50 students per year. The program covers the sophomore, junior, and senior years, so the 50-student per class expansion will phase in to a 150 student enrollment increase in three years. Because the expansion will be phased-in during the 2007-09 biennium, there will be significant roll-up costs in 2009-11. The cost of continuing this expansion at the 150 student level will double in the 2009-11 biennium.

- **Master's Nursing Program Expansions ($1.01 million General Fund) –** Increases capacity of the OHSU M.S. Nursing program by an additional 20 students per year. Community college nursing programs generally require their faculty to have a Master's degree, so this program will expand the pool of individuals qualified to teach in community college nursing programs. The program covers two years, so the 20-student per class expansion will phase in to a 40 student enrollment increase in two years. Because the expansion will be phased-in during the 2007-09 biennium, there will be roll-up costs in 2009-11. The cost of continuing this expansion at the 40 student level will increase 33% in the 2009-11 biennium.

School of Dentistry – $300,000 General Fund Total (5.5% increase over 2005-07 biennium funding)

- **Unspecified increase in School of Dentistry support ($300,000 General Fund) –** The Governor's budget includes $300,000 of additional General Fund for the School of Dentistry without tying this to any specific initiative. The university's top priority for additional funds is to expand required clinical rotations for DMD students to underserved rural and urban practice communities. As their top priority, they had proposed a project to serve 15 underserved sites at a cost of $523,000 General Fund.

Area Health Education Centers (AHEC)/Office of Rural Health – $1,513,361 General Fund Total (39% increase over 2005-07 biennium funding)

- **Funding restoration to the 1993 level ($400,000 General Fund) –** These funds would provide general unrestricted funding to restore funding for four main regional centers and new Clackamas mini-center AHECs to the 1993 level of $250,000 per center per year.

- **Increased funding for videoconferencing and on-line education ($901,000 General Fund)** – Supports upgrades to the technical infrastructure that is used to provide healthcare training and education services to remote sites in the AHEC program.

- **AHEC program office Education Director ($132,361 General Fund) –** Supports establishment of a statewide education director for the AHEC program.

- **K-12 Programs ($80,000 General Fund) –** Increases funding for heath services career programs targeting K-12 students.

OHSU – Oregon Opportunity Program

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	0	0	0	0
Other Funds	106,298,400	0	0	0
Total Funds	**$106,298,400**	**$0**	**$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 274,000 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. The university has now hired an additional 80 principal investigators, exceeding its revised goal of 71 planned additional scientists. As of 2004-05, OHSU had increased its sponsored research award level to $273.5 million, and the number of Oregon companies in which OHSU holds equity had increased to 12.

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 are paid from TMSA funds. In the 2007-09 biennium, these payments will total approximately $32 million.

Governor's Budget

The state cannot issue additional Article XI-L bonds. The Governor's budget does not transfer bond proceeds or any other funds to OHSU for the Oregon Opportunity program in the 2007-09 biennium.

OHSU – Bond-related Costs

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	0	0	0	0
Other Funds	20,692,900	31,975,150	31,975,150	31,978,666
Total Funds	**$20,692,900**	**$31,975,150**	**$31,975,150**	**$31,978,666**

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.

Governor's Budget

The Governor's budget fully funds 2007-09 biennium debt service costs with $32 million of TMSA Other Funds moneys.

Department of Higher Education (DHED) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	671,431,645	704,436,524	737,484,478	827,064,220
Lottery Funds	7,507,597	11,417,524	11,417,524	31,490,061
Other Funds	1,329,545,579	1,476,109,901	1,675,500,188	1,819,710,761
Other Funds (NL)	1,806,622,837	2,416,936,637	2,138,542,161	2,228,003,414
Total Funds	**$3,815,107,658**	**$4,608,900,586**	**$4,562,944,351**	**$4,906,268,456**
Positions	16,098	14,457	15,601	18,019
FTE	12,121.42	11,876.52	12,140.62	12,753.11

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

Agency Overview

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

Governor's Budget

The Governor's recommended budget provides $858.6 million in state support (General Fund plus Lottery Funds) to the Department of Higher Education, a 14.6% increase over the 2005-07 biennium level. Additionally, the Governor's budget includes a special purpose General Fund appropriation to the Emergency Board for 2007-09 state employee compensation changes. The Department is eligible to receive a portion of these funds. How much of these funds the Department would receive is uncertain. However, if the Department received the same proportion of the funds designated for compensation cost increases in the 2007-09 biennium as it did from the 2005-07 biennium statewide distribution of compensation cost increase funds, it would receive an additional $34 million General Fund. If this estimate proves accurate, the Governor's budget actually supports a $143.7 million (or 19.2%) increase in state support over the 2005-07 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 is increased 13.3% above the 2005-07 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 3.4% in each year of the biennium. Combined limited funds support for the Education and General Services program is increased $176 million (or 10.5%) over the amount in the 2005-07 biennium. This funding level is also $109.4 million (or 6.3%) above the essential budget level.

- *Agricultural Experiment Station* – General Fund support of $59.9 million is a $5.2 million (or 9.5%) increase over the 2005-07 biennium level. Combined limited funding of $74.1 million is a $5.5 million (or 8%) increase over the 2005-07 biennium level.

- *Extension Service* – General Fund support of $43.1 million is a $3.7 million (or 9.5%) increase over the 2005-07 biennium level. Combined limited funding of $67.8 million is a $4.6 million (or 7.3%) increase over the 2005-07 biennium level.

- *Forest Research Laboratory* – General Fund support of $6.6 million is a $1.1 million (or 19.4%) increase over the 2005-07 biennium level. Combined limited funding of $14.6 million is a $570,000 (or 4.1%) increase over the 2005-07 biennium level.

- *Debt Service* – State-paid (General Fund plus Lottery Funds) debt service costs are budgeted for a total $64 million, a $28 million (or 78%) increase over the 2005-07 biennium level. This includes $8.5 million for the new capital construction projects in the budget. Although the proposed 2007-09 biennium capital construction projects would generate $8.5 million in debt service costs in 2007-09, this represents only a small portion of the debt service costs associated with the Governor's budget for higher education capital construction projects. The proposed projects would, if they are all approved, generate $57.1 million of biennial debt service costs, beginning in the 2009-11 biennium, that would need to be paid by General Fund or Lottery Funds. This would be a $48.6 million (or 76%) increase over the 2007-09 biennium level.

- *Capital Construction* – The Governor's capital construction budget includes a large increase in state-support for construction costs, compared to prior biennia. The budget includes $313.8 million of state-supported debt (Article XI-G bonds, Lottery bonds, and SELP bonds) for OUS capital construction projects. State-supported debt is repaid with state discretionary funds – General Fund and Lottery Funds. The amount of state-supported debt in the Governor's budget is almost triple (2.8 times) the level authorized in the 2005-07 biennium, and approximately 10 times the amount authorized the biennium before that.

DHED – Education and General Services

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	543,205,078	565,051,859	592,794,966	671,463,424
Other Funds	855,376,020	1,031,588,659	1,081,056,301	1,178,376,168
Other Funds (NL)	917,733,427	1,275,061,427	1,057,715,051	1,090,528,794
Total Funds	**$2,316,314,525**	**$2,871,701,945**	**$2,731,566,318**	**$2,940,368,386**
Positions	12,958	11,141	12,025	14,420
FTE	9,408.96	9,144.29	9,237.11	9,826.60

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. Institutions retain their tuition and fee revenues, and combine these revenues with the allocation of General Fund that they receive through the RAM distribution to support their education and general services operating costs.

Revenue Sources and Relationships

The primary source of Other Funds for the Education and General Services Program is tuition. Other sources include other student fees such as Resource Fees 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 most of the General Fund that campuses receive for their Education and General Services programs on a direct enrollment basis. The campuses receive funding for total student enrollment on a full-time equivalent (FTE) basis. The funding amount varies by program type. These varying enrollment-funding amounts are commonly called "cell values." The Department has, however, generally funded the campuses based on their 2002-03 year enrollment levels. That is, any changes in enrollment since then have not affected how General Fund is allocated to the campuses.

The remainder of General Fund support to campuses, and all General Fund support for centralized services, is distributed in the RAM through targeted programs. Targeted programs include all funding that is not on a direct enrollment basis. Targeted programs are designed to address the costs of the system that are not directly related to enrollment levels. The largest of the targeted programs are the funding for smaller campuses that is additional to the amount they receive for their enrollments ($31.1 million General Fund in the 2005-07 biennium); Engineering program enhanced funding for projects identified by the Engineering Technology Industry Council ($20.7 million General Fund in 2005-07); and the Chancellor's Office operations ($13.3 million General Fund in 2005-07).

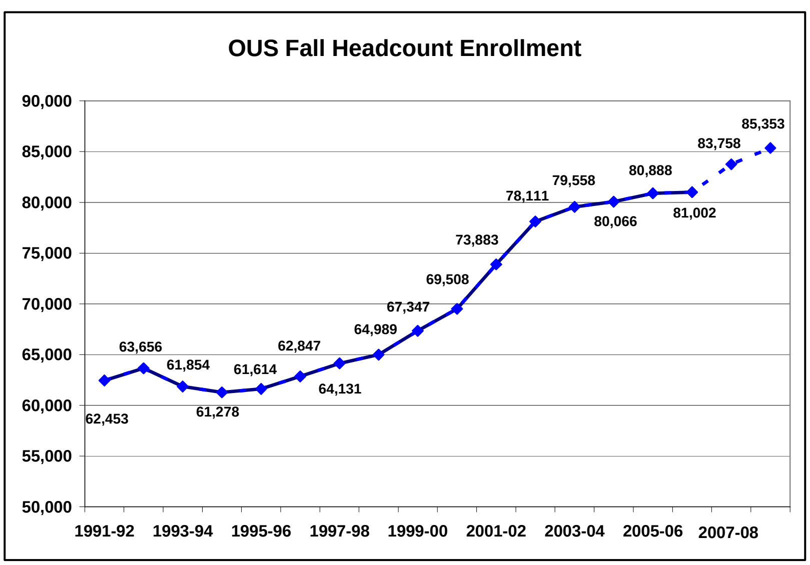
Nonlimited funds include gifts and sponsored research financed by the federal government, private industry, and other private groups. These Nonlimited funds, the major source of support for research, also directly benefit and enhance the instruction and research programs supported by the General Fund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

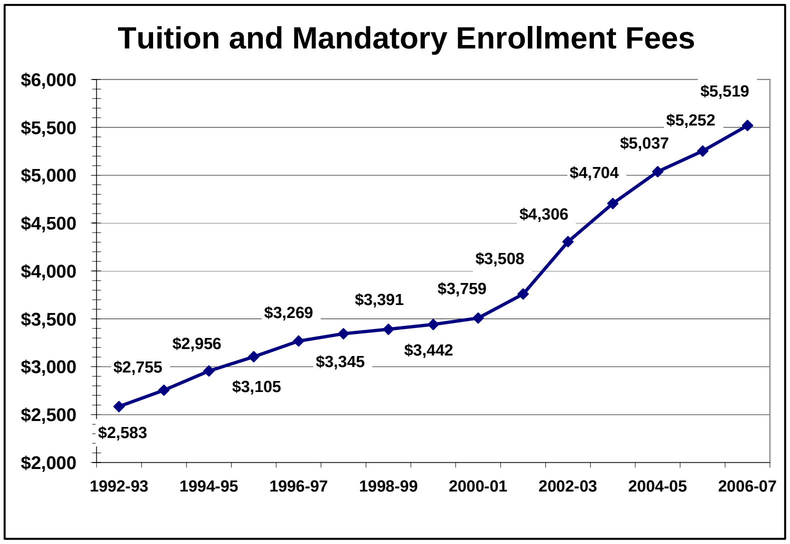
In 1999, the Legislature increased General Fund support of the Education and General Services Program by 22%. This included $106.8 million of General Fund enhancements. Of this total, $15.3 million resulted in no additional revenue for the budget, since it was used to freeze tuition rates for resident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

In the 2005-07 biennium, the Legislature increased General Fund support by $49.6 million (or 9.1%) over the 2003-05 biennium level. This increase, however, was insufficient to reverse the prior biennium decline, and support remained below the 2001-03 level. The combined limited fund budget, however, increased by a more robust 19.7% over the prior biennium level.



The RAM was designed to promote institutional effectiveness and entrepreneurship by tying financial resources more directly to the number of students served. Under the prior system, where most tuition revenues were pooled, an institution that successfully attracted additional students retained little additional revenue. In the RAM, the school retains all of this tuition, thereby increasing the financial reward of attracting students. The RAM was also to have made each campus' General Fund support level more sensitive to enrollment than had previously been the case, thereby amplifying the financial rewards associated with attracting students even more. However, enrollment funding has been frozen at 2002-03 levels, so that enrollment changes since then have not affected the amount of General Fund that campuses receive.

Enrollment in the Oregon University System has been increasing since the 1995-96 academic year. This reverses an earlier decline during the 1990s that occurred when tuition rates were increased rapidly as a response to Measure 5. Although enrollment remains at record levels, enrollment growth has become minimal in the last few years. This growth has occurred as a result of the increasing numbers of high school graduates each year in Oregon, and because a greater proportion of those graduates are choosing to attend an OUS school. The freshman participation rate, which measures resident first-time freshmen as a percentage of the state's number of high school graduates the previous June, two years ago returned to its all time peak rate of 24%. This freshman participation rate had been close to that level in the late 1980s, but the rate had fallen to a low of 17.5% in the early 1990s. By 2006, however, the freshman participation rate had declined again to 22%. The trend of larger high school graduating cohorts is expected to continue until the 2013-14 academic year. At that point there will be a short three-year pause, and then graduating cohorts are projected to resume growing. OUS projects enrollment growth to continue in each of the two years of the 2007-09 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 and 0.5% per year in 2005-07.

Average mandatory enrollment fees for full-time resident undergraduate students is shown in the chart above. 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 a 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.

Tuition and resource fee increases were capped to an average increase of 3% each year in the 2005-07 biennium. Increases in other mandatory fees, however, pushed the average increase for full-time resident undergraduates to 4.3% in 2005-06 and to 5.1% in 2006-07. These figures somewhat overstate the average rate increases for resident undergraduates, however, because in some cases part-time students had lower rates of increase, and the increases reported here do not weight campus rate hikes by enrollment levels when calculating the systemwide increase.

During the 2005-07 biennium, most campus Education and General Services budgets operated in deficit (for purposes of this discussion, the OSU Statewide Public Service Programs are combined with the Education and General budget for OSU). Education and General limited budget expenditures are projected to exceed revenues by $23.5 million in 2005-07, thereby reducing systemwide Education and General fund balances from $109.8 million to $86.3 million. The systemwide fund balance, which was 13% of operating revenues at the start of the biennium, is projected to fall to only 9.3% of operating revenues by biennium end. This is well within the 5-15% acceptable range established by the Oregon State Board of Higher Education, but slightly below the 10% target. The operating deficit is expected to fall slightly from $13.1 million in the 2005-06 fiscal year to $10.4 million in 2006-07, however even this rate of deficit would deplete fund balances in ten years.

The budget situation varies by campus. By the end of the 2005-07 biennium, institutions are projected to have fund balances equal to the following percentages of operating revenues: OIT – 11.5%, UO – 9.4%, PSU – 8.8%, OSU – 8.5%, WOU – 8.3%, EOU – 5.5%, and SOU – 3.2%. The Chancellor's Office ending fund balance is projected to be 49.2% of operating revenues.

Governor's Budget

General Fund support of $671.5 million is a $78.7 million (or 13.3%) increase over the 2005-07 biennium level. This level of General Fund is approximately $48.3 million (or 7.8%) above the essential budget 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. 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. Combined limited funds for the Education and General program total $1.85 billion in the Governor's budget, a $176 million (or 10.5%) increase over the 2005-07 biennium level. This level of combined limited funds is approximately $109.4 million (or 6.3%) above the essential budget level.

The table to the right shows how the $109.4 million above the essential budget level is distributed into several major categories. The combined limited funds column, which represents the total amount of funds available for program enhancements or reductions, is the sum of the General Fund and limited Other Funds numbers.

Governor's Recommended Budget: Education and General Combined Limited Budget

	General Fund	Limited Other Funds	Combined Limited Funds
EDUCATION & GENERAL			
General Support Enhancements	$40.7 million	$26.0 million	$66.7 million
Specific Program Enhancements	$28.6 million	$19.1 million	$47.7 million
Total Program Enhancements	$69.2 million	$45.1 million	$114.3 million
Program Reductions	-$4.9 million	$0.0 million	-$4.9 million
Net Funding Changes	$64.3 million	$45.1 million	$109.4 million

The Governor's budget finances $69.2 million of General Fund program enhancements. On top of this, the budget adds $45.1 million of Other Funds expenditures for program enhancements, for a total of $114.3 million. All of these enhancements may be classified into two broad categories: General Support or Specific Program. General support enhancements have the characteristic that they become part of the campus or central unrestricted budget. Although they may be designated as being made available to address a particular cost, they are not designed to affect the operations of any particular academic program. Typically, OUS would not be required to account for the use of these funds to any particular expenditures. Specific program enhancements, on the other hand, must be used for their identified purposes, and must be applied to specified portions of the campus or central budget. These categories are used in the description of the particular enhancements and reductions in the Education and General Services budget:

General Support Enhancements ($40.7 million General Fund/$26 million Other Funds)

- **Enrollment Growth ($14.6 million General Fund/$26 million Other Funds) –** Enrollment calculated on a full-time equivalent (FTE) basis is projected to grow 3.7% in the budget. Tuition revenue tracks FTE enrollment, and this growth is expecting to generate $26 million in tuition and fee revenue. The Governor's budget adds $26 million to the Other Funds expenditure limitation to allow all of these additional revenues to be spent. In addition, the budget provides $14.6 million in General Fund to provide state support for the additional students at the same per FTE rate as the support for the number of students served in the 2006-07 academic year. The additional tuition dollars would remain with the campuses where the enrollment growth occurred. The General Fund would be distributed to the campuses where the enrollment growth occurred. The package also adds 393 positions (393.00 FTE) to serve the additional students.

The package allows $42.4 million of additional expenditures as a result of the enrollment growth. Note that the state does not include funding for enrollment growth as part of the essential budget level. This is because higher education is not a mandated service, and funding levels and the enrollments that these funding levels would support remain at the discretion of the Legislature. Additionally, there is no data to indicate what the additional costs to the Department of a 3.7% enrollment growth would actually be. Costs can vary significantly. If the additional students are entering programs that are operating at capacity, there could be significant costs associated with enrolling them. The additional costs may be minimal, however, if students are entering programs that are operating below capacity.

- **Regional Support ($9 million General Fund) –** The Department distributes additional General Fund to its smaller institutions through targeted programs in the Resource Allocation Model to compensate for higher costs per student at smaller institutions. Smaller institutions are unable to realize the degrees of scale that large enrollments create. Larger institutions have lower costs per student because they can allocate fixed costs across a larger student base, and because they typically enroll graduate students who can aid in undergraduate teaching at a lower cost than is needed to hire a faculty member. In the 2005-07 biennium, targeted programs for Small School Funding provided an additional $31.1 million General Fund to EOU, OIT, the OSU Cascades Campus, SOU, and WOU. The Governor's budget would increase Small School Funding by an additional $9 million (or 28%) to help secure the financial stability of these institutions. The package also adds 36 positions (36.00 FTE) at the five institutions.

- **Faculty Salary Catch-up ($8 million General Fund) –** Average faculty salaries in the Oregon University System remain below the average faculty salaries at peer institutions. The budget provides $8 million to support salary increases to help OUS remain competitive in compensation with peer institutions. The funds will be in addition to funds that the Department will be eligible for out of any money set aside for statewide 2007-09 biennium compensation cost increases. The Governor's budget appropriates $130 million to the Emergency Board to finance compensation cost increases. How much of these funds the Department would receive is uncertain. However, if the Department received the same proportion of the funds designated for compensation cost increases in the 2007-09 biennium as it did from the 2005-07 biennium statewide distribution of compensation cost increase funds, it would receive $34 million General Fund. The funds that the Emergency Board would distribute would be calculated to support both faculty and non-faculty positions in the OUS that are supported by General Fund. The additional $8 million for Faculty Salary Catch-up would bring total funding for salary increases up to $42 million General Fund, but the Faculty Salary Catch-up portion is designated for faculty personnel only. The agency had requested $29 million General Fund as part of a plan to achieve faculty salary parity with peer institutions in ten years.

- **Reduce Student-Faculty Ratio ($6.86 million General Fund) –** The current student-faculty ratio in the Oregon University System is approximately 27:1. The Oregon State Board of Higher Education has approved reducing this to 24:1 (the national average is 22:1). These funds support filling an additional 90 faculty positions (90.00 FTE) in those OUS institutions with student-faculty ratios that exceed the national average. This would include all of the OUS institutions with the exceptions of the Oregon Institute of Technology and Southern Oregon University.

- **Utility Costs ($2.2 million General Fund) –** The Governor's budget adds these funds to help campuses address recent utility cost increases that have exceeded the rate of inflation.

<u>Specific Program Enhancements ($28.6 million General Fund/$19.1 million Other Funds)</u>

- **Engineering and Technology Industry Council [ETIC] ($17 million General Fund/$11.8 million Other Funds) –** Support is provided to expand and improve engineering and technology education and research programs. In the 2005-07 biennium, the state provided $20.7 million of General Fund in support of ETIC-identified initiatives. This funding increases General Fund support by 82%, and additionally funds $11.8

million of equipment purchases with certificates of participation (COPs). The funds support hiring an additional 40 engineering faculty and support staff (40.00 FTE) primarily at OSU, but also at PSU. ETIC has established a goal to increase the number of engineering degrees awarded annually in the OUS by 77% by the 2008-09 academic year. This increase would represent the amount of increase over the 1998-99 academic year level. ETIC requested $34.4 million General Fund plus the COPs to achieve this goal. General Fund is not authorized for COP debt service. Debt service on the COPs will be paid by campus Other Funds that are Nonlimited in the state budget.

- **Healthcare Initiative ($7.4 million General Fund) –** These funds represent the Department's portion of a $15.2 million General Fund program in the Governor's budget to expand healthcare workforce programs that is allocated to the Oregon University System. The Governor's budget also allocates $2.2 million to the Department of Community Colleges and Workforce Development and $5.6 million to the Oregon Health and Science University School of Nursing. The OUS portion of this initiative includes two components. There is $4.6 million to expand the sonography, clinical lab technician and technology, and dental hygiene programs at OIT. The remaining $2.8 million is to expand the offering of nursing pre-requisite courses throughout the OUS as part of the Oregon Consortium for Nursing Education's initiative to increase the number of nursing degrees in the state. The package adds 26 positions (25.00 FTE).

- **Rural Access Initiative ($1.6 million General Fund) –** These funds support an Eastern Oregon University initiative to increase college attendance in Eastern Oregon, where attendance rates lag the rest of the state. EOU would use the funds to expand outreach efforts to high school students and their parents in the region, and to offer courses on regional high school campuses. Funds may also be used to support scholarship support. The package adds 18 positions (18.00 FTE).

- **Oregon Solutions ($1.5 million General Fund) –** These funds support the Oregon Solutions program at Portland State University. Oregon Solutions is a program in the PSU School of Government Policy Consensus Center, which focuses on developing collaborative processes involving public issues. These funds were not requested by the Department, but were added to the budget by the Governor.

- **Information Systems ($837,000 General Fund) –** This finances expanding the Integrated Data Transfer System (IDTS), which was funded in 2005-07 and is designed to support data integration allowing student information to be shared electronically between high schools, community colleges, and OUS institutions. The funds also support expansion of the Articulated Transfer Linked Audit System (ATLAS), an online program that assists transfer students in determining which courses are required to complete their degree requirements. The package adds three positions (2.70 FTE). The Department received $2.1 million of General Fund in the 2005-07 biennium for the IDTS.

- **Institute for Natural Resources ($250,000 General Fund) –** This would double General Fund support for the Institute for Natural Resources at OSU from $250,000 in 2005-07 to $500,000 in 2007-09. The Legislative Fiscal Office believes that the Legislature intended the 2005-07 biennium appropriation to be one-time funding. This funding for the 2007-09 biennium was not requested by the Department, but was added to the budget by the Governor.

- **Certificates of Participation ($7.2 million Other Funds)** – The budget authorizes $7.2 million of COPs for information technology purchases. General Fund is not authorized for debt service. Debt service on the COPs will be paid by campus Other Funds that are Nonlimited in the state budget. (Note above that the budget supports an additional $11.8 million of COPs for ETIC-related equipment purchases.

- **Debt Structure Changes ($0.2 million Other Funds) –** Supports one position (1.00 FTE) to administer the Article XI-F(1) bond program. This item supports a proposal to allow the Department to use variable rate and synthetic fixed rate finance on Article XI-F(1) bonds. The Department forecasts debt service savings of $2 million per biennium of Nonlimited Other Funds if this proposal is approved, however, the increased complexity of the bond financing would generate the added administrative costs included here.

Program Reductions ($4.9 million General Fund)

- **Intercollegiate Athletics (-$4.9 million General Fund) –** The Governor's budget cuts General Fund support for intercollegiate athletic programs by $4.9 million. Intercollegiate athletic programs are operated as an auxiliary enterprise in the Department's budget. Auxiliary enterprise expenditures are not limited in the budget, but typically they also receive no General Fund or tuition revenue support, instead self-generating the revenues required to fund their operations. Nonetheless, some intercollegiate athletic programs receive subsidies from campus Education and General budgets to support their activities. The $4.9 million reduction was calculated as the General Fund component of the $14 million of limited Education and General funds that are being used to subsidize the intercollegiate athletic departments at Oregon State University and Portland State University per biennium. The Governor indicates that this reduction is associated with the expansion of revenue in the Sports Action Lottery program. The effect of this reduction is to offset most of the $7.7 million of increased funding coming from revenue increases to the Sports Action Lottery program.

In addition to these enhancements and reductions, the budget supports a law change to allow the Department to retain interest earnings on funds in its accounts. Under current law, with few exceptions, the earnings on system fund balances accrue to the General Fund. The Department has long requested that it be allowed to retain these interest earnings for its own purposes. The Governor's budget accedes to this request, and reduces 2007-09 biennium General Fund revenue by $19.1 million to reflect passage of this budget change. The Department would retain this $19.1 of interest earnings (Other Funds). The Governor's budget includes a $19.1 million fund shift from General Funds to Other Funds to reflect the law change. (The Education and General program contains $16 million of the fund shift, with the remaining $3.1 million in the Capital Construction program area.) The effect of this fund shift is to eliminate any fiscal impact to either the Department or to the rest of state government from the law change. The entire $19.1 million in General Fund revenues is allocated to the DHED budget, so other General Fund programs are not affected. However the General Fund reduction to DHED is offset by its ability to retain and spend the interest earnings on its accounts.

Tuition and resource fee revenues are the primary sources of the limited Other Funds. The Governor indicates that he supports, and that his budget accommodates, tuition and fee rate increases averaging 3.4% in each year of the biennium. This level of tuition rate increases would match projections of the rate of increase in median family income in the state. It is also roughly equal to the rate of tuition and fee increases during the 2005-07 biennium. The Legislative Fiscal Office has not yet been able to confirm whether or not the Other Funds revenues and expenditures in the Governor's budget are indeed consistent with tuition and fee rate increases of 3.4% per year. The Legislature will need to further review Other Funds expenditures in its work on the DHED budget.

DHED – Agricultural Experiment Station

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	50,238,500	51,860,395	54,668,604	59,858,931
Other Funds	10,306,047	16,399,999	13,900,000	14,200,040
Other Funds (NL)	53,636,052	63,127,844	59,173,893	60,993,391
Total Funds	**$114,180,599**	**$131,388,238**	**$127,742,497**	**$135,052,362**
Positions	683	807	807	819
FTE	530.54	631.90	631.90	643.90

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 Agricultural 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 Agricultural Experiment Station research in the 2003-05 biennium.

Budget Environment

In 1999, the Legislature approved an $8.2 million expansion of the Agricultural 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. In 2005, the Legislature rejected the Governor's recommendation for further reductions in General Fund support for the Agricultural Experiment Station. Although the Governor had recommended an additional $900,000 General Fund reduction from the 2003-05 biennium level, the Legislature increased General Fund by $1.6 million (or 3.2%) over the 2003-05 biennium level. The Agricultural Experiment Station also received $2.8 million in General Fund from the Emergency Board for compensation cost increases, thereby resulting in a 8.8% General Fund increase in the 2005-07 biennium over the prior biennium level.

Governor's Budget

The Governor's recommended budget's $59.9 million General Fund is a $5.2 million (or 9.5%) increase over the 2005-07 biennium level. Combined limited funding of $74.1 million is a $5.5 million (or 8%) increase over the 2005-07 biennium level. These totals are arrived at primarily as a result of two major items in the Governor's budget:

- Limited Other Funds are reduced by $3.2 million from the level approved last session. This adjustment corrects the budget to reflect the fact that Other Funds revenues have not been sufficient to fund the Other Funds expenditure limitation for several years. The Emergency Board recognized this in June 2006 when it adjusted the Agricultural Experiment Station's budget to finance 2005-07 biennium compensation cost increases. The Emergency Board reduced the 2005-07 biennium Other Funds expenditure limitation by $2.5 million to reflect actual 2005-07 biennium revenues. The Governor's action to reduce the Other Funds expenditure limit by $3.2 million represents a comparable adjustment for the 2007-09 biennium. The two adjustments are not cumulative. They both represent reductions from the Other Funds expenditure limit adopted for the 2005-07 biennium in the 2005 session.

- An increase of $2.86 million General Fund to support enhancements to Agricultural Experiment Station programs. This includes $1.21 million General Fund and seven positions (5.50 FTE) to enhance programs in viticulture and enology, with focuses on research into sustainable production of high quality wine grapes; and $1.65 million General Fund, and five positions (6.50 FTE) for unspecified program enhancements. The enhanced funding includes support for twelve positions (12.00 FTE) in total.

Limited Other Funds expenditures are increased only 2.2% over last biennium's level, and combined limited funds support is 0.5% below the essential budget level. The Governor's budget shows an increase of twelve positions (1.5%) from the prior biennium level.

DHED – Extension Service

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	35,123,305	37,194,367	39,412,723	43,146,261
Other Funds	20,304,911	22,838,785	23,776,830	24,647,553
Other Funds (NL)	3,708,888	7,698,032	6,708,073	6,916,460
Total Funds	**$59,137,104**	**$67,731,184**	**$69,897,626**	**$74,710,274**
Positions	484	589	595	603
FTE	416.53	418.46	418.46	426.46

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. In 2005, the Legislature increased General Fund by $2.1 million (or 5.9%) over the 2003-05 biennium level. The Extension Service also received $2.2 million in General Fund from the Emergency Board for compensation cost increases, thereby resulting in a 12.2% General Fund increase in the 2005-07 biennium over the prior biennium level.

Governor's Budget

The Governor's recommended budget's $43.1 million General Fund is a $3.7 million (or 9.5%) increase over the 2005-07 biennium level. Combined limited funding of $67.8 million is a $4.6 million (or 7.3%) increase over the 2005-07 biennium level. These totals are arrived at primarily as a result of one major item in the Governor's budget:

- An increase of $1.83 million General Fund to support unspecified enhancements to Extension Service programs. The enhanced funding includes support for 8 positions (8.00 FTE).

Limited Other Funds expenditures are increased 3.7% over last biennium's level, and combined limited funds support is 2.8% above the essential budget level. The Governor's budget shows an increase of eight positions (1.3%) from the prior biennium level.

DHED – Forest Research Laboratory

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	4,938,639	5,258,370	5,536,652	6,608,458
Other Funds	7,320,481	9,760,398	8,500,000	8,000,214
Other Funds (NL)	23,003,313	20,820,807	23,902,147	23,528,122
Total Funds	**$35,262,433**	**$35,839,575**	**$37,938,799**	**$38,136,794**
Positions	214	271	271	274
FTE	172.41	219.16	219.16	222.16

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

Budget Environment

In 1999, the Legislature approved a $1 million General Fund expansion of the Laboratory's research activities, increasing state program support by 25%. After this, General Fund support remained essentially flat at around $5 million for three biennia. In 2005, the Legislature increased General Fund by $320,000 (or 6.5%) over the 2003-05 biennium level. The Forest Research Laboratory also received $280,000 in General Fund from the Emergency Board for compensation cost increases, thereby resulting in a 12.1% General Fund increase in the 2005-07 biennium over the prior biennium level.

Governor's Budget

The Governor's recommended budget's $6.6 million General Fund is a $1.1 million (or 19.4%) increase over the 2005-07 biennium level. Combined limited funding of $14.6 million is a $570,000 (or 4.1%) increase over the 2005-07 biennium level. These totals are arrived at primarily as a result of two major items in the Governor's budget:

- Limited Other Funds are reduced by $2.7 million from the level approved last session. This adjustment corrects the budget to reflect the fact that Other Funds revenues have not been sufficient to fund the Other Funds expenditure limitation for several years. The Emergency Board recognized this in June 2006 when it adjusted the Forest Research Laboratory's budget to finance 2005-07 biennium compensation cost increases. The Emergency Board reduced the 2005-07 biennium Other Funds expenditure limitation by $1.3 million to reflect actual 2005-07 biennium revenues. The Governor's action to reduce the Other Funds expenditure limit by $2.7 million represents a comparable adjustment for the 2007-09 biennium. The two adjustments are not cumulative. They both represent reductions from the Other Funds expenditure limit adopted for the 2005-07 biennium in the 2005 session.

- An increase of $1.83 million General Fund to support unspecified enhancements to Forest Research Laboratory programs. The enhanced funding includes support for three positions (3.00 FTE).

Limited Other Funds expenditures are forecast to fall 5.9% from last biennium's level, and combined limited funds support is 11.7% below the calculated essential budget level. This calculation is misleading, however, because it does not take into account that the Other Funds expenditure limitation approved last session overstated the true amount of Other Funds revenues available to the Forest Research Laboratory. As indicated, the Governor's budget includes an adjustment to reflect this, but the essential budget level is not so adjusted and therefore comparisons to it are misleading. The Governor's budget shows an increase of three positions (1.1%) from the prior biennium level.

DHED – Sports Action Lottery

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Lottery Funds	4,295,218	5,744,213	5,744,213	13,481,449
Total Funds	**$4,295,218**	**$5,744,213**	**$5,744,213**	**$13,481,449**

Program Description

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

The 2005 Legislative Assembly abolished the Sports Action lottery game, and dedicated 1% of net lottery receipts to the Department of Higher Education Sports Action Lottery program area. Both actions are effective beginning July 1, 2007.

Revenue Sources and Relationships

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

Budget Environment

The Sports Action lottery game, which has funded program services since the 1989-91 biennium, will be discontinued on July 1, 2007. Beginning with the 2007-09 biennium, program services will be funded instead by 1% of net lottery receipts from the remaining lottery games, which are now dedicated to these programs by statute. The proceeds will continue to be distributed 88% for intercollegiate athletics and 12% for graduate student scholarships.

The expenditure limitation for the Sports Action lottery is typically set equal to the projected revenue. In the 2005-07 biennium, however, the budget authorized expenditures above the level of revenues. The chosen expenditure level was calculated to 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 exceeded the prior biennium level by 34%.

The dedication of 1% of net lottery receipts will provide significantly more revenue for the Sports Action Lottery program area than the Sports Action lottery game did. Revenues will increase by 135% (or $7.7 million) in the 2007-09 biennium when the revenue source is changed. Revenues are expected to increase more rapidly over time too, than they would have from the Sports Action lottery game.

Governor's Budget

The expenditure limitation for the Sports Action Lottery program is set equal to the projected revenue. The $13.5 million Lottery Funds in the Governor's recommended budget is a $7.7 million (or 135%) increase over the prior biennium level. In the past, campuses have typically not spent all of the Sports Action Lottery funds available to them, and actual expenditures may not increase to the permitted level in 2007-09. This increase provides increased support, above the 2005-07 biennium level, of $6.8 million for intercollegiate athletics and of $900,000 for graduate student scholarships.

Note that the Governor's budget reduces support for intercollegiate athletics by $4.9 million General Fund in the Education and General program area. This reduction reduces the net increase amount of state support for intercollegiate athletic programs to $1.9 million above the 2005-07 biennium level. The Governor's budget calculated the $4.9 million as the General Fund component of the $14 million of limited Education and General funds that are being used to subsidize the intercollegiate athletic departments at Oregon State University and Portland State University per biennium.

DHED – Debt Service

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	26,406,270	30,275,204	30,275,204	45,987,146
Lottery Funds	3,212,379	5,673,311	5,673,311	18,008,612
Other Funds (NL)	89,653,408	104,289,912	113,620,030	139,120,227
Total Funds	**$119,272,057**	**$140,238,427**	**$149,568,545**	**$203,115,985**

Program Description

This program reflects debt service expenditures for capital construction projects financed by bonds or certificates of participation. General Fund appropriations are made to pay the debt service on Article XI-G bonds, traditionally used to finance instructional and public service facilities. In 2001, the Legislature approved the use of Lottery Bonds to finance campus capital projects for the first time. Revenues from self-supporting programs and student building fees are the sources of debt service for repayment of Article XI-F(1) bonds, which are traditionally a revenue source for construction of student unions, dorms, parking structures, and similar self-supporting programs. 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.

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

Budget Environment

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

Governor's Budget

State-paid (General Fund plus Lottery Funds) debt service costs are budgeted for a total $64 million, a $28 million (or 78%) increase over the 2005-07 biennium level. The $64 million total includes:

- **$55.5 million (General Fund plus Lottery Funds) for debt service on bonds issued for capital construction projects authorized in prior legislative sessions**. This amount exceeds 2005-07 biennium amounts by $19.6 million (or 55%). The very large rate of growth results from the high level of state-supported debt approved in the 2005-07 biennium capital construction budget. Only in 2007-09 is the state beginning to pay debt service for projects approved in the 2005 session. Historically, debt service costs on capital construction projects have always initiated in the biennium subsequent to the biennium of the project approval.

- **$8.5 million Lottery Funds for debt service on bonds for capital projects that the Governor proposes for the 2007-09 biennium.** In a break with prior practice, the Governor's budget is recommending $174.9 million of Lottery Bonds for 16 capital construction projects that would generate debt service costs in the same biennium for which they are approved. In the past, the state did not issue Lottery Bonds for higher education capital construction projects until shortly before the end of the biennium, thereby delaying debt service costs until the following biennium. The need for this $8.5 million of Lottery Funds is contingent upon legislative approval of the proposed projects in the Department's capital construction budget. The full amount would not be needed unless all of the proposed projects are approved. Also, the Legislature could eliminate these costs from the 2007-09 biennium budget by directing the Department to continue the practice of delaying the issue of the Lottery Bonds until close to the end of the biennium.

Although the proposed 2007-09 biennium capital construction projects would generate $8.5 million in debt service costs in 2007-09, this represents only a small portion of the debt service costs associated with the Governor's budget for higher education capital construction projects. The proposed projects would, if they are all approved, generate $57.1 million of biennial debt service costs, beginning in the 2009-11 biennium, that would need to be paid by General Fund or Lottery Funds. This would be $48.6 million (or 76%) increase over the 2007-09 biennium level.

DHED – Capital Construction

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	11,519,853	14,796,329	14,796,329	0
Other Funds	436,238,120	395,522,060	548,267,057	594,486,786
Total Funds	**$447,757,973**	**$410,318,389**	**$563,063,386**	**$594,486,786**

Program Description

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

Revenue Sources and Relationships

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

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

In recent biennia, the state has added additional financial instruments to pay for capital construction. In 2001, the Legislature approved the use of Lottery Bonds to finance campus capital projects for the first time, and in 2005, the Legislature approved using Article XI-J bonds, also known as Small-Scale Energy Loan Program (SELP) bonds, to finance costs relating to energy saving components of the capital projects.

Budget Environment

The 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 $600 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.

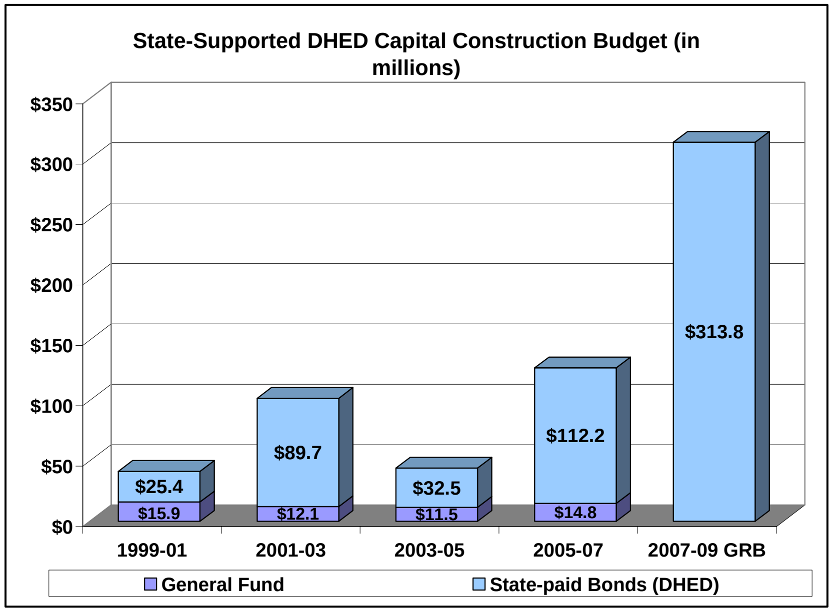
The 2001 Legislature also approved over $90 million of state-paid bonds (Article XI-G and Lottery Bonds) to finance new capital projects on a number of campuses, more than triple the prior biennium level. Lottery Bonds were approved for Department capital projects for the first time.

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. Although approved total expenditures exceeded the prior biennium level, state support was considerably reduced from the 2001-03 biennium level. 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, and state-paid bonds were limited to $32.5 million, bringing them back closer to earlier levels.

The 2005-07 biennium budget, however, greatly expanded state support for capital construction. State-paid bond authorization was approved for $112.2 million, approximately 3.5 times the prior biennium level, and direct General Fund support was increased almost 30%. The budget also included a policy directive to OUS relating to Article XI-G bond-funded projects. A budget note approved with the 2005-07 capital construction budget directs the Department to end the practice of soliciting donations for capital projects, with the intent of using Article XI-G bonds in the project's funding, prior to obtaining legislative authorization to do so. This addresses situations where campuses have raised donations first and then asked for the state to match them with Article XI-G bonds only afterwards. This directive becomes effective for capital projects approved beginning in the 2009-11 biennium.

Governor's Budget

The Governor's recommended budget supports 45 specified capital construction projects, and includes general support for deferred maintenance and capital repair. Five of the 45 specified projects are provided only $1 expenditure limitations, and would thus require additional legislative or Emergency Board approval 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 salient aspects of the Governor's capital construction budget include the large increase in state-support for construction costs, compared to prior biennia. The budget includes $313.8 million of state-supported debt (Article XI-G bonds, Lottery bonds, and SELP bonds) for OUS capital construction projects. State-supported debt is repaid with state discretionary funds – General Fund and Lottery Funds. The amount of state-supported debt in the Governor's budget is almost triple (2.8 times) the level authorized in the 2005-07 biennium, and approximately 10 times the amount authorized the biennium before that. Debt service costs for these bonds is projected to total $57.1 million of General Fund and Lottery Funds per biennium, beginning in the 2009-11 biennium when these costs fully phase in. These costs would continue for the term of the bonds, which would generally cover 10 or 15 biennia (20-year terms or 30-year terms). The proposed projects would also generate $8.5 million of debt service costs immediately in 2007-09. The Department was directed, last session, to report to the Emergency Board on potential Article XI-G bond-funded projects that it might bring forward for authorization to the Legislature in 2007. All of the Article XI-G bond-funded projects that are in the Governor's budget were included in the Emergency Board report, however the bond requests for some of these projects exceed the amounts that the report indicated they would be.

Another important aspect of the Governor's budget is its large increase in funding for campuses to address deferred maintenance issues. The budget includes $80.4 million of Lottery bond proceeds to address capital repair and deferred maintenance needs. This level of funding, along with $87.3 million of Lottery bonds and SELP bonds for six additional deferred maintenance capital projects, would significantly address the backlog of deferred maintenance of OUS campuses, now estimated to total $600 million. The budget also includes $20 million of state-supported debt toward financing $25 million of renewal energy demonstration projects. The projects involve research into renewable energy resources. The inclusion of these projects in the agency's capital construction budget is unusual in that the campuses did not request them. The other projects included in the budget are all based on campus requests that went through a department-wide prioritization process.

The budget also discontinues the practice of financing ongoing capital repair with a combination of General Fund and Article XI-G bonds. This represents a $12.2 million General Fund cut. Instead, as indicated above, Lottery bonds would be used to fund these activities. The budget also authorizes $280.7 million in non-state-supported expenditures for capital construction projects. This amount is reduced 36% from the prior biennium level. Non-state-supported expenditures include self-supported debt (Article XI-F(1) bonds) paid by student building fees and Oregon University System auxiliary enterprise income, and expenditures financed by donations, grants, or other cash.

DHED – Other Services (Nonlimited)

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds (NL)	718,887,749	945,938,615	877,422,967	906,916,420
Total Funds	**$718,887,749**	**$945,938,615**	**$877,422,967**	**$906,916,420**
Positions	1,759	1,649	1,903	1,903
FTE	1,592.98	1,462.71	1,633.99	1,633.99

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

Program Description

The Nonlimited Other Funds 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 47% 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.

Governor's Budget

The Governor's recommended budget anticipates an Other Services (Nonlimited) expenditures decrease of 4% from the level adopted in the 2005 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 estimate for 2005-07 biennium Other Services (Nonlimited) expenditures was adjusted downwards after the 2005 session after additional review of what the actual expenditures in these programs would likely be. The Governor's budget projects a 3.4% increase in 2007-09 over the revised estimate for 2005-07.

Oregon Student Assistance Commission (OSAC) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	45,126,877	76,824,638	76,824,638	104,808,822
Lottery Funds	0	1,527,619	1,527,619	9,507,036
Other Funds	11,716,223	3,562,481	3,860,450	6,308,215
Federal Funds	1,480,969	2,103,860	2,103,860	2,104,655
Other Funds (NL)	40,603,425	9,014,812	9,014,812	10,285,788
Total Funds	**$98,927,494**	**$93,033,410**	**$93,331,379**	**$133,014,516**
Positions	84	23	23	36
FTE	84.00	22.35	22.35	33.83

Agency Overview

The Oregon Student Assistance Commission (OSAC) administers financial aid and other 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.

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 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 had major consequences. Most of the agency's personnel and budget had 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 320 privately funded scholarship programs, with awards projected to total $7.5 million in the 2007-09 biennium. The Office of Degree Authorization (ODA) is responsible for enforcing certain regulations relating to post-secondary education. ODA responsibilities include authorizing private institutions' degree programs and reviewing the postsecondary programs of public institutions to avoid detrimental duplication.

Revenue Sources and Relationships

The Commission began receiving Lottery Funds in the 1999-2001 biennium. One-quarter of the earnings of the Education Endowment Fund (now renamed the Education Stability Fund) are 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 revenues were 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; and interest on accumulated loan program revenues. The Commission now receives Other Funds from 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. Most Other Funds payments for student aid (e.g., Private Award payments, JOBS Plus payments) are Nonlimited.

Federal Funds are from the Leveraging Educational Assistance Partnership (LEAP) and Special Leveraging Educational Assistance Partnership (SLEAP) programs. LEAP and SLEAP funds are combined with the much larger state contribution to fund the Opportunity Grant. These programs require the state to provide matching funds and not reduce support levels for the Opportunity Grant to receive maximum funding. Because of recent large increases in state support for the Opportunity Grant, the matching funds requirements have been met and the state is maximizing the amount of Federal Funds available from these programs.

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 (since renamed the Education Stability 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. Revenue from this source was affected when the state used the corpus of the Education Stability Fund (ESF) to offset General Fund reductions during the recession that hit after the 2001 session. Since then, however, the corpus of the ESF has been recovering. The Fund provided $1.5 million of Lottery Funds earnings for Opportunity Grants in the 2005-07 biennium. The amount of Lottery Funds forecast to be available for the 2007-09 biennium budget, from both 2007-09 biennium ESF earnings and from carry forward of earlier earnings not yet spent, is $9.5 million.

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 had been 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.

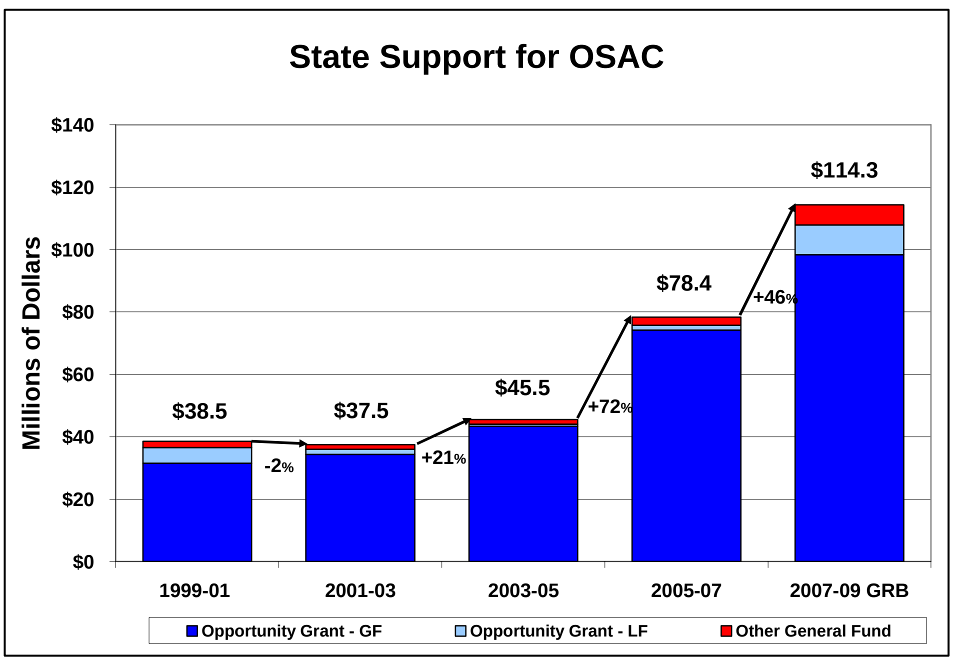
The Legislature addressed this issue in the 2005 session, and substantially increased Opportunity Grant funding to allow all eligible students to receive awards independent of their application date. State funding of Opportunity Grants was increased to $75.7 million, an increase of $31.7 million (or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

Total Opportunity Grant funding for the 2005-07 biennium, including Federal Funds and Other Funds from expired JOBS Plus Individual Education Accounts, was $78.1 million. Program usage though has fallen far short of projection, and a significant portion of the appropriated funds will not be spent. In the first year of the biennium, Opportunity Grant awards were made to 24,299 students and totaled $29.3 million. Second-year award totals will not be known until next Spring, but the number of full-time students receiving awards in Fall 2006 fell by more than 12% from the prior year, even though the program was expanded that term to cover all eligible student at private institutions for the first time. Because of this, second-year payments would only total $30.5 million if Fall Term awards represent the same proportion of all term awards that they did last year. This would be despite the fact that award amounts have increased since the prior year, and the part-time award program is just starting this year. Opportunity Grant awards would total only $60 million (23% below the cost projected last session).

The primary reason for the lower than expected costs is that program participation is much lower than expected. The expansion of Opportunity Grant funding does not appear to have increased enrollment of lower income Oregonians in post-secondary education. The 2005-07 biennium budget for the Opportunity Grant was funded on the assumption that 63,000 awards would be made during the two academic years of the biennium. The Legislative Fiscal Office now projects that the actual number of awards in the 2005-07 biennium will only total approximately 50,400 (20% below the number projected last session). This number would still be a 31% increase over the number of Opportunity Grants awarded in 2003-05. This is less, however, than the 42% increase that should have occurred when the program was expanded, if the number of eligible applicants did not change from the prior biennium level.

Governor's Budget

The Governor's recommended budget increases state support (General Fund plus Lottery Funds) to OSAC to $114.3 million (a 45.9% increase over the 2005-07 legislatively approved budget). This follows large increases in the previous two biennia, and would result in a more than tripling of state support since 2001-03. The increase in dollar terms is primarily due to a 42% increase in the Opportunity Grant program. The Governor's budget proposes to significantly expand eligibility for Opportunity Grants and to increase average award amounts. The structure of the award program would be changed as well, and award amounts would be made dependent on income. Currently, students must have incomes lower than a certain level to qualify for the Opportunity Grant. If they meet this income requirement, however, their grant amount does not depend on their income level. That is, a student with a very low income receives the same grant amount as a wealthier student who also qualifies for the grant. The Governor is proposing to change this so that as a student's income increases the award amount drops. The basic structure of the proposal, which the Governor has labeled the "Shared Responsibility Model," is based on Minnesota's student financial aid program.



The proposed Opportunity Grant changes would cost more than the funding in the Governor's budget allows, if they were adopted for both years of the coming biennium. Instead, the Governor's budget would begin the Opportunity Grant program changes in the second year of the biennium. This reduces the program cost and would allow OSAC to prepare the administrative changes needed to adopt the Shared Responsibility Model, which would be considerably more complex to administer than the existing Opportunity Grant program. Note that Opportunity Grant expenditures in the 2005-07 biennium are now expected to be $18.1 million below the level in the legislatively approved budget. The increase to $107.9 million, therefore, represents a $47.9 million (or 80%) increase in the actual cost of the Opportunity Grant this biennium.

Because the Opportunity Grant changes would be effective for only the second year of the 2007-09 biennium, there would be a roll-up cost of approximately $45 million in 2009-11, when the changes would be fully phased in. The Governor's support for this Opportunity Grant increase is contingent upon a proposed increase in the minimum payment in the corporate income tax. The Governor supports reducing Opportunity Grant support from the level in his budget by $35 million General Fund if the minimum corporate tax increase is not enacted.

The Governor's budget also increases state support for a number of other agency activities, including a more than doubling of state support for the agency's administrative operations. The budget also supports a 57% increase in employment at the agency, adding 13 positions for a total of 36. The increase when measured on a full-time equivalent basis is slightly less at 51%. The budget support a 138% increase in the Rural Health Services Program, and would provide General Fund for the ASPIRE program for the first time. The budget also transfers the Student Childcare Program from the Department of Human Services to OSAC. Finally, the budget ends General Fund support for the Oregon Troops to Teachers program.

A summary of General Fund and Lottery Funds in the Governor's budget appears below:

State Support (General Fund + Lottery Funds)

	2005-07 LAB	2007-09 GRB	Change
Opportunity Grant	$75,732,121	$107,879,103	42.4%
Rural Health Services Program	444,629	1,058,412	138.0%
Nursing Services Program	358,650	369,768	3.1%
Oregon Troops to Teachers	165,000	0	-100.0%
ASPIRE (portion to schools only)	0	671,061	N/A
Student Child Care	0	895,820	N/A
Agency Operations	1,651,857	3,441,694	108.4%
Total State Support	$78,352,257	$114,315,858	45.9%

OSAC – Office Operations

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	992,252	1,536,582	1,536,582	3,143,885
Other Funds	3,616,998	2,735,305	2,992,570	2,978,558
Total Funds	**$4,609,250**	**$4,271,887**	**$4,529,152**	**$6,122,443**
Positions	34	21	21	34
FTE	34.00	20.35	20.35	31.58

Program Description

All of the agency's current administrative costs are funded in the Office Operations program, except for administrative costs of the Office of Degree Authorization. Note the table above does not include most of the agency's historic administrative costs or employees in the FFELP program. Those administrative costs (for the 2003-05 biennium only) are included in the Loan Division numbers.

Office Operations finances the cost of the agency, including personnel costs and services and supplies. Student aid payments are included in either the Opportunity Grant or Other Programs areas.

Revenue Sources and Relationships

The Commission uses Other Funds to pay for the portion of the Office Operations expenditures that are allocated to support the Other Funds-funded programs. The two primary sources of these Other Funds are charges for administering Private Award programs, and grant funds to operate the ASPIRE program.

Budget Environment

Office Operations are funded from a combination of General Fund and Other Funds. The administrative costs associated with General Fund-supported programs (including the Opportunity Grant) are paid by the General Fund. Administrative costs associated with Other Funds-funded programs are paid by the Other Funds sources. Employees with responsibilities in both General Fund and Other Fund programs are typically paid from a combination of both fund sources.

Office Operations were reduced significantly in the 2005-07 biennium, after OSAC withdrew from FFELP. In addition to the position reductions shown in the table above, another 44 positions were eliminated in the Loan Division. The 13 positions eliminated in Office Operations were positions that had been financed from a combination of General Fund and FFELP revenues. The 2005-07 budget increased General Fund for Office

Operations by 55% to avoid additional position cuts that would have threatened the agency's ability to perform its remaining statutory functions.

ASPIRE program expenditures equal approximately $1.5 million Other Funds per biennium. Five of the agency's 23 positions (5.00 FTE) are allocated to ASPIRE. Funding for ASPIRE will decline by $314,000 Other Funds in the 2007-09 biennium, due to the expiration of an AmeriCorps grant that had supported the program.

Governor's Budget

The Governor's recommended budget more than doubles General Fund for Office Operations, increasing it by $1.6 million (or 105%) over the prior biennium level. Total funds are also increased by $1.6 million (or 35%) over the prior biennium level. The Governor's budget also adds a total of 13 positions and 11.23 FTE, increases of 62% and 55%, respectively.

The following initiatives are funded in the Governor's budget:

- **Opportunity Grant: Shared Responsibility Model ($650,000 General Fund, three positions, 3.40 FTE) –** The Governor's budget supports changing the award structure in the Opportunity Grant program to adjust award levels by income. This will make administration of the program more complex. The budget would also significantly increase the number of awardees by over 60% above current levels. In Office Operations, the budget adds three positions and 3.40 FTE to address added workload associated with the expanded and more complex program. This funding also includes $250,000 to develop a model to project Shared Responsibility Model costs and outcomes.

- **ASPIRE Program expansion ($680,000 General Fund, -$210,000 Other Funds, five positions, 3.33 FTE) –** The Governor's budget appropriates General Fund for the ASPIRE program for the first time. The additional funds will finance expansion for the program from 83 to 150 high schools in the state (out of a total 317 schools). The budget shifts $210,000 of existing costs from Other Funds to the General Fund, primarily by allocating General Fund to pay portions of the salaries of employees now funded entirely by Other Funds. This will maintain employment given the expiration of grants that had supported these positions. The Governor's budget adds an additional $470,000 of General Fund to expand the program in Office Operations. The program enhancements include five added positions to service the expanded program, including four funded by General Fund. The new General Fund positions include a third seasonal Regional Coordinator, a Resource and Training Specialist, and two Training Consultants. (Note the budget also adds $670,000 of General Fund for payments to high schools. This $670,000 is not included here, but is instead in the Other Programs area. **The total General Fund proposed for ASPIRE is $1.35 million**.)

- **Scholarship Services Marketing and Support ($15,000 General Fund, $430,000 total funds, three positions, 3.25 FTE) –** The Governor's budget adds three positions to support administration of the Private Awards program and administration of a federal Gear Up grant. It establishes a Donor Development and Marketing Specialist to work with private scholarship donors, a Gear Up Scholarship Portfolio Manager to coordinate awarding of Gear Up scholarships with the Oregon Community Foundation, and an Application Processing Coordinator to assist students in filling out applications for financial aid. These personnel costs, along with associated services and supplies costs of $130,000, will be financed by Other Funds grants and contracts. The General Fund component will fund expanding a part-time accounting position to a full-time position.

- **JOBS Plus Scholarship ($28,000 Other Funds, one position, 0.25 FTE) –** Funds one part-time position to administer a proposed new scholarship for JOBS Plus clients. The proposed scholarship would require legislative approval in a substantive bill to allow JOBS Plus Individual Education Account (IEA) moneys to be transferred immediately from the Department of Human Services to OSAC to fund scholarships for JOBS Plus clients. Under current law, JOBS Plus IEA benefits are underutilized, and the proposal is designed to increase usage of the available scholarship funds.

- **Technology Lifecycle Replacement ($39,000 General Fund, $39,000 Other Funds) –** Adds permanent funding in the agency budget for replacing desktop computers and servers.

- **Agency Facilities and Internal Audit ($70,000 General Fund, $90,000 total funds, one position, 0.50 FTE) –** Establishes a part-time internal auditor position. The agency requested this position to comply with a

Department of Administrative Services policy requiring all agencies with expenditures in excess of $100 million to maintain internal audit capability.

- **Rural Health Services Program expansion ($23,000 General Fund, zero positions, 0.25 FTE) –** The Governor's budget expands the Rural Health Services Program. The total cost of this expansion is $623,000 General Fund. Most of these dollars ($600,000) would be used for payments to health care professionals, and their expenditure, along with a description of the Governor's proposal, is discussed in the Other Programs area below. The $23,000 in Office Operations would expand a new position that is proposed in the JOBS Plus Scholarship initiative from 0.25 to 0.50 FTE. Half of this person's time would be dedicated toward administering the expanded Rural Health Services program.

- **Student Child Care (33,000 General Fund, zero positions, 0.25 FTE) –** The Governor's budget transfers the existing Student Child Care program from the Department of Human Services to OSAC. The program is transferred at the essential budget level of funding. The Student Child Care program is described in the Other Programs area below. The component in the Office Operations program would finance a part-time administrative specialist position for the 21 months that OSAC would administer the program in the 2007-09 biennium.

OSAC – Opportunity Grants

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	43,293,489	74,204,502	74,204,502	98,372,067
Lottery Funds	0	1,527,619	1,527,619	9,507,036
Federal Funds	1,480,969	2,103,860	2,103,860	2,104,655
Other Funds (NL)	0	300,000	300,000	16,242
Total Funds	**$44,774,458**	**$78,135,981**	**$78,135,981**	**$110,000,000**

Program Description

The principal student aid grant program in Oregon 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 25,000 students will receive an Opportunity Grant each year during the 2005-07 biennium, up from an average of 19,000 students per year during the prior biennium.

Revenue Sources and Relationships

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. Revenue from this source was affected when the state used the corpus of the Education Stability Fund (ESF) to offset General Fund reductions during the recession that hit after the 2001 session. Since then, however, the corpus of the ESF has been recovering. The Fund provided $1.5 million of Lottery Funds earnings for Opportunity Grants in the 2005-07 biennium. The amount of Lottery Funds forecast to be available for the 2007-09 biennium budget, from both 2007-09 biennium ESF earnings and from carry forward of earlier earnings not yet spent, is $9.5 million.

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 of recent large increases in state support for the Opportunity Grant, the matching funds requirements have been met and the state is maximizing the amount of Federal Funds available from these programs.

Budget Environment

In recent years, significant numbers of students who were eligible to receive an Opportunity Grant did not receive one because of lack of funds. The Commission approved eligibility standards and award levels that could not be financed given the amount of Opportunity Grant funds available. Because of this, the Commission set an application cutoff date each year. Students who did not finalize their plans until later, or who did not apply by the cutoff date for other reasons, did not receive an Opportunity Grant award. Approximately 66-70% of eligible students received awards in 2003-05 before funding was cut off. This practice 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.

The state further expanded the program in the 2005-07 biennium. The Legislature expanded the Opportunity Grant to part time students. More significantly, it addressed the issue that some eligible students failed to receive the grant because of the level of funding. Instead of directing the Commission to establish eligibility requirements that reflected available funding, the Legislature increased funding to serve all students who were eligible for funding under the criteria that the Commission had set.

The 2005-07 legislatively approved budget added $31.4 million of General Fund support above the essential budget level for the Opportunity Grant. State support (General Fund plus Lottery Funds) for Opportunity Grants totaled $75.7 million, a 72% increase over the 2003-05 level. Adding in available Federal and Other Funds, the budget financed $78.1 million for Opportunity Grants, which was also a 72% increase over the prior biennium level of funding.

The funding financed a two-stage expansion of the Opportunity Grant:

- 2005-06 fiscal year – The Opportunity Grant program was expanded to serve all 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 were to be served in this year.

- 2006-07 fiscal year – The Opportunity Grant program was further expanded to serve all eligible students attending qualified private institutions. The program was extended to part-time students for the first time. The part-time student award amounts were established at one-half of the amounts available to full-time students enrolled at the same institution, and became available to eligible students enrolled for a minimum of six credit hours. Income eligibility criteria is identical for full-time and part-time students, and all eligible part-time students were to 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 was projected to be sufficient to finance all of the approved program expansions. These expansions were forecast to increase Opportunity Grant awards from an estimated 38,400 students in the 2003-05 biennium, to 63,000 students in 2005-07. Actual participation has been far less than forecast, however. In the first year of the biennium, Opportunity Grant awards were made to 24,299 students and totaled $29.3 million. The number of awards to full-time students in Fall 2006 fell by more than 12% from the prior year, even though the program was expanded that term to cover all eligible student at private institutions for the first time. Because of this, second-year payments would only total $30.5 million if Fall Term awards represent the same proportion of all term awards as they did last year. This is even though award amounts have increased since the prior year, and the part-time award program is just starting this year. The Legislative Fiscal Office now projects that Opportunity Grant awards will total only $60 million in the 2005-07 biennium (23% below the cost projected last session).

The primary reason for the lower than expected costs is that program participation is much lower than expected. The expansion of Opportunity Grant funding does not appear to have increased enrollment of lower income Oregonians in post-secondary education. The 2005-07 biennium budget for the Opportunity Grant was funded on the assumption that 63,000 awards would be made during the two academic years of the biennium. The Legislative Fiscal Office now projects that the actual number of awards in the 2005-07 biennium will only total approximately 50,400 (20% below the number projected last session).

Governor's Budget

The Governor's recommended budget supports another major expansion in the Opportunity Grant program. The Governor's budget adds $47 million of General Fund to increase Opportunity Grant support to a total of $110 million, which is 41% over the 2005-07 legislatively approved budget, and 83% over the current estimate for 2005-07 biennium Opportunity Grant expenditures.

The funds would be used to expand the Opportunity Grant in the second year of the biennium by adopting the Shared Responsibility Model. The Shared Responsibility Model, which is based on Minnesota's student grant program, would adjust grant award amounts with the student's income level. This would end the current situation in the Opportunity Grant program whereby qualifying students receive the same grant amount regardless of their income or family status, and whereby there is a cliff effect such that an additional dollar of income disqualifies a student and eliminates the entire award amount.

The budget would also fund a significant expansion of the program, expanding the average award amounts and the number of students served. The Governor's budget would extend the Opportunity Grant to middle income students. Awards would be available to students, generally, with family incomes of up to $60,000. The number of students served is projected to increase from 26,000 in 2006-07, to 42,000 (a 61% increase) in 2008-09, when the expansion would occur. Average grant award amounts would also increase: from $1,200 in 2005-06 to $1,800 in 2008-09.

Because the Opportunity Grant changes would be effective in only the second year of the 2007-09 biennium, there would be a roll-up cost of approximately $45 million in 2009-11, when the changes would be fully phased in. The Governor's support for this Opportunity Grant increase is contingent upon a proposed increase in the minimum payment in the corporate income tax. The Governor supports reducing Opportunity Grant support from the level in his budget by $35 million General Fund if the minimum corporate tax increase is not enacted.

The Legislative Fiscal Office (LFO) characterizes the supplemental funding above essential budget level to implement the Shared Responsibility Model for one year of the biennium as equal to $47 million of General Fund. This is based on projected 2006-07 academic year costs of the Opportunity Grant of $30.5 million. LFO calculates the essential budget level of maintaining the Opportunity Grant program at the 2006-07 level through the two years of the 2007-09 biennium to be approximately $63 million. Therefore, the $110 million in the Governor's budget represents $47 million over the essential budget level. The Governor does not characterize it in this way, however. The Governor's budget estimates an essential budget level of over $71 million, based on earlier projections of program usage. Therefore the Governor's budget characterizes its funding as only $39 million over essential budget level. LFO, however, considers the $47 million figure to be accurate.

LFO also cautions that the projected costs of adopting the Shared Responsibility Model are highly uncertain. Indeed, the Governor's budget includes funds in the Office Operations program to develop better modeling of Shared Responsibility Model costs.

OSAC – Other Programs

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	599,026	968,279	968,279	2,995,061
Other Funds	299,461	536,611	555,361	3,088,496
Other Funds (NL)	9,531,275	8,714,812	8,714,812	10,269,546
Total Funds	**$10,429,762**	**$10,219,702**	**$10,238,452**	**$16,353,103**

Program Description

The Other Programs area of the budget includes payments made under the agency's student aid programs other than the Opportunity Grant. These programs include three existing state supported programs – a) the Rural Health Services Program, b) the Nursing Services Program, and c) Oregon Troops to Teachers Program; one state-supported program proposed to be transferred from another agency – d) the Student Child Care program; one program that currently operates without state-support but for which the Governor proposes adding state support – e) the ASPIRE program; and a number of programs that neither receive state support (or are supported in other state agency budgets with funds merely transferred to OSAC for disbursement), nor are proposed to receive state support – the largest in this latter category being the Private Awards program.

The Rural Health Services Program repays the education loans of health care professionals who practice in qualifying rural health care shortage areas. The Nursing Services program operates in a similar manner for nurses, and 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 ASPIRE (Access to Student Assistance Programs in Reach of Everyone) program is an OSAC initiative. The program is not a financial aid program, but instead it works to increase access to post-secondary education by providing high school students with information on how to apply to college and apply for financial aid. ASPIRE trains volunteers who mentor high school students through the college admission and financial aid application process, thereby supplementing services that many high schools have reduced in recent years. ASPIRE was begun in 1998 and has expanded to 83 high schools. The program is entirely funded by grants (Other Funds). Other Programs also houses the Private Award program. The Commission acts as a clearinghouse for the administration of over 320 privately funded scholarship programs. 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.

Budget Environment

General Fund supported three Other Programs in the 2005-07 legislatively approved budget: the Rural Health Services Program, the Nursing Services Program, and the Oregon Troops to Teachers Program. The Rural Health Services Program was not increased in 2005-07 above the essential budget level, and is operating at capacity. Funding for the Nursing Services Program was more than doubled in 2005-07 to restore a one time fund shift in 2003-05 when funding for the program was adjusted to equal current costs. This funding restoration has turned out to be more than was needed. Only about 70% of the General Fund appropriated for the Nursing Services Program will be spent in 2005-07.

The Oregon Troops to Teachers program was established in the 2005 session. The program was funded with $165,000 General Fund. Only 27% of this ($45,000) is expected to be used, however, as utilization was less than expected.

Governor's Budget

The Governor's recommended budget increases General Fund for Other Programs by $2 million (or 209%) over the prior biennium level. Total funds are increased by $6.1 million (or 60%) over the prior biennium level. There are three General Fund enhancements, and one General Fund program is eliminated.

- **ASPIRE Program expansion ($670,000 General Fund) –** The Governor's budget appropriates General Fund for the ASPIRE program for the first time. The additional funds would finance expansion for the program from 83 to 150 high schools in the state (out of a total 317 schools). The funding added to the Other Programs area represents payments to local school districts to expand ASPIRE in their high schools. The funds would be used to finance half the cost of ASPIRE school coordinators who recruit and supervise volunteers. School districts would have to match these moneys with their own funds to finance the coordinators. (Note the budget also adds $680,000 of General Fund for agency administration of ASPIRE. This $680,000 is not included here, but is instead in the Office Operations area. **The total General Fund proposed for ASPIRE is $1.35 million**.)

- **Rural Health Services Program expansion ($600,000 General Fund) –** The budget expands the level of loan repayments under this program by $600,000 (or 138%) over the prior biennium level. The budget also anticipates a number of changes in the program that would require statutory changes in a substantive bill. The changes would open the program to dentists, and allow the program to be associated with specific practices sites. A rural medical practice site could then recruit personnel by clarifying that persons who work there are eligible for this program. Program participants would also have to commit to a site before becoming eligible for the award, which is not currently the case. (Note the budget includes an additional $23,000 General Fund for program administration in Office Operations.)

- **Student Child Care ($896,000 General Fund) –** The Governor's budget transfers the existing Student Child Care program from the Department of Human Services to OSAC. The program is transferred at the essential budget level of funding. The Student Child Care program is a direct payment program that assists student parents with childcare costs. The program currently assists approximately 110 student parents each year. OSAC proposes to change the program into a student aid program. Payments would no longer be made directly to students. Instead, they would be distributed to colleges and universities and be used in financial aid packages for qualifying students. The program would be transferred three months after the start of the 2007-09 biennium, and OSAC would therefore administer it for 21 months in 2007-09. The transferred funding is equivalent to 21 months of funding at the essential budget level. Legislation to transfer this program to OSAC was introduced in the 2005 session, but the bill was not enacted.

- **Oregon Troops to Teachers (-$165,000 General Fund) –** The Governor's budget eliminates funding for the Oregon Troops to Teachers program.

Additionally, the JOBS Plus Scholarship program has no General Fund impact, but will increase Nonlimited Other Fund expenditures by an estimated $769,000. These would be scholarships that would be distributed to former JOBS Plus clients from monies contributed into JOBS Plus Individual Education Accounts. Currently, unused JOBS Plus IEA funds are spent on Opportunity Grants. Opportunity Grant funding is projected to decline by $310,000 as a result of establishing the JOBS Plus Scholarship.

OSAC – Loan Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	70,661	0	0	0
Other Funds	7,355,826	0	0	0
Other Funds (NL)	31,072,150	0	0	0
Total Funds	**$38,498,637**	**$0**	**$0**	**$0**
Positions	44	0	0	0
FTE	44.00	0.00	0.00	0.00

Program Description

The Loan Division administered the Federal Family Education Loan Programs (FFELP), formerly called the Guaranteed Student Loan Program. The FFELP included 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 were 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 were guaranteed for Oregon students who study both in-state and out-of-state, and for out-of-state students attending Oregon institutions.

OSAC was unable to cover costs of participating in the FFELP program. FFELP revenues were largely generated by the level of loan volume, and OSAC was 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. Oregon students can still participate in the federal student loan guarantee program, but they now have their loans guaranteed by other guarantors.

The Loan Division was eliminated in the 2005-07 biennium budget after OSAC withdrew from the FFELP program.

Revenue Sources and Relationships

The Loan Division received no state funds. Most of the Commission's Other Funds revenue is received under the federal loan guarantee program. The Commission received Other Funds when it collected ("recovered") on defaulted student loans that it had guaranteed. The agency also received payments for loans that it had reinsured with the federal government, and from fees it charged in the loan guarantee program.

Budget Environment

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

Governor's Budget

The Loan Division no longer exists. Information on the Loan Division is provided for historic context only.

OSAC – Office of Degree Authorization

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	171,449	115,275	115,275	297,809
Other Funds	443,938	290,565	312,519	241,161
Total Funds	**$615,387**	**$405,840**	**$427,794**	**$538,970**
Positions	6	2	2	2
FTE	6.00	2.00	2.00	2.25

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 70 private institutions that offer degree programs in Oregon, and 25 public institutions with respect to detrimental duplication issues. ODA conducts approximately 75 reviews and program evaluations per biennium, and also responds to inquiries and complaints about substandard and fraudulent educational practices.

Revenue Sources and Relationships

The Office of Degree Authorization receives Other Funds revenue from fees it charges institutions for required academic degree program reviews.

Budget Environment

ODA charges fees for reviewing private institutions' proposed degrees. These fees are received as Other Funds, and are projected to total approximately $280,000 in the 2005-07 biennium. The budget projects that fee revenues will decline to $240,000 in 2007-09. 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.

The ODA budget was reduced in the 2005-07 legislatively adopted budget to reflect the inability of fee collections to generate the revenue that the 2003-05 budget anticipated. The anticipated $240,000 of Other Fund revenue will not be sufficient to maintain current services in 2007-09, however. Fee revenue will be $185,000 less than the amount needed to fund the essential budget level.

Governor's Budget

The Governor's recommended budget increases total Office of Degree Authorization expenditures by $111,176 (or 26%) from the prior biennium level, and increases staffing by 0.25 FTE by expanding an existing position to full-time. General Fund support is increased $182,534 (or 158%) over the prior biennium level.

The budget provides approximately $248,000 of General Fund above the essential budget level. (Nonetheless, there is only a $182,534 General Fund increase over the prior biennium. This is because cost reductions lower the 2007-09 biennium essential budget level below what was approved for 2005-07.) The $248,000 of General Fund above the essential budget level includes $185,000 General Fund to replace the Other Funds shortfall of the same amount. The budget also provides an additional $62,503 General Fund for ODA program enhancements. These include $23,253 General Fund for increased staffing and $39,250 General Fund for services and supplies. Of the services and supplies increase, $30,000 is designated for Attorney General charges for ODA to conduct hearings through the Office of Administrative Hearings regarding complaints around the use of unauthorized degrees; the remainder is for miscellaneous expenses.

Teacher Standards and Practices Commission – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	3,672,701	3,915,455	4,255,660	4,592,868
Total Funds	**$3,672,701**	**$3,915,455**	**$4,255,660**	**$4,592,868**
Positions	21	22	22	24
FTE	20.00	21.50	21.50	23.00

Agency Overview

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

- establish rules for licensure and registration and issue licenses and registrations to teachers, administrators, school nurses, school counselors, and school psychologists;
- maintain and enforce professional standards of competent and ethical performance and proper assignment of licensed educators; 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 66,000 current licenses. Slightly over one-half of these licensees were employed in Oregon's public schools in 2005-06. All student teaching candidates, new applicants for licensure, as well as all former licensees who allow their licenses to lapse for more than three years, are required to pass a criminal history and fingerprint check.

Revenue Sources and Relationships

TSPC's mission is to ensure that students are taught by competent and ethical teachers. The agency 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 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 (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.

Fees for licensure increased from $75 to $100, the maximum allowed by statute, in January 2006. Other fees include $62 for fingerprinting, $75 for registration of charter school educators, $120 for applicants graduating from other than an approved Oregon educational program, $99 for an expedited license, $150 for reinstatement of a revoked license (in addition to the $100 application fee), and an alternative assessment fee of up to $200. The alternative assessment is a process to determine professional eligibility of applicants who are unable to pass traditional licensure tests. The fee for a duplicate license is $20 and late fees are $25 per month to a maximum of $100.

Budget Environment

Contacts from educators are increasing. The agency has issued 8% more licenses from July through September of 2006 than it did a year ago during that same period. 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. The Legislature has continued to add 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 has reviewed thousands of teacher credentials to determine if individual teachers are "highly qualified."

The number and complexity of discipline cases and investigations continues 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. The increase in cases has put a strain on the agency's budget and they were required to request additional funding at the December 2006 meeting of the Emergency Board.

Governor's Budget

The Governor's recommended budget is a 7.9% increase over the 2005-07 legislatively approved budget. The budget includes:

- A phase-out of $8,000 Other Funds expenditure limitation for one-time costs in 2005-07, primarily for the agency's scanning project hardware.
- The addition of $273,499 Other Funds expenditure limitation for 2 full-time permanent positions (2.00 FTE) to address the backlog of discipline cases.
- The addition of $139,670 Other Funds expenditure limitation to cover the cost of a permanent full-time (1.00 FTE) information technology specialist to maintain and upgrade the technology projects for the agency. The agency currently contracts for these services.
- The addition of $74,489 Other Funds expenditure limitation to establish a permanent part-time (0.50 FTE) office specialist position. This position has been limited duration and assists with the workload in the licensure section.

HUMAN SERVICES

Commission for the Blind – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	1,170,784	1,192,304	1,233,746	1,570,084
Other Funds	2,303,008	2,579,765	3,051,665	2,490,777
Federal Funds	8,564,933	9,610,163	11,368,124	10,699,909
Total Funds	**$12,038,725**	**$13,382,232**	**$15,653,535**	**$14,760,770**
Positions	46	47	47	50
FTE	43.35	44.60	44.60	47.60

Agency Overview

The Commission for the Blind's mission is to assist blind Oregonians in making informed choices and decisions to achieve full inclusion and integration in society through employment, independent living, and social self-sufficiency. The Commission is a consumer-controlled, seven-member board appointed by the Governor. The agency's programs are focused on two main objectives: employment and independence.

Rehabilitation Services is the agency's largest program and includes vocational rehabilitation counseling and planning, training and education, job placement assistance, independent living skills training, and assistance for students making the transition from high school to either college or work.

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

The *Business Enterprise* program provides self-employment opportunities for blind persons in cafeteria, snack bar, and vending machine management. The federal Randolph-Sheppard Vending Stand Act, enacted in 1935, requires managers of federal buildings to offer blind persons opportunities to establish and operate cafeterias or vending machines. Oregon enacted similar legislation in 1957.

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

Revenue Sources and Relationships

The agency is primarily funded (73%) with U. S. Department of Education, Rehabilitation Services Administration formula and special grants. General Fund provides the required match. Vocational Rehabilitation basic support (Section 110) funds represent the largest source of federal funding and are split, by agreement, between the agency (12.5%) and the Department of Human Services (87.5%).

Other Fund revenue sources include payments from Multnomah County ($1.2 million); cooperative agreements with school districts, the Department of Education, and non-profit rehabilitation providers; business enterprise vendor assessments; and the sale of goods and services.

The agency also maintains a Bequest and Donation Fund of approximately $1.2 million. Prior to 2003, the agency only used the interest earned on the fund to support programs. In November 2003, in an effort to avoid program reductions, the agency began using donation funds to backfill a reduction in General Fund support. The Governor's recommended budget restores General Fund support and thereby eliminates the need to rely on donation funds to maintain service levels.

Budget Environment

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

Governor's Budget

The Governor's recommended budget is $892,765, or 6%, less than the legislatively approved budget due to a $1.9 million phase-out of one-time Other and Federal Funds expenditures approved by the Emergency Board for facility enhancements and technology upgrades. Factoring out the phase-out reveals a total funds increase of $1 million, or 7%, and three positions (3.00 FTE).

The majority of the growth is for three policy packages totaling $332,832 and three positions (3.00 FTE). The largest General Fund impact is a $199,580 fund shift – from Other Funds to General Fund - to eliminate donation fund support of programs. Other packages include the addition of three instructor positions to address key initiatives ($321,193) and the reclassification of two positions ($11,639).

The recommended budget also includes personal services cost increases of $371,956 (5%); a 32% increase in State Government Service Charges ($47,646); a 17% rent increase ($88,617); and other inflationary increases totaling $196,521.

Commission on Children and Families (SCCF) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	41,517,568	45,995,966	46,137,781	64,519,003
Other Funds	18,967,385	23,043,849	23,043,849	23,538,795
Federal Funds	217,002	3,823,717	3,823,717	4,501,054
Total Funds	**$60,701,955**	**$72,863,532**	**$73,005,347**	**$92,558,852**
Positions	28	32	32	34
FTE	24.72	29.50	29.50	31.17

Agency Overview

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

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

Revenue Sources and Relationships

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

Other Funds revenue supports about 25% 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 almost $14.2 million in Title XX Social Services Block Grant and Title IV-B (2) Safe and Stable Families (Family Preservation and Support) revenue to the Commission. Title XX supports programs for non-delinquent, at-risk youths aged 11-18 (formerly called Level 7 youth) and relief nurseries. Title IV-B (2) funds are used for grants to counties and tribes, and for Healthy Start program support. The Employment Department will transfer $3.8 million in Child Care and Development Fund (CCDF) revenue for local commissions to expand access to quality child care. The Commission will also receive $670,706 Other Funds from the Department of Education, and $30,000 Other Funds from the Community Colleges and Workforce Development Department, to support joint work on community schools and cultural competency.

The Commission also uses General Fund to match federal Title XIX Medicaid funds through DHS, for qualified services in local Healthy Start programs. The 2007-09 budget anticipates $4.4 million in matching funds. The Commission spends the Medicaid revenues as Other Funds.

Federal Funds make up about 5% of the total budget. These come primarily from the U.S. Department of Justice, Office of Juvenile Justice and Delinquency Prevention (OJJDP), to support juvenile crime prevention efforts. The juvenile crime prevention program and funding were moved to this Commission from the Criminal Justice Commission in 2005. The Commission expects to receive about $3.9 million in OJJDP funding for 2007-09. The Commission will also receive $422,932 in federal grant funds for 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 reported leveraging $30.5 million in private and federal cash and in-kind resources.

Budget Environment

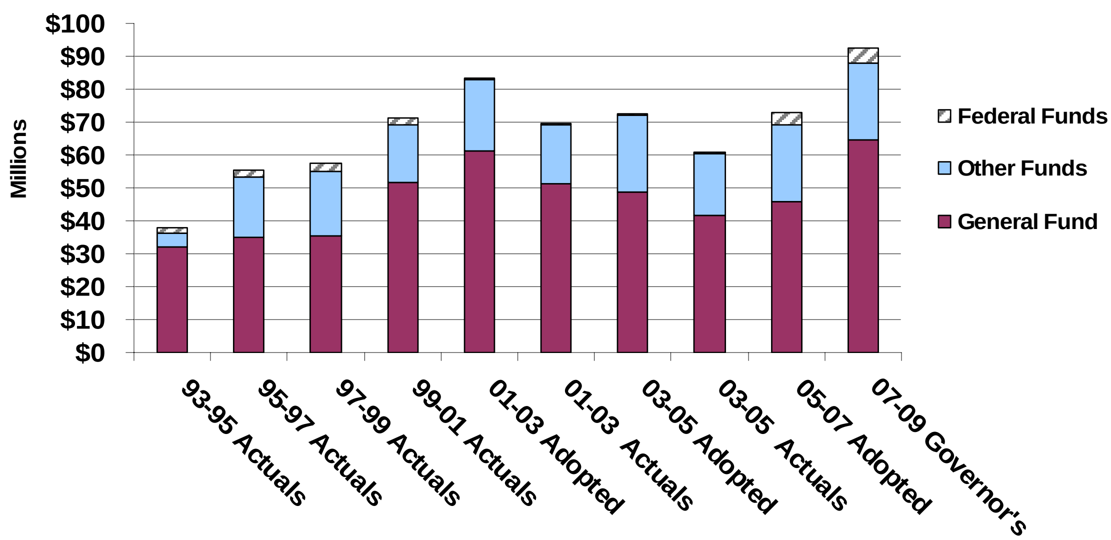
The Commission system began operations in 1994 to carry out legislative policy to develop and implement a statewide system of services for children and families. Local commissions on children and families serve as the basis for both planning and investments of community supports and services. In 1999, the Legislature significantly expanded the scope of this effort with SB 555. This bill required a coordinated, comprehensive planning process for all early childhood, alcohol and drug, and juvenile services. Counties developed these plans, put their programs in place, and track local outcomes. The local plans have identified child abuse and neglect (foster care); mental, physical, and oral health; and alcohol and drug issues as their highest priorities.

State agencies are to review and consider the local plans as they look at their program operations and budget requests. An on-going collaboration of state and local agencies– Partners for Children and Families (PCF) – is involved in planning, policymaking, and providing services for children and families. PCF is working to improve efficiency and effectiveness; set guidelines for planning, coordinating, and delivering services; and engage citizens in local decision making about Oregon's system of supports to children and families.

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

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

The agency has had to undertake the additional work in these areas with limited resources. As the following chart shows, the Commission's budget was reduced significantly beginning in the 2002 special sessions. Reductions continued through the 2005-07 budget.



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

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. For example, the Healthy Start program is now serving only about 40% of the estimated 18,000 first-birth families annually in the state, rather than the 80% level originally anticipated by the 2001 Legislature. Juvenile crime prevention grants have lost roughly two-thirds of their General Fund support since the 2001-03 biennium. With Oregon's improved revenue picture, there will be interest in restoring the funding reductions to these programs.

In 2003, the Legislature passed SB 267, which requires state-funded crime-prevention programs and services to reflect scientifically based research and demonstrate cost-effectiveness. SB 267 applies to the juvenile crime prevention grants that were transferred from the Criminal Justice Commission. For 2005-07, 25% of the state grant funds had to go to evidence-based programs. The requirement increases to 50% in the 2007-09 biennium and 75% beginning in 2009.

Governor's Budget

The $64.5 million General Fund and $92.6 million total funds budget for the Commission is 39.8% General Fund and 26.8% total funds higher than the 2005-07 legislatively approved budget. The budget restores some, but not all, of the budget reductions made in prior biennia, and makes additional investments in programs and the Commission system infrastructure.

The Governor's recommended General Fund investments include:
- $6 million for local Healthy Start home visitation programs
- $3 million for local commission operations
- $2.3 million for relief nurseries, plus $200,000 for state staff and evaluation
- $2 million for juvenile crime prevention grants
- $1 million for the Court Appointed Special Advocates (CASA) program
- $1 million for homeless and runaway youth services, including state staff support
- $500,000 for grants for community schools, with additional funding for state staff support

The budget also adds $300,000 General Fund for statewide data system improvements, $180,000 General Fund for state technical assistance staff, $500,000 Other Funds from the Oregon Department of Education for community schools, and $619,849 Federal Funds for juvenile crime prevention grants and staffing.

SCCF – Community Development and Program

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	39,052,280	43,629,652	43,694,283	61,503,286
Other Funds	18,931,162	22,754,289	22,754,289	23,376,150
Federal Funds	217,002	3,823,717	3,823,717	4,501,054
Total Funds	**$58,200,444**	**$70,207,658**	**$70,272,289**	**$89,380,490**
Positions	14	18	18	21
FTE	11.72	16.50	16.50	18.75

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.

The State Commission distributes state and federal funding to help communities address the priorities identified in the local comprehensive plans. The Local Basic Capacity grant funds local commission staff and overhead, and on-going support for the local coordinated comprehensive plan. The Great Start grant; the Children, Youth, and Families grant; the Youth Investment grant; the juvenile crime prevention grant; Family Preservation and Support; and Child Care and Development resources all fund investments in programs and services as determined by local communities through the local plans. Other designated program funding supports the Healthy Start home visitation program, CASA, and relief nurseries. State staff in this program unit also provide technical assistance to counties, administer the federal Positive Youth Development Grant, and support the Community Schools initiative.

Budget Environment

As previously noted, the Commission's 2005-07 budget is significantly lower than its 2001-03 legislatively adopted budget level, even with funding added with the 2005 transfer of the juvenile crime prevention program to this agency from the Criminal Justice Commission. The reductions have affected all aspects of the Commission, but the largest impact has been in the Community Development and Program budget because it makes up over 96% of the Commission's total budget.

Resources available to communities through the locally invested county grants have been cut by over 25%: the original 2001-03 budget included over $30 million total funds for the locally invested county grant streams, but the comparable funding in the 2005-07 budget is slightly over $22 million. General Fund resources for the juvenile crime prevention grants have declined 70% over the past two biennia, although that is not reflected in this agency's budget due to the recent transfer. General Fund support for the Healthy Start and relief nurseries programs has also decreased, although the 2005 Legislature added funding to support two new relief nurseries in Albany and Medford.

The Healthy Start home visitation program is the Commission's single largest program. This voluntary program provides support for new families during the pre-natal period through age 3. Previous evaluations of the program have shown that child maltreatment is lower for at-risk families who receive Healthy Start services than families who do not. The 2005-07 budget funded Healthy Start at $19 million General Fund and $4.8 million Other Funds (from federal Medicaid matching funds). The program operates in all 36 counties, but at a much more limited level than first expected due to statewide budget constraints. By the end of the 2001-03 biennium, the 2001 Legislature planned to reach 80% of Oregon's 18,000 first-birth families each year. However, budget reductions since that time have had a significant impact. As a result, the Commission expects counties to reach only about 40% of first-birth families during the 2005-07 biennium.

The focus of the Healthy Start program has also changed. The program was originally designed as a "universal" program to offer services to all first-birth families. The 2005 Legislature encouraged the Commission to target state 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 implemented the changes, and the impact on program operations and outcomes.

Funding for the CASA program has held steady over the past several biennia. Although federal law requires juvenile and family courts to appoint a *Guardian Ad Litem* for a child in cases of child abuse or neglect, current funding allows local programs to serve only about 30% of the children and youth who need a CASA.

Governor's Budget

The Governor's recommended budget for Community Development and Program is a 40.7% General Fund and 27.2% total funds increase from the 2005-07 legislatively approved budget. The budget continues all grants and programs, but adds significant funding to support local commission operations; to increase resources for juvenile crime prevention grants, Healthy Start, relief nurseries, CASA, runaway and homeless services, and community schools; and to add state staffing to increase technical assistance and program support to local commissions.

The Local Basic Capacity grant is increased by $3 million General Fund. This will bring state funding for local commission policy and support to $13.3 million, up from $10.3 million in the 2005-07 budget. The added funding should help all local commissions maintain at least 2.00 FTE staffing to monitor local programs and resources, improve fiscal accountability, leverage local funding, and implement their local plans.
An additional $180,000 General Fund will support another full-time position at the state level to provide technical assistance to counties.

Juvenile crime prevention grants to local communities will increase from $6.3 million General Fund in 2005-07 to $8.3 million General Fund in 2007-09. These funds go to county juvenile departments or local commissions on children and families to implement the local high-risk juvenile crime prevention plans. The budget also includes $514,140 Federal Funds for payments to the counties for accountability-based programs to reduce recidivism among juveniles who are referred by law enforcement agencies, and $105,709 Federal Funds to support a new half-time position to monitor these grants and other federal grants administered by the agency.

The budget directs an additional $6 million General Fund to the Healthy Start program. This will increase General Fund support for the program from $19 million in 2005-07 to $25 million, and allow local Healthy Start programs to serve over 50% of the eligible population of first-birth families. The Governor's budget does not indicate that the increased funding will be phased-in over the 2007-09 biennium. However, it is doubtful that local Healthy Start programs will be able to ramp up their programs quickly enough to accommodate the increase as soon as July 1, 2007.

A total of $2.5 million General Fund is added for relief nurseries, increasing state support from $3.4 million in 2005-07 to $5.9 million in 2007-09. This will continue funding for the nine existing sites, add new therapeutic classrooms at each of those sites, and support two new relief nurseries. It also will pay for one half-time position and professional services for monitoring, data collection, outcomes reporting, and program evaluation.

CASA programs will receive an additional $1 million General Fund. This will bring state funding for CASA programs to $2.7 million, up from $1.7 million in 2005-07. Local programs will be able to serve an estimated 38% of children who need a CASA.

The Governor's budget adds resources for the Community Schools initiative. It earmarks $500,000 General Fund, together with $500,000 Other Funds from the Department of Education, for grants in up to five communities to establish community schools. Funding for the existing staff position is shifted from all Other Funds to a 50% General Fund / 50% Other Funds split, and $47,450 General Fund and $32,081 Other Funds is added for services and supplies.

The budget includes $1 million General Fund for a homeless and runaway youth initiative, which includes funding for a new half-time coordinator position. How the new resources will be distributed is still to be determined, but the funds are expected to support prevention and intervention services for these youth and their families.

The budget also funds two position reclassifications in response to the 2005 Administrative Class Study, and uses $68,047 General Fund to backfill a reduction in funding from the National CASA Association that previously paid for the CASA coordinator position.

SCCF – Policy and Support Services

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	2,465,288	2,366,314	2,443,498	3,015,717
Other Funds	36,223	289,560	289,560	162,645
Total Funds	**$2,501,511**	**$2,655,874**	**$2,733,058**	**$3,178,362**
Positions	14	14	14	13
FTE	13.00	13.00	13.00	12.42

Program Description

The Policy and Support Services program supports the 17-member State Commission, and is responsible for policy direction, best practices, and oversight of local programs for the 36 local commissions. This section handles agency administrative functions and support services such as communication, planning and policy management, program monitoring, fiscal control, and information systems management. It helps counties with the Fiscal, Monitoring, and Outcomes Reporting System (FMORS), a statewide database used to collect program and outcome information.

Budget Environment

Since the adoption of SB 555's coordinated comprehensive planning process, legislative directives to increase the scope of the agency's work have resulted in greater workload for central support activities. The Commission supports and facilitates the SB 555 Partners for Children and Families work group, which is responsible for coordinating the efforts of state agencies and local partners around services for children and families. The Legislature has directed the Commission to expand its involvement in early childhood, juvenile crime prevention, community schools, and homeless and runaway youth issues. There has also been greater legislative focus on program monitoring and performance outcomes, for which FMORS is a critical resource. All of these efforts directly affect workload in this program.

Significant reductions in the 2001-03 and 2003-05 budgets pared down the agency's central support staff as well as resources for travel, training, Commission meetings, and program evaluation. The Commission now contracts for its database maintenance functions. An Administrative Specialist 1 position is being phased out during the 2005-07 biennium.

The agency has added two positions in the past several years to address specific needs. The 2003-05 budget added a Resource Developer to raise money from public grants, private foundations, and local donors to support the programs and activities of the Commission. The position was to generate enough Other Funds to cover its costs from the funds it raised. The position's fund raising goal for 2007-09 is $1.5 million. In the 2005-07 budget, a position was added to support the Partners for Children and Families work group and work directly with counties to develop cultural competency in their programs and services. The cost of this position has been paid with Other Funds from other agencies.

Governor's Budget

The Policy and Support Services budget makes up 3.4% of the Commission's total funds budget. The Governor's budget is 23.4% General Fund and 16.3% total funds higher than the 2005-07 legislatively approved budget. The increase reflects added funding to support the Commission's data collection system and to cover costs of the Resource Developer position.

As noted above, the Commission is responsible for collecting county program information and outcomes. The Governor's budget adds $300,000 General Fund to support the data collection system, and improve training and technical assistance to counties for data collection and outcomes reporting. The agency expects to contract for the information technology services.

The budget adds $181,254 General Fund, and reduces Other Funds by the same amount, to stabilize funding for the Resource Developer position. The Commission reports that the position has made good progress in raising new revenues, but government and private grantors have not been inclined to approve funding for indirect costs to support the position. An additional $18,746 General Fund is designated for services and supplies expenditures associated with this work.

Department of Human Services (DHS) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	2,268,588,095	2,534,422,673	2,698,690,305	3,309,709,877
Lottery Funds	5,528,967	9,312,000	9,312,000	12,032,591
Other Funds	1,087,058,613	1,129,742,248	1,139,732,042	1,491,467,930
Federal Funds	4,770,177,063	5,051,002,177	5,243,928,307	6,086,441,954
Other Funds (NL)	27,385,393	29,331,072	29,331,072	30,240,335
Federal Funds (NL)	944,024,084	1,053,277,631	1,036,009,010	1,086,632,027
Total Funds	**$9,102,762,215**	**$9,807,087,801**	**$10,157,002,736**	**$12,016,524,714**
Positions	9,613	9,417	9,615	10,111
FTE	9,148.13	9,061.51	9,173.17	9,707.33

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 22% of the state's combined $14.9 billion General Fund and Lottery Funds budget, and 24% of the state's $49.2 billion total funds budget.

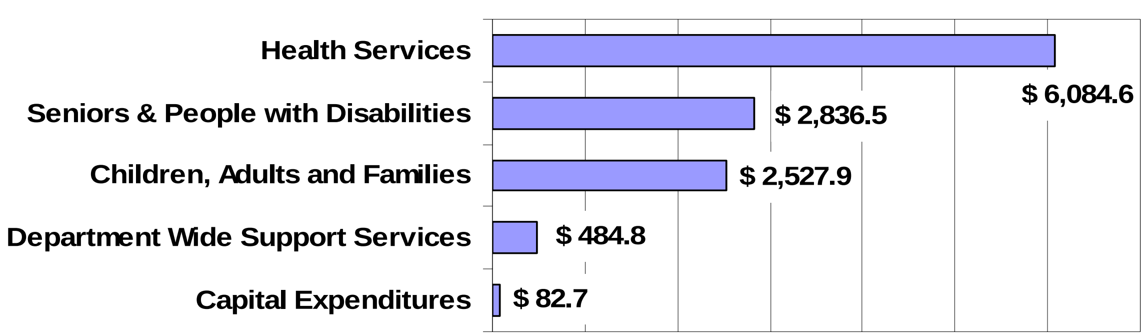
The DHS budget is organized by four program areas:

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

The 2007-09 budget also includes $1.2 million General Fund for capital improvements at the Oregon State Hospital and $81.6 million Capital Construction Other Funds for the Oregon State Hospital replacement project.

The chart below shows how DHS' $12 billion total funds budget for 2007-09 is allocated among program areas.

DHS Total Funds Budget Distribution ($$ in millions)



Revenue Sources and Relationships

In the Governor's 2007-09 recommended budget, the General Fund supports 28% of DHS expenditures. Almost all of the General Fund is used as match or to meet state maintenance of effort requirements to receive Federal Funds.

DHS also receives $12 million of statutorily-dedicated Lottery Funds for gambling addiction prevention and treatment services.

Other Funds revenues support about 13% of DHS expenditures. These come from a wide variety of sources including tobacco taxes, Medicaid provider 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 59% 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. Several of the most important are discussed below: Oregon's demographics and economics, federal law, health care cost inflation, state policy for 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 59% of DHS' total expenditures. The revenue brings with it a significant body of law and federal administrative rules. A number of DHS' programs, such as the Oregon Health Plan (OHP), are governed by waivers of certain federal regulations. The waivers must be approved by federal agencies 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 as matching funds or to meet federal maintenance of effort (MOE) requirements. Consequently, General Fund budget reductions often also result in federal revenue reductions, and might jeopardize the state's ability to meet federal match or MOE requirements, thus forfeiting federal funds or incurring penalties.

<u>Health Care Cost Inflation</u>
DHS will use $4.6 billion of its $12 billion budget for direct payments to acute health care providers or Medicare premium payments in the OHP, Non-OHP, and CHIP budgets. Health care inflation rates over the last several years have significantly out-paced general economic inflation rates, as well as the rate of state revenue growth. As a result, health care consumes a larger share of the total state budget. The Governor's budget assumes health care costs (inflation and higher utilization of services) will increase by 15% during the 2007-09 biennium.

<u>State Human Services Policy</u>
Oregon's human services programs have, for the last 20 years or more, focused on intervening earlier and in less-costly ways to prevent or mitigate the problems these programs address. For example, in the early 1980s, the Medicaid long-term care system acquired federal waiver approvals to implement the nation's first home and community-based care system. Mental health services or programs for persons with developmental disabilities, which once were dominated by large institutions such as the Oregon State Hospital or Fairview Training Center, are now more focused on smaller community-based care settings. In some respects these changes have lowered the state's costs as 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, programs operating with more latitude as a result of federal waivers have allowed the state's human service caseloads to be larger than they might otherwise have been, with state government expenditures correspondingly higher.

Politics

More than 83% 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 agency's budget. When budget reductions need to be made, or significant enhancements are proposed, as they are in the Governor's budget, these groups become actively involved in the politics that surround DHS' 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.

Governor's Budget

The Governor's 2007-09 recommended budget of $12 billion total funds is about $1.8 billion, or 18%, higher than the 2005-07 legislatively approved budget of $10.2 billion. The General Fund budget of $3.3 billion is $611 million, or 23%, higher than the 2005-07 General Fund budget. The increase reflects funding for higher anticipated costs (because of inflationary pressures), health care utilization, and caseload changes, as well as a variety of proposed enhancement to programs that are listed later in this overview.

The program enhancements proposed in the Governor's budget represent an ambitious effort to better the lives of Oregon's most vulnerable citizens. These proposals deserve serious consideration by the Legislature and the public. As these proposals are evaluated, there are three important factors that must also be considered. The first is the issue of long-term sustainability of the DHS programs that are expanded in the Governor's budget. Second is the question of whether DHS' financial infrastructure is vital enough to provide the tools needed to manage this proposed budget effectively. Third is how this budget responds to recent federal policy changes.

The Governor's budget enhances a number of program budgets within DHS. Most notable are the Governor's Healthy Kids Plan, expanding the OHP Standard program by 10,000 average monthly cases, developing more community-based mental health care, initiating the replacement of the Oregon State Hospital, increasing the availability of child care for low income families, and restructuring welfare services for families with children. Some of these increases are supported with tobacco tax from a proposed rate increase, others with revenue from certificates of participation, and still others with General Fund. Because the proposals are so numerous, and because many of them will have significant roll-up costs in future biennia, it is critical to consider how these program enhancements will be funded in the future. Without redirecting funds from other program areas or significant tax reform, it could be challenging to sustain these initiatives.

Throughout the 2005-07 biennium, DHS worked hard to improve its financial management. These efforts, a priority for the agency's new director, were in response to problems DHS had in estimating 2003-05 expenses and finalizing its accounting records, as well as 2005-07 expenditures that were earlier expected to exceed the agency's legislatively adopted budget by nearly $136 million General Fund. While much progress has been made in improving accounting and other financial processes, analyzing cash flow, accurately estimating revenue and caseloads, and aligning actual expenditures with budget, more needs to be done. Without evidence of a solid financial infrastructure that can track program expenditures, supply financial management tools, and provide assurance that funds are expended efficiently according to federal and state law, the public and Legislative Assembly could reasonably be reluctant to support DHS budgetary increases.

As mentioned above, federal law and budget changes have an impact on Oregon's human services programs. In January 2006, Congress passed the Deficit Reduction Act of 2005 (DRA). This Act made changes to the Temporary Assistance for Needy Families (TANF) and the Medicaid programs. With respect to TANF, it limits state flexibility in favor of stricter definitions of work requirements for program participants. The DRA also requires current and potential Medicaid participants to document their citizenship. More recently, Congress passed the Tax Relief and Health Care Act of 2006 which may lower Oregon's provider tax revenue below that assumed in the Governor's budget. Finally, the Medicaid federal medical assistance percentage (FMAP) rate –

which determines the level of federal matching funds used to support the state's Medicaid programs – is likely to decrease as Oregon's economy improves.

Major initiatives included in the Governor's recommended budget for DHS are noted below. More detail on each program area and the Governor's budget for each area follows this agency overview.

Children, Adults and Families

- Restores child care program eligibility to 185% of the federal poverty level, reduces client co-payments, and increases child care provider rates, effective October 2007 ($34.9 million General Fund).
- Restructures the TANF program, expands JOBS and JOBS Plus, funds post-TANF employment support, and makes other program changes to meet new federal TANF requirements and improve outcomes for clients ($19.5 million General Fund, $31.6 million total funds).
- Restructures child welfare staffing to improve child safety ($1.6 million General Fund, $3.1 million total funds), and expands legal representation for child welfare workers in court ($3.1 million General Fund, $5.1 million total funds).
- Funds payments to relative foster caregivers ($2.7 million General Fund), and increases rates for child welfare Behavioral Rehabilitation Services providers ($1.4 million General Fund, $2.6 million total funds).
- Adds eligibility determination staff for the Healthy Kids Plan and the Oregon Health Plan Standard program expansion ($846,083 General Fund, $6.6 million total funds)
- Reduces General Fund by improving management of foster care payments, limiting special payment funds for Vocational Rehabilitation Services clients, and making unspecified administrative reductions. Total budget impact is a reduction of $4.4 million General Fund and $11.7 million total funds.

Health Services

- Implements the Governor's Healthy Kids Plan which expands health care services in the OHP Payments and CHIP budgets ($53.8 million Other Funds from new tobacco tax revenue, $100.8 million total funds).
- Expands the OHP Standard program which would add 10,000 average monthly cases in the 2007-09 biennium ($50.4 million Other Funds – primarily from new tobacco tax, $127.3 million total funds).
- Extends the Medicaid provider taxes for Managed Care Organizations and Hospitals which are, under existing law, scheduled to end June 2008.
- Continues funding for staffing improvements at the Oregon State Hospital in accordance with the *Harmon v. Fickle* lawsuit settlement agreement ($11.4 million General Fund, $15.4 million total funds) as well as the development of more community-based mental health treatment projects ($10 million General Fund).
- Expands the Tobacco Prevention and Education Program (TPEP) with $17.9 million of new tobacco tax.
- Increases funding for improved addictions treatment and prevention of youth substance abuse ($13.4 million Other Funds from the Oregon Liquor Control Commission).

Seniors and People with Disabilities

- Increases reimbursement for providers of services to persons with developmental disabilities ($11.9 million General Fund, $29 million total funds).
- Extends the Nursing Facility provider tax which is, under current law, scheduled to end January 2008.
- Improves reimbursement for Transfer Area Agencies on Aging ($5.8 million General Fund, $11.6 million total funds).
- Implements recommendations from the Nursing Facility Staffing Commission to increase Certified Nursing Assistant staffing ratios ($3 million General Fund, $7.4 million total funds).
- Enhances staffing to address workload related to assisting clients eligible for both Medicare and Medicaid with their Medicare Part D prescription drug benefit ($2.3 million General Fund, $4.3 million total funds).
- Adds $1.9 million to develop services for juveniles with developmental disabilities who will be adjudicated under SB 232 (2005). The bill establishes a juvenile panel of the Psychiatric Security Review Board for disposition of youths with serious mental disorders.
- Reduces General Fund through administrative efficiencies, closing the Eastern Oregon Training Center and one state operated community project, and by eliminating enhanced reimbursement for persons with developmental disabilities who now live in nursing facilities. All clients affected by these closures or rate reductions are moved to other community-based programs. Total General Fund savings is $3.4 million.

Department Wide Support Services

- Funds a broad range of initiatives and efficiencies to improve financial management and operations, such as new management staffing, actuarial and caseload forecasting improvements, internal audit enhancements, enhanced overpayment collection efforts, and information system projects for unified eligibility and case management for self-sufficiency programs and a Criminal Records Information Management System. Total cost for 2007-09 is $6.5 million General Fund, $12.5 million total funds.

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

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	366,399,108	422,550,299	442,407,928	568,964,280
Other Funds	130,819,993	132,745,638	127,482,671	135,910,142
Federal Funds	760,714,194	762,448,425	777,976,651	839,144,170
Federal Funds (NL)	854,200,185	950,548,580	933,279,959	983,902,976
Total Funds	**2,112,133,480**	**2,268,292,942**	**2,281,147,211**	**2,527,921,568**
Positions	4,297	4,093	4,194	4,491
FTE	4,079.51	3,974.50	4,026.46	4,371.30

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 Rehabilitation Services, the Youth Transition Program, Supported Employment Services, the Independent Living Program, and Interagency Partnerships.

Revenue Sources and Relationships

General Fund supports about 23% of CAF's budget; Other Funds, about 5%; and Federal Funds, about 72%.

The major source of Other Funds in this budget is $98 million in federal Child Care and Development Funds CAF receives from the Employment Department; CAF send some of that funding to Department Wide Support Services. 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 $983.9 million for 2007-09. This is up 5.4% from the 2005-07 biennium. Federal funds also pay for program administrative costs, on a 50% state, 50% federal basis.

Other Federal Funds come from capped or formula-based block grants, payments for partial reimbursement 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 $328 million for CAF programs in the 2007-09 biennium. 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 2007-09. CAF uses these funds in its own budget to pay for time-limited family reunification work and post-adoption services. CAF will transfer about $14 million in federal funds to the State Commission on Children and Families to support grants to counties, relief nurseries, and the Healthy Start program.

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

The federal government partially reimburses eligible state costs through the Title XIX Medicaid program and the Title IV-E Foster Care and Adoption Assistance program. Medicaid funding is used for case management services, special rates for certain children in foster care, and related administrative services. Title IV-E funding is used for child welfare services, adoption assistance, and related administrative costs. The level of reimbursement in these programs varies with federal match rate changes, the number of children served, and eligibility of the services provided. For the 2007-09 biennium, the federal share is estimated at 60.89% for program costs, and 50% for administrative costs. Although the budget projects continuing revenue from these sources, there are continuing risks to these revenues from proposed federal legislation, pending regulatory changes by the Centers for Medicare and Medicaid Services (CMS), and federal budget actions.

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

Self-Sufficiency Programs

Federal welfare reform was initiated with the passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA). This act repealed the Aid to Families with Dependent Children (AFDC) program and combined its funding stream with several child care and training programs into the Temporary Assistance for Needy Families (TANF), a capped block grant. It also focused TANF public assistance efforts on employment and self-sufficiency. With its 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 unused TANF funds through the 1990s. 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, but started to trend back down in the 2005-07 biennium.

The PRWORA legislation sunset on September 30, 2002. After numerous temporary extensions, Congress reauthorized the program through 2010 in the Deficit Reduction Act of 2005. New federal regulations took effect October 1, 2006 (the start of federal fiscal year 2007). Although work participation rates were not changed – states must reach 50% work participation for most families and 90% for two-parent families – the definitions of allowable work activities changed, and the "caseload reduction credit" was reset. States previously could claim a credit based on caseload reductions since federal fiscal year 1995; under the new regulations, this base year is 2005. Like most states, Oregon does not meet the required participation rate under the new regulations, and potentially faces both a loss of up to 5% of TANF funding and mandated increases in state maintenance of effort spending. For Oregon, that could total about $14 million annually. DHS has developed a proposal to restructure the program. Because significant parts of that proposal require statutory changes, DHS is unable to make these program changes until the 2007 Legislative Assembly acts on the proposals. DHS has notified the federal Department of Health and Human Services regional office that state legislative action is needed.

States must continue to meet maintenance of effort (MOE) requirements to receive federal TANF funds. Non-federal support must be at least 75% of the state contribution in the 1994 base year. For Oregon, this means state support from the General Fund or other state resources must be at least $183.3 million per biennium. If Oregon fails to meet the work participation rate, the MOE requirement increases from 75% to 80%. Oregon's MOE has come from several agencies, including the Department of Human Services, Employment Department, Department of Education, and State Commission on Children and Families. Budget decisions on General Fund appropriations in these agencies can affect the state's ability to meet TANF MOE requirements. In recent years, Oregon has also counted the refundable Working Family Child Care tax credit towards its MOE requirement. Allowable MOE expenditures have changed with TANF reauthorization, giving Oregon more flexibility to restructure its program to meet both the work participation rate and the MOE requirements.

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 about half of the victims age 5 or younger. Families of abused and neglected children often face multiple stressors such as alcohol and drug abuse, law enforcement involvement, unemployment, and domestic violence. The National Resource Center for Child Protective Services cited methamphetamine as the most prominent child welfare problem of the decade in Oregon. The large number of young victims, combined with the intensity of family problems, results in very complex cases that are difficult and costly to resolve.

DHS uses a "strengths/needs-based" practice, which emphasizes keeping children in their immediate families or with extended relatives, when possible. However, the number of children entering foster care, and foster care caseloads, continue to grow. In 2001, 4,524 children entered foster care, and 4,676 children left foster care. By 2005, 6,178 children entered foster care, and 5,037 left. DHS reports 64% of children leaving foster care were reunited with their parents. Others left foster care for adoptive placements or other permanent arrangements.

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 requirements. Meeting the legal requirements under ASFA remains challenging, especially as 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 2005, the National Resource Center for Child Protective Services reviewed Oregon's child protective services system. Its report noted nine findings specific to Oregon, including the prominence of methamphetamine use, workload demands two or three times what reasonably could be expected, ineffective staffing configurations, and various policy and practice issues. The agency is implementing an improvement plan to address the report's findings and recommendations. Some proposals, particularly those related to staffing, legal representation, and information technology, will affect the agency's 2007-09 budget.

Governor's Budget

The Governor's 2007-09 recommended budget for Children, Adults and Families is $569 million General Fund and $2,527.9 million total funds, 28.6% General Fund and 10.8% total funds higher than the 2005-07 legislatively approved level. The budget includes a total of $983.9 million in Nonlimited Federal Funds for federal Food Stamps benefits, about 39% of the total CAF budget.

The budget adds significant resources for CAF, particularly for child care, TANF reauthorization, and child welfare. Major elements include:

- $34.9 million General Fund to restore child care program eligibility to 185% of the federal poverty level, reduce client co-payments, and increase child care provider rates, effective October 2007.
- $19.5 million General Fund, $31.6 million total funds to restructure the TANF program.
- $3.1 million General Fund and $2 million Federal Funds to increase legal representation for child welfare workers in court.
- $2.7 million General Fund to pay relatives who provide foster care for children.
- $1.6 million General Fund and $1.6 million Federal Funds to restructure child protective services staffing.
- $1.4 million General Fund, $2.6 million total funds to increase rates for child welfare Behavioral Rehabilitation Services (BRS) providers.
- $879,578 Other Funds and $599,269 Federal Funds for eligibility determination staff for the Healthy Kids Plan.

- $846,083 General Fund, $5.1 million total funds for eligibility determination staff for the Oregon Health Plan Standard program extension and expansion.

The budget uses $1 million General Fund and $1.1 million Federal Funds to add staff to increase client collections and recoveries. Improved management of foster care payments is expected to save $3 million General Fund and $7.8 million total funds. Special payment funds for Vocational Rehabilitation Services clients are reduced by 10%, a reduction of $784,747 General Fund and $2.6 million Federal Funds. Unspecified administrative reductions of $593,811 General Fund are also assumed, part of the agency-wide $1 million General Fund reduction.

More detailed information on the major programs and services within CAF, and the Governor's proposed budget for each, is provided below.

CAF – Self-Sufficiency

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	40,527,492	57,520,753	85,682,739	149,498,788
Other Funds	97,762,493	93,503,970	93,704,094	99,333,870
Federal Funds	251,341,246	228,218,089	198,342,728	207,425,551
Federal Funds (NL)	854,200,184	950,548,580	933,279,959	983,902,976
Total Funds	**$1,243,831,415**	**$1,329,791,392**	**$1,311,009,520**	**$1,440,161,185**

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 2006, more than 434,000 Oregonians, almost 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 $174. 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 $514. 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 also provides subsidized job placements for some clients and pays for child care for parents in training programs.

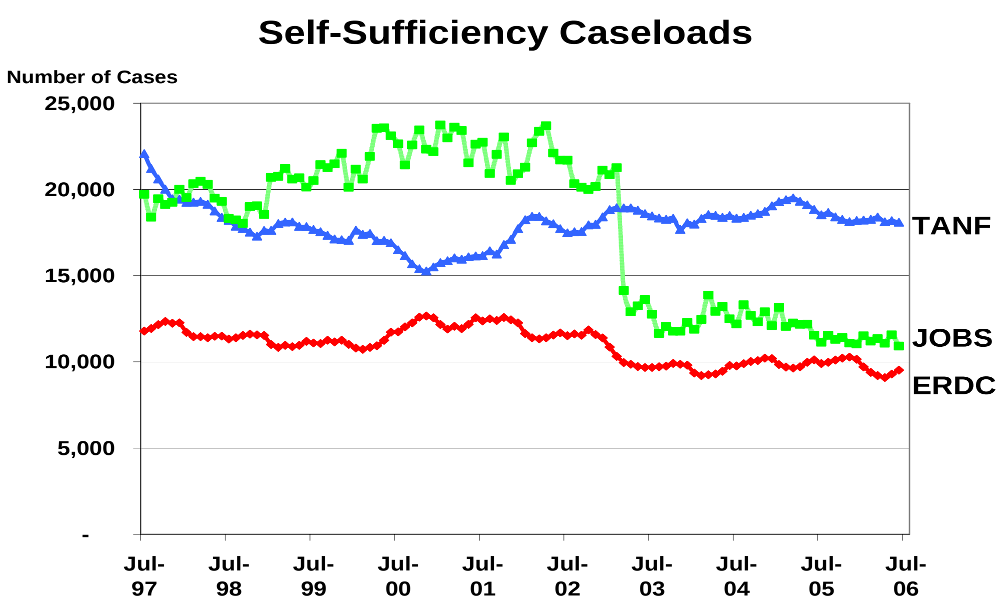
Employment Related Day Care is designed to encourage employment by subsidizing child care services for former or potential cash assistance recipients. Clients make a co-payment based on the client's income and household size, and the state subsidizes the remaining cost up to the DHS maximum rate.

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 Family Support and Connections (formerly Community Safety Net) programs to help prevent TANF children from entering the foster care system.

Budget Environment

The number of families receiving TANF cash assistance has declined dramatically since the mid-1990s. As Oregon's economy weakened at the start of this decade, however, cash assistance caseloads increased. TANF caseloads grew 16.5% in four years, from 16,161 cases in July 2001 to 18,833 cases in June 2005. From July 2005 to June 2006, however, caseloads dropped 2.3%, from 18,526 to 18,096, with caseloads continuing to decline slightly in late 2006. 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 has been reduced more than half, to 10,913 participants in June 2006. Employment Related Day Care cases dropped 23% over the same time, from 12,367 in July 2001 to 9,525 in June 2006. 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.

With federal TANF reauthorization, DHS is planning to restructure its program to both meet federal requirements and achieve better outcomes for the very low income families with children who receive TANF services. During 2006, CAF staff worked with a TANF Oversight Committee composed of legislators, client advocates, and other agency representatives to develop a new program structure and identify possible program improvements. The new program will require statutory change, and a legislative concept has been drafted as a starting point for the 2007 Legislature. The basic design of the program would include "Pre-TANF" screening and evaluation with supportive services to meet basic needs, on-going TANF services, post-employment TANF supports, and "state-only" programs to qualify eligible families for Social Security disability benefits, and support two-parent families. As with any program redesign, the net impact of this program restructuring on caseloads is uncertain– e.g., the new structure may encourage more families to apply for TANF, which would increase caseloads overall, or clients may be able to become employed more quickly and remain self-sufficient, which would reduce caseloads. However, DHS believes the likely outcome would be that Oregon would meet its participation rate requirement. In addition to any program cost increases that would result from expanded services, the federal regulations also require more data collection, reporting, and verification of clients' work-related activities, increasing administrative costs. The pricing assumptions for the restructured program will need close review. DHS originally estimated it would cost an additional $20 to $50 million per biennium.

As funding for the Employment Related Day Care program was reduced in the past several biennia, eligibility was tightened and co-payments increased, resulting in lower caseloads overall. DHS reports that Oregon is ranked 43rd nationally in its qualifying income limits and high client co-payments. Low provider reimbursement rates – at the 26th percentile of market rates – have caused Oregon to rank last nationally for low-income working families' access to the child care market. Federal regulations recommend that states set reimbursement rates at the 75th percentile of the most recent market rate study.

The U.S. Department of Agriculture previously released 1999-2001 data indicating Oregon, with a 5.8% prevalence rate, had the highest level in the nation of food insecurity with hunger. Oregon has made significant improvements in this area over the past several years. The 2003-05 data indicates 3.9% of Oregon households have very low food security, just slightly above the 3.8% national average. Food stamps are one way to address hunger directly, and DHS 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 223,539 households in June 2006. This is a 52% increase over five years.

Governor's Budget

The Governor's recommended budget for Self-Sufficiency programs is 74.5% General Fund and 9.8% total funds higher than the 2005-07 legislatively approved budget for these programs. The large General Fund increase supports significant investments in the Employment Related Day Care and TANF programs, which are discussed in more detail below. The major federal funding sources in these programs – TANF and the Child Care and Development Block Grant – are capped grants that do not grow with program caseloads or costs, so the General Fund is used when costs increase above the capped level. The other large budget increase is in Nonlimited federal Food Stamps and Food Stamps cash out benefits; these are expected to increase $50.6 million from the 2005-07 level, to $983.9 million in the 2007-09 biennium.

A total of $34.5 million General Fund is added for improvements in the Employment Related Day Care program, effective October 1, 2007. This funding will allow DHS to restore the income limit to 185% of the federal poverty level, where it was before 2003. Client co-payments will be reduced an average of 20%, with co-payment levels established so that families pay no more than 17.5% of gross family income for child care. Reimbursement rates for licensed providers will be increased to the 75th percentile of the 2006 Child Care Market Rate Study. Unlicensed providers without training will be paid at 88% of the rate licensed providers receive, but unlicensed providers with training will be eligible for an enhanced rate at 95% of the licensed provider rates. DHS expects the training emphasis will encourage more providers to be trained, resulting in more children in safer child care.

The Governor's budget funds the proposed revisions in the TANF and JOBS programs, including caseload adjustments and inflationary increases. The Self-Sufficiency budget is increased by $19.3 million General Fund, $5.8 million Other Funds (from federal Child Care and Development funding), and $5.8 million Federal Funds (from one-time TANF carry-forward funds). This supports the proposed structural changes to the program, including separate state programs for clients seeking Social Security Disability benefits and some two-parent families; modifies the JOBS program to increase available services; adds 228 JOBS Plus slots; funds post-employment TANF grants of $150 a month for up to 12 months for families that become employed; and expands Family Support and Connections funding by 10%.

Other budget adjustments transfer the Student Day Care program to the Oregon Student Assistance Commission effective October 2007, and reflect efficiency improvements in the Department Wide Support Services' Office of Payment and Recovery.

CAF – Child Safety

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	5,381,595	10,494,894	5,587,134	5,908,238
Other Funds	4,675,081	4,390,253	4,420,253	4,398,418
Federal Funds	19,287,547	31,767,950	34,147,526	23,297,001
Total Funds	**$29,344,223**	**$46,653,097**	**$44,154,913**	**$33,603,657**

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 are 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. In 2007-09, the Temporary Assistance for Domestic Violence Survivors Program will be moved to the Self-Sufficiency budget.

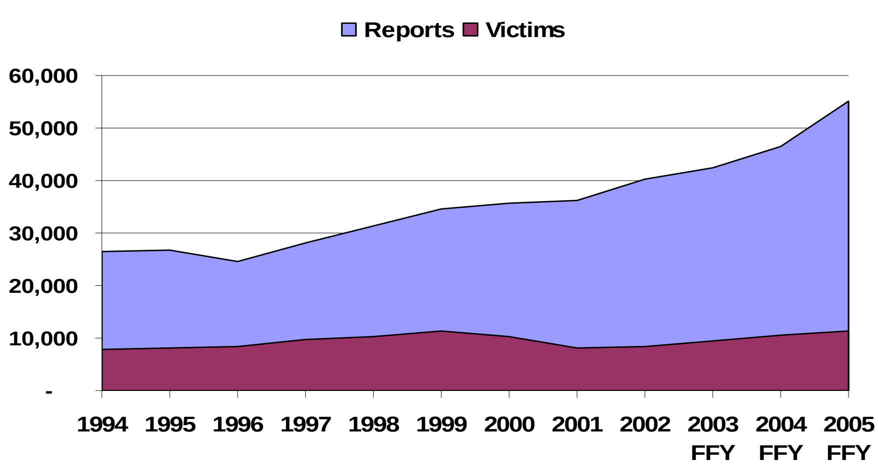
Addiction Recovery Teams – These multidisciplinary teams intervene with families with pre-school age children and parental substance abuse, where there have been allegations of child abuse and neglect. The teams help ensure child safety and provide services and support to address the substance abuse 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 2005, CAF received 55,114 reports of suspected abuse and neglect, continuing a trend of increased reports since 1996. The number of victims increased to 11,255, about 1.3% of the state's estimated 860,000 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 125% over that period. The number of victims grew from 1994 through 1999, dropped significantly in 2001 through 2003, but in 2005 was at the highest level in a dozen years.

Child Abuse/Neglect Reports and Victims



Child safety expenditures are designed to give early intervention and support services to families to help prevent out-of-home placement or return children home more quickly. Research on 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.

Governor's Budget

The Child Safety recommended budget is 5.7% General Fund higher, but 24% total funds lower, than the 2005-07 legislatively approved budget. The Temporary Assistance for Domestic Violence Survivors (TA-DVS) Program is moved from this budget to Self-Sufficiency, resulting in a decrease of about $10.9 million Federal Funds. The budget was also adjusted to reduce General Fund by $5 million and add $2.8 million in Federal Funds to shift funding between Self-Sufficiency and this budget to better meet federal TANF MOE requirements.

CAF – Substitute Care

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	57,257,725	63,883,993	63,306,850	85,559,481
Other Funds	11,776,733	16,103,351	14,160,165	15,883,118
Federal Funds	117,677,217	123,333,340	140,312,130	148,855,213
Total Funds	**$186,711,675**	**$203,320,684**	**$217,779,145**	**$250,297,812**

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 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 provides emergency shelter care and related services. 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 behavioral and emotional problems.

Budget Environment

In federal fiscal year 2005, 13,290 children were served in all foster care arrangements. Family foster care is the primary setting, with 5,373 foster families providing care. About 30% of the children placed in foster care are placed with relatives, who often do not receive reimbursement as foster parents because the children are not eligible for federal Title IV-E reimbursement. The current regular foster care monthly rates are $387 for a child through age 5, $402 for ages 6 through 12, and $497 for ages 13 and older. The payment is partial reimbursement for the cost of room and board, clothing, school, and personal items. These rates were reduced 7.5% during the 2001-03 biennium as a cost-saving measure, but were restored to prior levels in November 2003. Children in foster care also are eligible for physical and mental health services through the Oregon Health Plan, funded in the Health Services budget.

The number of children in paid foster care has increased significantly since 2003, but began to level off in July 2005. The Department's Fall 2006 forecast expects an average of 7,730 children in paid foster care during the 2007-09 biennium. Some children in foster care require additional special rates foster care payments, based on emotional, behavioral, mental, or physical problems that require special services for the children and increased skills and supports for foster parents and relative caregivers. About half of all children in foster care require special rates or medical Personal Care payments. For 2005-07, the average monthly cost is $601 per child; this is expected to increase to $613 for 2007-09. 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. Capacity in residential treatment programs has been constrained by budget, and many providers' costs have increased more rapidly than have budgeted inflationary increases to providers' rates. The Fall 2006 forecast projects a biennial average of 560 children in these programs for the 2007-09 biennium.

Governor's Budget

The Governor's recommended budget for Substitute Care programs is 35.1% General Fund and 14.9% total funds higher than the 2005-07 legislatively approved budget. The major cost driver is continuing program growth. The Department's Fall 2006 forecast projects an average of 11,639 children in foster care during 2007-09, up 11.6% from the 10,479 average for 2005-07. Projected caseload growth in paid foster care, special rates foster care, and other mandated programs adds $7.2 million General Fund and $23.6 million total funds to the budget. The increase is also due in part to $10.7 million General Fund added to backfill federal match rate changes, although the budget is reduced by $6.8 million General Fund and increased by $4.4 million Federal Funds to shift funding internally within CAF to better meet federal TANF MOE requirements.

Funding is added to pay reimbursement for relatives who care for foster children ($2.7 million General Fund), and to increase rates for community residential providers who provide Behavioral Rehabilitation Services (BRS) treatment ($1.4 million General Fund, $2.6 million total funds).

The Governor's budget does not fully fund cost and caseload growth in several Substitute Care programs, primarily Other Medical payments but also Foster Care Prevention, Independent Living and Nursing Assessments. These programs are supported by capped grants that do not cover program increases, and are considered to be "non-mandated" programs in budget development. It would cost $2.7 million General Fund and $3.6 million total funds to fully fund these programs for 2007-09.

The budget anticipates $3 million General Fund and $7.8 million total funds savings from improved management of foster care payments. This is not a rate reduction, but results from stronger oversight of payment approvals.

CAF – Adoptions

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	43,379,635	52,731,793	35,411,165	45,046,140
Other Funds	303,060	1,361,601	446,452	543,857
Federal Funds	44,525,013	55,306,766	70,571,270	84,969,244
Total Funds	**$88,207,708**	**$109,400,160**	**$106,428,887**	**$130,559,241**

Program Description

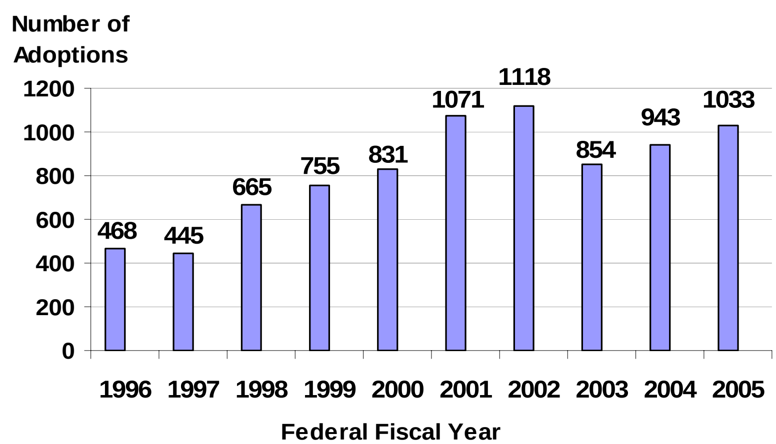
The Adoptions program provides services to help achieve permanent living placements for children in the child welfare system who cannot return home. The services include contracted permanent planning evaluations, legal assistance consultation, termination of parental rights litigation, open adoption 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. Special needs children have one or more documented medical, physical, or emotional condition or disability that places the child at risk for future problems and need for treatment; is a member of a sibling group that will be placed together and is difficult to place; or is a member of an ethnic/racial/cultural minority and is eight years of age or older. The assistance can include one-time payments for adoption expenses, ongoing monthly cash subsidies and medical coverage, and one-time payments for extraordinary expenses.

Budget Environment

Adoption Assistance caseloads are growing because more children with special needs are entering foster care, and because of the increased state and federal emphasis on making adoptive placements. This means more children are being added to the caseloads than are "aging out" at age 18. For federal fiscal year 2005, almost all of finalized adoptions received Adoption Assistance. For 2005-07, the average cost per case for Adoption Assistance payments is $479 per month; this is expected to increase to $493 in the 2007-09 biennium.

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 1996. 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. There were 1,118 finalized adoptions in federal fiscal year 2002, up 139% from federal fiscal year 1996. The number of adoptions dropped off in 2003, but is trending back up.



DHS reports the median time to adoption dropped to a historic annual low in 2005, at 33.3 months from the date of a child's last removal from home to finalized adoption. In 2004, this was 34.6 months. This means children are, on average, in foster care for less time before their adoption is final. Although Adoption Assistance payments are increasing, these payments are still less costly than foster care payments and case management for children while in foster care.

Governor's Budget

The Adoptions recommended budget is 27.2% General Fund and 22.7% total funds higher than the 2005-07 legislatively approved budget. The budget adds $9.7 million General Fund and $19.9 million total funds to cover significant on-going growth in the Adoption Assistance program. In July 2006, 9,501 children were receiving Adoptions Assistance. The Department's Fall 2006 forecast projects an average of 11,020 children in the 2007-09 biennium.

CAF – Other Programs

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	1,692,805	3,400,282	3,450,366	4,115,629
Other Funds	804,543	806,202	1,088,274	1,148,201
Federal Funds	9,395,650	12,242,095	12,337,825	14,591,360
Total Funds	**$11,892,998**	**$16,448,579**	**$16,876,465**	**$19,855,190**

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 Other Programs 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. The DHS Volunteer program is part of this budget, as are payments to the Employment Department for the Office of Administrative Hearings.

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.

Governor's Budget

The Other Programs recommended budget is 19.3% General Fund and 17.7% total funds more than the 2005-07 legislatively approved budget. The increase is the result of standard cost of living adjustments, costs above the standard inflation rate in the Office of Administrative Hearings, and General Fund backfill needed to replace capped Other and Federal Funds for continuing services.

CAF – Basic Rehabilitative Services

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	1,936,516	4,680,624	5,772,404	5,166,602
Other Funds	2,875,773	1,813,980	2,147,308	1,840,345
Federal Funds	31,071,346	29,343,843	33,283,309	25,635,375
Total Funds	**$35,883,635**	**$35,838,447**	**$41,203,021**	**$32,642,322**

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 through field offices and single employees outstationed 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, with 10,000 placed in employment plans and 6,000 rehabilitated into employment.

Youth Transition Program provides coordinated vocational rehabilitation services to students who are currently in school to ensure a smooth transition to adult services and employment after school completion. The program currently contracts with over 40 school districts 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, Foster Care Transition, and Mental Health programs.

Budget Environment

Almost all of the clients who receive basic rehabilitative services have severe disabilities which require a broad array of services. The most frequent primary disabilities are 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 made it more difficult to place clients, making fewer jobs available and increasing competition for jobs that are available. Case closures for employment trended downward from 2000 through 2004, but picked up again in 2005. Wages at placement have increased from an average $8.67 per hour in 2000 to $10.19 per hour in 2004, with an average 30 hours per week.

Federal funding has remained flat, with only cost-of-living adjustments, for the past two decades. Although Oregon has occasionally received additional federal allocations from other states' unused funding, the Basic 110 Grant has not kept pace with the increased demand for rehabilitative services.

In prior biennia, state budget constraints made it more challenging to provide services. Field staffing for vocational rehabilitation services has remained constant since the late 1980s as demand for services has increased. General Fund reductions in the 2001-03 and the 2003-05 budgets eliminated cost-of-living increases, eliminated the Sheltered Services Program for about 100 severely disabled clients working in rehabilitation facilities, and reduced grants to local Independent Living Centers.

The 2005-07 budget included the use of $5.1 million in one-time Federal Funds carried forward from prior years, to be used for direct client services and strategic investments with local partners to leverage other funding sources. In the April 2006 special session, the Legislature added $1.1 million General Fund and $3.9 million total funds to the budget to cover increased caseloads and costs per case.

Governor's Budget

The Governor's recommended budget for Vocational Rehabilitation Services is 10.5% General Fund and 20.8% total funds lower than the 2005-07 legislatively approved budget. The Governor reduced funding for special payments by $784,747 General Fund, with a resulting reduction of $2.6 million Federal Funds; this backs out most of the April 2006 special session funding increase. The budget does not continue a small Other Funds pilot program between DHS and the Department of Consumer and Business Services' Workers Compensation Division, nor the $5.1 million in one-time federal funding carried forward in the 2005-07 budget.

CAF – Program Support/ Central Administration

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	216,223,340	229,837,960	243,197,270	273,669,402
Other Funds	12,622,310	14,766,281	11,516,125	12,762,333
Federal Funds	287,416,175	282,236,342	288,981,863	334,370,426
Federal Funds (NL)	1	0	0	0
Total Funds	**$516,261,826**	**$526,840,583**	**$543,695,258**	**$620,802,161**
Positions	4,297	4,093	4,194	4,491
FTE	4,079.51	3,974.50	4,026.46	4,371.30

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

CAF Program Support and Central Administration make up about 45% of the total positions and FTE in DHS. Statewide actions that affect positions, such as salary and benefit adjustments, have a large budget impact in these units. This is particularly true if those adjustments are phased-in during the biennium, as in 2005-07, then rolled-up for the full 24-month period for the next biennium.

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 begin 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 suggested the CAF staff-to-supervisor ratios, averaging 14:1, generally are broader (i.e., more staff per supervisor) than in other states. However, there appeared 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 made some staffing adjustments to reclassify some CAF positions in line with the study's findings. Overall, CAF abolished 35 positions and reclassified 160 positions downwards. Phase II of the study was conducted during the 2005-07 interim, focusing on case management staff in TANF, Vocational Rehabilitation Services, and long-term care programs. DHS received the Phase II findings and recommendations in November 2006, and is still reviewing those. DHS will need to discuss its continuing work to implement the Phase I recommendations, and its plan to implement any recommendations from Phase II, with the 2007 Legislature during its budget hearings.

The National Resource Center for Child Protective Services reviewed Oregon's child safety intervention system in May 2005. Its report indicated that current national caseload standards might be twice what is reasonable to perform competently. Further, Oregon's workload situation even exceeds these national standards. The review also identified that Oregon's staff configuration – staff roles, responsibilities, assignments, and relationships to each other – is not systematic. The connection and interdependence of child protective services staff to ongoing service staff is not well formed. These findings prompted DHS to bring in the National Resource Center for Organizational Improvement (NRCOI) to review, assess, and make recommendations for caseload sizes, supervisor-to-caseworker ratios, and staffing patterns, which comprise workload efficiency and child safety. The results of the NRCOI study are expected soon.

Governor's Budget

The Governor's recommended budget for Program Support and Central Administration is 12.5% General Fund and 14.2% total funds, higher than the 2005-07 legislatively approved budget, with increases of 297 positions and 344.84 FTE. Much of the growth reflects personal services cost increases for existing staff and added staffing based on caseload growth in CAF programs. Staffing for 2007-09 caseload growth is funded at $10.1 million General Fund, $10.1 million Federal Funds, and 196 positions (185.08 FTE).

CAF provides eligibility determination for the Oregon Health Plan program. The OHP Standard program has been funded by Managed Care Organization (MCO) provider tax receipts. Under current law, this tax sunsets at the end of 2007. The budget phases out 25 CAF positions and associated funding in the base budget for the last 18 months of the 2007-09 biennium, but restores the positions in a policy package that reflects the Governor's proposals to extend the MCO provider tax and increase tobacco taxes to continue and expand the OHP Standard program. This is estimated to add an average 10,000 cases a month to the program. The package adds $846,083 General Fund, $2,462,855 Other Funds, $1,841,027 Federal Funds, and 59 positions (51.00 FTE) in CAF's budget.

Staffing is also added in CAF to do eligibility work for the Governor's Healthy Kids Plan ($879,578 Other Funds, $599,269 Federal Funds, 16 positions, 9.77 FTE).

Funding related to program initiatives in other areas of CAF include:

- Child care improvements in Self-Sufficiency are expected to result in increased caseload in the Employment Related Day Care program, phased-in over the 2007-09 biennium. The budget adds $426,076 General Fund, 13 positions (4.33 FTE) to the Program Support budget for the related staffing.

- Program support costs related to TANF reauthorization are funded at $235,341 General Fund and $1.2 million Federal Funds, with six positions (2.97 FTE). The funding anticipates 24 more positions (8.10 FTE) being phased in during the biennium, although the positions and FTE are not included in the budget.

- $1.6 million General Fund, $1.6 million Federal Funds, and 31 positions (31.00 FTE) are added to address workload efficiency and child safety. A total of 130 positions would be reclassified, creating an additional 101 caseworkers and 29 supervisors; these reclassifications would be funded by abolishing 26 positions. The additional 31 positions would more closely align staffing to current national standards that, although outdated, are improvements from current staffing levels.

- To increase legal representation for child welfare caseworkers at juvenile dependency hearings, the budget adds $3.1 million General Fund and $2 million Federal Funds to pay for Attorney General services. This expands on funding added in the 2005-07 biennium for legal representation.

- $468,893 General Fund, $468,893 Federal Funds, and eight positions (8.00 FTE) are added to complete home studies for interstate placement of foster children within new federal timelines for the work.

The budget adds resources to undertake efficiency improvements in three areas:

- To implement a quality assurance program for self sufficiency programs ($942,588 General Fund, $942,588 Federal Funds, 18 positions, 16.44 FTE), which is expected to result in net savings of $2.6 million General Fund and $4.8 million Federal Funds for the Department as a whole.

- To increase staffing for the Children's Benefits Unit, to help disabled children qualify for Supplemental Security income more quickly. This will help avoid state costs, and give families additional resources to meet their children's needs ($106,238 General Fund, $106,238 Federal Funds, 2 positions, 1.76 FTE).

- To add a Social Security Recovery Specialist to recoup costs for rehabilitation services provided to clients with severe disabilities who are eligible for Social Security Disability and Supplemental Security Income benefits ($99,176 Federal Funds, 1 position, 0.88 FTE).

The Governor's budget reduces the Central Administration and Program Support budgets by a total of $593,811 General Fund, as part of its department-wide $1 million General Fund cost savings.

DHS/Health Services (HS) – Program Area Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	995,873,378	1,132,472,701	1,228,292,819	1,546,592,469
Lottery Funds	5,528,967	9,312,000	9,312,000	12,032,591
Other Funds	767,515,134	785,529,780	805,258,989	1,045,178,115
Federal Funds	2,577,025,837	2,612,354,643	2,753,708,027	3,347,860,945
Other Funds (NL)	27,385,393	29,331,072	29,331,072	30,240,335
Federal Funds (NL)	89,823,899	102,729,051	102,729,051	102,729,051
Total Funds	**$4,463,152,608**	**$4,671,729,247**	**$4,928,631,958**	**$6,084,633,506**
Positions	2,219	2,230	2,314	2,516
FTE	2,122.53	2,163.80	2,205.48	2,430.08

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 Governor's recommended budget includes $1.5 billion of General Fund. In 2006, Health Services was categorized into three divisions: Division of Medical Assistance Programs (DMAP), Addictions and Mental Health (AMH), the Public Health Division (PHD). The chart below summarizes the 2007-09 Governor's budget funding levels for each major program area within the Health Services Cluster.

Governor's Budget (In millions of $)	General Fund	%	Total Funds	%
Public Health (Special Pmts. Only)	28.6	2	307.9	5
Oregon Health Plan and CHIP	801.2	52	4,378.8	72
Non-OHP – Pmts. To Medicare	217.5	14	367.8	6
Mental Health and Addiction Services	434.2	28	727.6	12
Program Support and Central Admin.	65.1	4	302.5	5
Total	1,546.6	100	6,084.6	100

Public Health Programs are part of the Public Health Division (PHD) and 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 administers 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)* is part of the Division of Medical Assistance Programs and 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, in the Governor's budget, two programs in the Office of Private Health Partnerships (a separate state agency) – the Family Health Insurance Assistance Program (FHIAP) and the Healthy Kids Plan.

The *Non-OHP* budget is also part of DMAP and includes payments of Medicare premiums and other Medicare cost-sharing for certain low-income eligible populations. In addition, the Non-OHP budget contains a General Fund "clawback" payment that is required under the Medicare Modernization Act (MMA) of about $128.3 million.

The *Mental Health and Addiction Services* budget is the major component of Addictions and Mental Health (AMH) and includes the costs of operating the Oregon State Hospital system (including staffing of 1,363.61 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 addictions – including drug, alcohol, and gambling.

The *Program Support and Central Administration* budget provides funding for staff who provide policy direction and administrative support for all divisional programs as well as persons who manage the Health Plan's automated claims payment system. 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 (approximately $538 million in the Governor's budget), Medicaid provider taxes, 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 Governor's budget assumes a significant Tobacco Tax rate increase that is used to enhance medical services to children, the Oregon Health Plan Standard program, and the Tobacco Prevention and Education Program (TPEP). The budget includes $12 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 $3.3 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 39% state funds and 61% Medicaid funds. Other federal revenue sources include 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 lasting impact on future Health Services' budgets. 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 people lost their jobs and sought medical insurance through the OHP. Many others retained their jobs, but may have lost medical insurance because employers dropped coverage as a response to rising health insurance premiums. 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 (rather than institutional) level.

Governor's Budget

The Governor's recommended budget for Health Services contains numerous enhancements to the OHP, CHIP, mental health and addiction services, and public health programs. The most notable are listed below:

- The Governor's Healthy Kids Plan which expands health care services in the OHP Payments and CHIP budgets ($100.8 million total funds, $53.8 million Other Funds from new tobacco tax). In addition, the budget adds new school-based health clinics within the public health and program support budgets.
- An expansion of the OHP Standard program which would add 10,000 average monthly cases in the 2007-09 biennium ($127.3 million total funds, $50.4 million Other Funds – primarily from new tobacco tax).
- An extension of the Medicaid provider tax for Managed Care Organizations and Hospitals which is, under existing law, scheduled to end January 2008.

- The addition of a pre-natal care benefit to the Citizens Alien Waived Emergency Medical program ($23.3 million total funds, $4.5 million Other Funds).
- A continuation of staffing ratio improvements at the Oregon State Hospital in accordance with the *Harmon v. Fickle* lawsuit settlement agreement ($15.4 million total funds, $11.2 million General Fund).
- Funding for the ongoing development of mental health community-based projects consistent with recommendations from the *Oregon State Hospital Phase II report* ($10 million General Fund).
- Early assessment and support teams to provide better mental health services are funded with $4.3 million tobacco tax.
- An expansion of the Tobacco Prevention and Education Program (TPEP) with $17.9 million of new tobacco tax.
- Increased funding for improved addictions treatment and prevention of youth substance abuse ($13.4 million Other Funds from the Oregon Liquor Control Commission, or OLCC).

It can be argued that all of these enhancements are worthy of legislative deliberation and approval. From a long-term budget perspective, however, there are at least three concerns that must also be considered. First, the proposed 2007-09 budget contains program enhancements that, if continued, would grow significantly in the 2009-11 biennium. For example, the Healthy Kids Plan budget in Health Services would grow from $53.8 million of state funding in the 2007-09 biennium to $142.6 million of state funds in the 2009-11 biennium. The increase results not only because the duration of the plan is longer (24 months instead of 18 months), but also because the program's caseload and costs are expected to grow also.

The funding source for the state share of the Healthy Kids Plan budget raises a second concern. Tobacco tax revenue, apart from tax rate increases, has grown at a modest rate in recent years. (Part of this modest growth is attributable to less use of tobacco products.) Coupling a high growth budget, such as the Healthy Kids Plan, with a modest growth revenue source, such as tobacco tax, is problematic, from a perspective which wishes to sustain the program into the future. Assuming the $53.8 million of tobacco tax used to support the Healthy Kids Plan in 2007-09 grows by 1% over 24 months in 2007-09 to $72.5 million, this would leave a state funding shortfall of about $70.1 million ($142.6 million state funds less $72.5 million tobacco tax revenue) in the 2009-11 budget. Whether other program enhancements using tobacco tax, such as the TPEP or OHP Standard expansion or the early assessment and support team program, create a similar problem depends on how they are treated in the 2009-11 budget – as programs limited by the amount of available dedicated revenue or as programs driven by need or inflationary costs.

A third concern is the impact on agency cash flow from greater use of tobacco tax as a funding source. Currently, some of the tobacco tax revenue used in the OHP budget, is received after the close of the biennium. In other words, cash expenditures are occurring earlier than certain cash-inflows. To deal with this problem, DHS needs to locate other sources of cash within its budget or must borrow funds from the State Treasury. An analysis of this issue with respect to the new tobacco tax revenue used in the Governor's budget has not been completed. Nonetheless, it is an issue that should be addressed.

HS – Public Health Division Programs – (Special Payments Only)

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	14,139,896	17,155,049	17,090,375	28,599,171
Other Funds	3,814,813	4,206,033	4,839,033	17,672,945
Federal Funds	114,384,273	127,708,102	127,536,745	128,704,399
Other Funds (NL)	27,385,390	29,331,072	29,331,072	30,240,335
Federal Funds (NL)	89,167,018	102,729,051	102,729,051	102,729,051
Total Funds	**$248,891,390**	**$281,129,307**	**$281,526,276**	**$307,945,901**

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. Only special payments are included in this budget category. All Public Health Office expenditures for program staff are included in the 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 Environmental Public Health
- 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 Environmental Public Health* program area establishes policies and carries out activities designed to improve the health and safety of Oregonians. It monitors the health status of communities and the performance of the health care 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 preventive 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.

Revenue Sources and Relationships

Of the 2007-09 Governor's public health budget revenue, $47.9 million is classified as Other Funds. Most ($30.2 million) is Women, Infants, and Children (WIC) baby formula rebates from manufacturers. This rebate revenue supports additional expenditures for WIC. Most of the remaining $17.7 million consists of Tobacco Tax to support prevention and education programs, a Safe Kids Oregon grant, revenue from the unitary assessment, and funds from a Childcare Health Consultation Project.

Federal Funds revenue of $231.4 million in the budget supports approximately 75% 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 $51 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, Family Planning services grant, as well as other individual federal grants that range from $71,000 to $1.2 million 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.

Governor's Budget

The Governor's recommended budget includes $1.5 million total funds ($531,807 General Fund) to pay for higher program costs resulting from inflation. In addition, the budget funds six program enhancements totaling $20.9 million ($7.8 million General Fund) that are listed below:

- Adds $2.2 million General Fund to increase the Family Planning Expansion Program (FPEP). Though no additional Federal Funds expenditure limitation was included, state funds in this program are matched with nine dollars of federal Medicaid revenue. If this proposal is approved, it is likely this federal limitation will need to be added.
- Uses $100,000 General Fund to enhance the Women, Infants, and Children's (WIC) Farmers Market Program. The net increase is $51,000, however, because $49,000 General Fund is removed in the Program Support and Central Administration budget – see below.
- Proposes to add $1.7 million of Other Funds (new Tobacco Tax revenue) to add school-based health clinics in more counties and to expand services within existing counties.
- Adds $1.2 million General Fund to enhance efforts to assure that Oregon meets federal safe drinking water standards.
- Enhances funding for local health departments with $4.2 million General Fund.
- Adds $10.4 million of Tobacco Tax – $3 million of existing revenue dedicated to the Tobacco Prevention and Education Program (TPEP) and $7.4 million of revenue from the proposed tobacco tax increase.

HS – Division of Medical Assistance Programs: OHP Payments

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	596,579,509	572,991,057	658,112,832	801,174,265
Other Funds	663,056,324	674,998,093	698,660,139	818,291,120
Federal Funds	2,109,863,616	2,001,387,017	2,116,936,086	2,528,344,403
Total Funds	**$3,369,499,449**	**$3,249,376,165**	**$3,473,709,057**	**$4,147,809,788**

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, described below. The fourth part of the health plan is medical insurance premium subsidies offered through the Office of Private Health Partnerships' Family Health Insurance Assistance Program (FHIAP) and, in the Governor's budget, the Healthy Kids Plan. 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 because of 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 about 370,000 Oregonians who are eligible for Medicaid. Nearly 75% of these persons are served through managed care organizations (other than those providing dental services), which receive capitation payments from DHS and who assume the risk of providing necessary medical services for their members. The remaining 25% are served on a fee-for-service basis. Dental care organizations (managed care organizations providing dental services) serve more than 90% of those OHP clients eligible for dental coverage.

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 and formally began November 1, 2002. The OHP 2 agreements with CMS are scheduled to end on October 31, 2007, but in the fall of 2006, the Governor submitted a request to CMS to extend the current agreement with some minor modifications.

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 Office of Private Health Partnerships, thus expanding the number of persons who could receive subsidies for health insurance premiums. Third, OHP2 was to provide more immediate budget flexibility by allowing Oregon to reduce benefits for certain groups of eligible persons, without acquiring CMS approval.

The OHP2 waiver 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 comprehensive benefit package and, as initially designed, excluded transportation, vision, and a portion of the dental services. In addition, Standard requires premium payments for eligible persons with household incomes between 10% and 100% of the federal poverty level. If the premium is not paid, the client will lose coverage. 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 did pass 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, however, 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 now stands at about 21,300. In January 2003, the Standard caseload was just over 100,000.

- 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 – As noted above, about 75% 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 2006, the SSI grant of $603 / month for a household of one was about 74% of FPL. In addition, seniors (and persons with disabilities) who are eligible for Medicaid long-term care are also eligible for the health plan. The income standard for Medicaid long-term care is 300% of the SSI grant, or about 222% of FPL. To qualify for long-term care, however, a person must also have impairments that limit their activities of daily living.
- 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 may be 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 and was closed to new enrollees July 2004.

Certain institutional mental health and residential chemical dependency treatments 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 Children, Adults and Families cluster and the Seniors and Persons with Disabilities Services cluster.

Revenue Sources and Relationships

The federal government funds approximately 61% of OHP Medicaid costs. Most of the state's 39% match comes from the General Fund and tobacco taxes – including tobacco tax revenue that would be generated from an increase in tax rates proposed in the Governor's budget. As noted above, the state match for the OHP Standard program is now exclusively funded with provider tax revenue. (The Governor's proposed budget expands OHP Standard using tobacco tax revenue as the state share.) Although the provider taxes are scheduled to end January 2008, the Governor's budget assumes they will be continued. The remaining state match for the OHP Plus benefits comes from a variety of Other Funds revenue sources including OHP premiums; federally required drug manufacturer rebates; and recoupments from insurance companies, providers, and clients. Additional revenue comes from state agency and county transfers designed to maximize the receipt of federal matching funds, and from miscellaneous receipts. The legislatively adopted budget for 2005-07 used $24.5 million of Tobacco Master Settlement Agreement funds, but this revenue source is not expected to be available for this purpose in the 2007-09 DHS budget, and has been replaced with General Fund in the Governor's budget.

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

Budget Environment

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

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

These efforts to improve DHS forecasting are reasonable and hopefully will lead to greater forecasting accuracy. Even so, the best DHS forecasts must be regarded with caution for budgetary purposes. The caseload forecasts for the OHP used in the 2007-09 Governor's budget were developed over the summer of 2006 and finalized in the fall. These forecasts used actual data through March 2006 – more than three years prior to the end of the 2007-09 biennium. The adopted budget will be based on a newer forecast using actual data through September 2006 – still two and a half years prior to the end of the next biennium. Clearly, these forecasts are inherently risky – especially, if economic conditions change or policies are modified without reasonable certainty of the financial consequences. Unlike commercial insurers, the OHP does not have established reserves that can be used if caseload forecasts (or for that matter, costs) are understated and more funding is required – except for the state's General Fund.

Medical Inflation and Utilization Trends – Under federal Medicaid law and state statutes, DHS is responsible for paying rates that are sufficient to assure access to health care services for Medicaid recipients. In other words, Medicaid must adequately reimburse providers of medical care to compete with other health care purchasers in the market place so Medicaid clients may access services. Because costs for medical services have risen dramatically over the last several years, states purchasing Medicaid services have had to spend greater proportions of their budgets on medical services. Causes for these cost increases are complex and include greater use of medical services by an aging population, the use of new high-cost medical technology such as pharmaceuticals or diagnostic tools, medical labor shortages, and a growing uninsured population. When uninsured persons use medical care, but cannot pay for it, providers may be forced to increase their charges to clients who will pay, thereby 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 have not been easy to implement in either the private health care market or in public programs such as Medicaid or Medicare.

Federal Policy and Funding Changes – Medicaid is a state-federal partnership of unequal partners. The federal share of administrative costs ranges from a low match rate of 50% for most administrative functions to 90% for certain programs. Most program costs are matched at a rate of approximately 39% state to 61% federal funds. The federal government sets the rules and guidelines for the program and must approve any waivers and changes to waivers that are authorized for the state.

Changing congressional priorities and federal funding levels greatly impact funding for DMAP programs. The Medicare Modernization Act (MMA), passed by Congress in December 2003, for example, greatly influenced the health plan budget. The MMA provided a new Medicare benefit, Part D prescription drug coverage. Oregon's 52,000 "dual-eligibles" (clients eligible for both Medicare and Medicaid) had been receiving their prescription drugs through Medicaid. The provision of Part D by Medicare meant that these clients would no longer receive a Medicaid drug benefit. This lowered the costs of the Medicaid program considerably. At the same time, Congress required states to make a payment to the Medicare program which was used to support part of the federal government's Part D costs. This payment became known as the "clawback" and this General Fund payment is included in the agency's Non-OHP payments' budget that is discussed below. The clawback is based on a formula that conceptually represents a percentage (less than 100%) of the savings states would realize from the elimination of Medicaid drug costs for dual-eligible clients. This percentage used in calculating the clawback is reduced over time thereby allowing states to realize more savings in their Medicaid program from the implementation of the MMA Part D benefit.

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

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

Governor's Budget

The Governor's recommended 2007-09 budget for OHP Payments of $4,147.8 million total funds represents a 19% increase over the 2005-07 legislatively approved budget (through December 2006). The General Fund portion of the Governor's budget ($801.2 million) is increased by 22% over the 2005-07 legislatively approved budget of $658.1 million. These increases are driven primarily by anticipated medical cost growth of 5.4%, increased utilization of services of 9.6%, higher proposed reimbursement for some health care providers, and the expansion of children's health care coverage and the OHP Standard program.

The Governor's budget assumes that the managed care and hospital provider taxes, currently scheduled to end in January 2008, are continued and used to support the OHP Standard program. The Governor's budget acknowledges ongoing savings from the substitution of the Medicare Part D prescription drug benefit in place of Medicaid drug expenditures for the program's dual-eligible clients. The budget uses General Fund to replace $24.5 million of Tobacco Master Settlement Agreement revenue that had been used in the 2005-07 legislatively adopted budget, but is no longer available for this purpose. Likewise, the budget replaces tobacco tax revenue of $7.5 million dedicated to the Tobacco Prevention and Education Program, but redirected to the OHP budget by the 2005 Legislature, with General Fund. Expected average monthly caseloads for the 2007-09 biennium, which are expected to be lower than the latest forecast for the 2005-07 biennium, are listed in the chart on the following page:

OHP Payments Average Monthly Caseloads	2005-07	2007-09	% Change
Temp. Assist. Needy Families - Medical	95,114	92,784	(2.4)
Temp. Assist. Needy Families - Extended	39,595	35,623	(10.0)
Poverty Level Medical – Women	10,305	11,833	14.8
Poverty Level Medical - Children	82,430	80,073	(2.9)
Aid to Blind and Disabled	61,817	65,093	5.3
Old Age Assistance	30,217	29,706	(1.7)
Foster Care	18,050	18,918	4.8
OHP Standard	21,599	15,942	(26.2)
Citizen Alien Waived Emergency Medical	18,532	17,299	(6.7)
Total	377,659	367,271	(2.8)

The chart does not include caseloads for CHIP or Qualified Medical Beneficiaries which are not part of the OHP Payments budget. Nor does the chart include the effect of the expansion to OHP Standard or to children's health coverage proposed in the Governor's budget.

The Governor's budget includes a number of actions that would reduce General Fund expenditures as well as proposals to enhance current programs. The recommended budget:

- Increases the percentage of diagnostic related grouping hospital reimbursement included in the managed care capitation rate to 90%. During the 2005-07 biennium, this reimbursement level was 72%.
- Continues some efficiency reductions that were initiated during the 2005-07 biennium including the expansion of disease management efforts and a nurse hotline, implementing a hospital emergency room assessment fee (only) for non-emergent conditions rather than paying for non-emergency care charges, a reimbursement reduction for drugs administered in physician offices, and a reduction to Graduate Medical Education payments.
- Reinstates vision services, dental services (in their entirety), hospital reimbursement client days exceeding 18, and phases out one-time 2005-07 savings in the non-emergent transportation budget.
- Reduces fee-for-service reimbursement for providers of durable medical equipment to 80% of Medicare costs.
- Replaces $22.1 million General Fund in the Citizen Alien Waived Emergency Medical (CAWEM) program with newly generated tobacco tax revenue from the proposed tax increase.
- Saves $920,000 General Fund by enhancing the Family Planning Expansion Program (FPEP) in the public health program area.
- Anticipates $1 million of General Fund savings ($2.6 million total funds) resulting from federal changes in Medicaid drug reimbursement. A proposed rule by the federal Centers for Medicare and Medicaid Services would provide new data for states to use in their calculations, redefining the "average manufacturer price" for brand-name and generic drugs. The proposed rule would also limit payments to state Medicaid agencies for the aggregate costs of prescription drugs when a generic substitute is available.
- Reduces the prescription drug budget by $2.5 million General Fund ($8.5 million total funds) resulting from better management of pharmaceutical costs, including changing pharmacy reimbursements to create incentives to use lower cost products and implementing restrictions on reimbursement for over-the-counter medications.
- Further reduces the pharmaceutical budget by $3 million General Fund ($10.5 million total funds) resulting from the implementation of prior authorization for medications not included on the OHP preferred drug list and by adding mental health drugs to Oregon's preferred drug list.
- Adds $5.7 million total funds ($2.2 million of newly generated tobacco tax revenue) to increase fee-for-service reimbursement to 75% of Medicare costs for providers who are below this level. These providers include physicians, laboratories, physical and occupational therapists, radiology specialists, and speech and audiology therapists.
- Increases the budget by $51.3 million ($28 million Other Funds from newly generated tobacco tax) to provide health insurance coverage for currently eligible children under the Governor's Healthy Kids Plan. This portion of the plan assumes that the average monthly caseload would increase by a net of 10,907 cases. The budget further assumes that children who today are covered only with an emergent care benefit under the Citizen Alien Waived Emergency Medical (CAWEM) program would, under the Healthy Kids Plan, receive a full health-care benefit. The OHP Payments' Healthy Kids Plan budget includes $13.4 million Other Funds that is unmatched with federal funds to provide coverage for children who are not eligible for Medicaid because of their citizenship or alien status.
- Enhances the CAWEM program by adding a prenatal care package for eligible women. This benefit is expected to cost $23.3 million total funds ($4.5 million Other Funds).

- Adds $50.2 million Other Funds ($43.5 million newly generated tobacco tax and $6.7 million provider tax) along with $76.7 million of Medicaid revenue to reopen the OHP Standard program and increase the average monthly caseload by 10,000 to reach a total average monthly caseload of 34,000 during the 2007-09 biennium.
- Reduces the General Fund budget by $803,407 resulting from enhancements made to the Office of Payment Accuracy and Recovery.
- Saves an additional $9.7 million total funds ($3.8 million General Fund) by implementing quality assurance efforts within the CAF self-sufficiency program. Savings are expected to come from reduced eligibility errors and increased accuracy in assigning clients to proper OHP caseloads.

HS – Division of Medical Assistance Programs: Non-OHP Payments

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	56,325,485	163,451,772	145,660,873	217,499,403
Other Funds	9,345,664	0	0	5,000,000
Federal Funds	70,395,581	107,237,520	113,355,918	145,293,386
Total Funds	**$136,066,730**	**$270,689,292**	**$259,016,791**	**$367,792,789**

Program Description

The Division of Medical Assistance Programs 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.
- *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.
- *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.

In addition to funding these caseloads, the Governor's budget for Non-OHP payments also includes a General Fund payment of $128.3 million to the federal government required by the Medicare Modernization Act known as a"clawback" payment. 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.

Revenue Sources and Relationships

The General Fund appropriation for the Qualified Medicare Beneficiary (QMB) and Specified Low-Income Medicare Beneficiary programs are used to match federal Title XIX Medicaid funds at the rate of approximately 61% federal to 39% 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. In addition, the non-OHP budget is affected by changes in federal match rates and Medicare policies.

Governor's Budget

The Governor's recommended budget provides funding to cover higher cost Medicare premiums and increased caseloads in both the QMB program and Breast and Cervical Cancer treatment program. The QMB program caseload is expected to increase from 11,377 average monthly cases in 2005-07 to 12,647 cases in 2007-09. The

Breast and Cervical Cancer treatment program caseload is forecast to increase 39% from 317 average monthly cases in 2005-07 to 441 cases in the 2007-09 biennium. In addition, the budget adds $42.2 million General Fund to phase-in 24 months of MMA clawback payments to reach a total payment of $128.3 million during the 2007-09 biennium. Because the MMA Part D benefit began January 2006, the 2005-07 biennial clawback reflects only a partial biennial amount. The Governor's budget also adds $5 million of Tobacco Tax revenue to create an uncompensated care pool to increase payments to hospitals.

HS – Division of Medical Assistance Programs: CHIP Payments

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	789,914	0	1,089,709	0
Other Funds	16,819,404	15,957,633	15,957,633	74,420,081
Federal Funds	45,113,091	45,914,025	67,882,011	156,570,086
Total Funds	**$62,722,409**	**$61,871,658**	**$84,929,353**	**$230,990,167**

Program Description

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

Oregon's policy makers took advantage of the more favorable federal CHIP match rate (approximately 72% for CHIP versus 61% for Medicaid) to expand OHP services to more children than would have been covered if the funds were coming from Medicaid alone. Households 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% (or in some instances 133%) 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 Office of Private Health Partnerships' 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.

In its 2005-07 adopted budget, the Legislature included a $4 million special purpose appropriation to the Emergency Board that could be allocated to either the Office of Private Health Partnerships (OPHP) or to DHS' CHIP depending on discussions with CMS about Family Health Insurance Assistance Program maintenance of effort. The Emergency Board allocated $2.9 million of the appropriation to OPHP and, in its special April 2006 session, the Legislature shifted the remaining $1.1 million to CHIP to extend CHIP eligibility from six months to twelve months before a re-determination of eligibility must be made.

Governor's Budget

The Governor's recommended budget includes a $119.7 million total funds increase from the prior biennium to fund a higher caseload, medical inflationary costs, to phase-in the policy change extending CHIP eligibility from six months to twelve months, and to fund the state share of the program with Tobacco Tax exclusively, rather than using General Fund. The average monthly caseload for CHIP is expected to increase 32%, from 32,287 cases in 2005-07 to 47,612 cases in 2007-09. This increase is before implementation of the Governor's Healthy

Kids Plan which is discussed immediately below and in the OHP Payments Section. Extending the length of eligibility is expected to add $31.2 million total funds costs.

The Governor's budget proposes an ambitious initiative, the Healthy Kids Plan, to increase health insurance coverage for the state's children. Some of this increase is reflected in the Office of Private Health Partnerships and within the DHS OHP Payments budget. In addition, a substantial portion of the Healthy Kids Plan ($47.8 million total funds – $24.8 million Other Funds supported by Tobacco Tax, and $23 million Federal Funds) is included in the CHIP budget. The initiative would add 18,418 average monthly cases to the CHIP for a total average monthly caseload of 66,030. The Healthy Kids Plan makes changes to current eligibility requirements. Any Oregon resident under 19 would qualify. The CHIP income requirement would increase to 200% of FPL; a waiting period to enroll would be reduced to 60 days of uninsurance (excluding Medicaid); and any household asset limit would be eliminated. There would be no copays or other cost-sharing for participants. The budget anticipates that a number of the children enrolled would not be Medicaid or CHIP eligible because of their citizenship or alien status, but would receive services funded entirely with Tobacco Tax. The amount of unmatched tobacco tax to provide services for these children is $10.4 million. The assumed implementation date for the Plan is January 2008.

The Governor's budget for CHIP also includes two reductions that are also part of the OHP Payments budget totaling $2.6 million ($713,410 Other Funds – Tobacco Tax). These are the reduction of the DRG hospital payments within the managed care capitation rate and the decrease in fee-for-service reimbursement for Durable Medical Equipment (DME) services to 80% of Medicare costs. The Governor's budget adds $248,345 total funds ($67,177 Tobacco Tax) to increase other medical service provider fee-for-service reimbursement to 75% of their Medicare costs.

HS – Addiction and Mental Health Services

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	297,174,403	336,747,698	354,025,187	434,236,167
Lottery Funds	5,126,284	9,018,100	8,418,946	11,507,064
Other Funds	29,280,287	39,933,361	38,918,362	53,105,796
Federal Funds	118,411,857	187,407,854	179,521,620	228,745,762
Other Funds (NL)	3	0	0	0
Total Funds	**$449,992,834**	**$573,107,013**	**$580,884,115**	**$727,594,789**
Positions	1,348	1,341	1,388	1,406
FTE	1,293.39	1,299.94	1,323.10	1,363.61

Program Description

Mental health services are provided to people who have been clinically diagnosed as having a serious mental or emotional disorder. Illnesses include schizophrenia, bipolar disorder, and major depression. Diagnosed individuals often have a normal to high measured intelligence, but people with developmental disabilities also may have a mental illness. Medicaid-eligible persons receive mental health diagnoses and treatment under the Oregon Health Plan. Mental health organizations receive capitation payments and manage much of the risk of providing treatment for 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.

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.

Community Mental Health

Mental health community services are provided through county and other local governments, private non-profit organizations, private hospitals, and health plans. Community mental health programs operate in every county and counties are statutorily required to provide pre-commitment services – that is services that may prevent commitment to the OSH. For individuals and services not covered under the OHP, DHS funds a variety of services that include supported housing and employment opportunities; clinic-based outpatient care; local crisis services; regional acute care facilities; and, as a last resort, referral to state psychiatric hospitals.

Addiction Treatment and Prevention

Like community mental health services, alcohol and drug treatment services are also offered through county and other local governments and private non-profit organizations. The budget provides funding for a variety of treatment services including outpatient, intensive outpatient, residential and detoxification services for adults and children. The budget supports a number of beds for the dependent children of adults receiving residential treatment services. Outpatient services include specialized programs that use synthetic opiates, such as methadone, to assist in the treatment of chronic heroin addiction. Outpatient services also include DUII education and treatment for first offender diversion referrals, as well as convicted repeat offenders. This program area also includes Lottery funding for gambling addiction prevention and treatment.

Oregon State Hospital and Eastern Oregon Psychiatric Center

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

Revenue Sources and Relationships

Funding for mental health and alcohol and drug treatment programs is about 60% General Fund, 9% Other Funds and Lottery Funds, and 31% Federal Funds. Most of the federal funding (roughly $180 million of the $228.7 million) comes from Title XIX Medicaid, which supports institutional care for some children and elderly patients and community mental health services. The Title XIX federal match rate is about 61% for program services and 50% for administration. The match rate is based on the economy of the state compared to the nation as a whole. In addition to Title XIX Medicaid funding described above, the federal Alcohol and Drug and Mental Health Services Block Grants provide about $40 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.

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 Governor's recommended budget includes a Lottery Funds expenditure limitation of $10.5 million to fund the Gambling Addiction and Treatment Program, better than 30% more than allocated for the program during the 2005-07 biennium. The Gambling Addiction and Treatment Account receives 1% of net lottery proceeds.

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

Budget Environment

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

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

Despite this trend, the state's recession from 2001-04 had a drastic and deleterious impact on Oregon's mental health system. The Oregon Health Plan Standard program which served just over 100,000 persons in January 2003 was closed in July 2004 and today stands at 21,300. Capitation payments to mental health organizations under the Standard program virtually ceased, and hundreds of mental health workers in community-based organizations were laid off. As a result, hospital emergency rooms and county correctional facilities saw increases in the number of persons with mental disorders they had to serve or incarcerate, respectively.

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

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

Concerns about the Oregon State Hospital and the state's mental health system further compelled the Governor and Legislature to provide funding in the 2005-07 biennium for an analysis of the state hospital. This funding was used by DHS to hire a contractor which studied the hospital and mental health system. On February 28, 2006, the Department released a report on the OSH entitled, *Framework Master Plan, Phase II Report*. The report contains an analysis of the demand for hospital services for the next 25 years and presented three options which were considered by legislative leadership and the Governor. The selected option calls for the construction of a 620-bed facility in the north Willamette Valley, a 360-bed facility south of Linn County on the west side of the Cascade Mountains, and at least two non-hospital level 16-bed secure residential treatment facilities east of the Cascades. The anticipated cost is expected to be between $324 and $334 million, excluding the cost of land, demolition costs and, most importantly, the assumed enhancement and expansion of the community-based segments of Oregon's public mental health system. This is a major project and is expected to take nearly 10 years to complete. Clearly, there will be numerous issues to resolve in such an endeavor including specific site selection, the ability of DHS to develop enough community-based services, and existing and anticipated shortages of professional clinical staff. The Emergency Board approved expenditure limitation adjustments in both the DHS and the Department of Administrative Services' budgets to begin the planning efforts.

Governor's Budget

The Governor's recommended budget includes funding for both general and medical inflationary costs, higher expected caseloads, and a full biennium of costs associated with new community-based residential treatment facilities that were opened during the 2005-07 biennium, and it accounts for 2007-09 costs resulting from December 2006 DHS rebalance increases approved by the Emergency Board. In addition, the Governor' s budget proposes six enhancements to current programs that are listed below.

- Adds $2.8 million of Lottery Funds for the Gambling Addiction and Treatment Program.
- Increases funding to improve access to addiction treatment by $11.2 million total funds ($10.4 million of Other Funds revenue from the Oregon Liquor Control Commission (OLCC) and $822,128 of Federal Funds). This enhancement would provide services for better than 14,000 people in outpatient treatment.
- Provides $4 million General Fund to improve the distribution of alcohol and drug treatment funds by adding resources for indigent clients in counties that receive less than the statewide average of per capita funding.
- The budget adds $16.5 million total funds ($12.2 million General Fund) to enhance four activities: it adds $9.7 million General Fund to continue the expansion of community-based mental health facilities recommended in the *OSH Phase II Master Plan*; it adds $2.5 million General Fund along with 17 positions and FTE to ramp-up staffing at the OSH required in the *Harmon v. Fickle* settlement agreement; it provides $4.1 million of Tobacco Tax (from a propose tax rate increase) to expand Early Assessment & Support Teams (EAST) that are expected to assist an additional 540 people (aged 16-24) during the 2007-09 biennium; and the budget supports 3 new positions (2.67 FTE) with $265,153 Other Funds to work on a new OSH data system.
- Adds $2.9 million Other Funds from the OLCC to enhance prevention and treatment of youths with substance abuse problems.
- Uses $414,929 General Fund (3 positions and FTE) to facilitate compliance with billing and other requirements of the Medicare Part D prescription drug benefit for patients at the Oregon State Hospital.

HS – Program Support and Central Administration

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	30,864,171	42,127,125	52,313,843	65,083,463
Lottery Funds	402,683	293,900	893,054	525,527
Other Funds	45,198,642	50,434,660	46,883,822	76,688,173
Federal Funds	118,857,419	142,700,125	148,475,647	160,202,909
Federal Funds (NL)	656,881	0	0	0
Total Funds	**$195,979,796**	**$235,555,810**	**$248,566,366**	**$302,500,072**
Positions	871	889	926	1,110
FTE	829.14	863.86	882.38	1,066.47

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 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; diagnoses and investigates health problems; and informs, educates, and enforces laws and regulations that protect health and ensure safety. Staff within the office of mental health and addiction services develop policy and oversee mental health organization programs throughout the state. The Office of Medical Assistance Program staff manage the areas of Program and Policy, Health Financing Operations, and Administration. The program and policy section is responsible for the day-to-day operation of the medical assistance plans. The section ensures that programs operate within state and federal laws, monitors program utilization, and writes and distributes all rules and provider guide materials. The health financing operations section maintains the integrity of the Medicaid Management Information System (MMIS) and the automated claims payment and reporting system for the Medicaid program. The budget also includes positions for the upper management of the Health Services Cluster.

This budget area also had 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. The Governor's budget proposes to transfer this Office's budget and staff to Department Wide Support Services.

Revenue Sources and Relationships

Lottery and Other Funds constitute 26% 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 53% 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.

Governor's Budget

The Governor's recommended budget funds inflationary cost increases and staffing increases to respond to higher caseloads, and it adds funding to account for program cost increases in 2007-09 resulting from rebalance issues in 2005-07 approved at the December 2006 meeting of the Emergency Board. The budget also includes $47.4 million total funds ($14 million General Fund) along with 220 new positions to expand services. Many of them reflect staffing increases associated with other Health Services' program budget initiatives in the Governor's budget. The major components of this proposed increase are listed below:

- Reduces the budget by $52,432 General Fund to reflect administrative efficiency gains; replaces $100,000 General Fund for the juvenile diabetes database with new Tobacco Tax revenue; removes $49,000 General Fund of Women, Infants, and Children's (WIC) Farmers Market Program. This budget, however, is receiving a net $51,000 increase because $100,000 is added in the Public Health special payments budget discussed above.
- The budget for the public health dental sealant program for children is increased by $300,244 Other Funds supported with Tobacco Tax revenue.
- School based health center funding is increased by $300,000 Other Funds supported with Tobacco Tax revenue.
- The budget provides funding for a Healthy Kids Survey by adding $689,831 Other Funds supported with Tobacco Tax revenue.
- Additional funding of $12.9 million total funds ($8.7 million General Fund and $4.2 million Federal Funds) along with 110 positions is included to support the *Harmon v. Fickle* settlement agreement.
- Funding for Early Assessment & Support Teams is increased by $236,140 and two positions are added.
- The budget adds $515,689 General Fund, along with five positions, to support the OSH Master Plan implementation efforts.
- $280,754 Other Funds for OSH facility replacement and data system improvement are included.
- The budget adds $1.5 million total funds ($1.2 million General Fund and 11 positions) to strengthen efforts to reach federal safe drinking water standards.
- The budget includes $670,000 General Fund and six new positions to support local health departments.
- The recommended budget provides an additional $15.1 million of Tobacco Tax, as well as 13 positions to expand the Tobacco Prevention and Education Program (TPEP); $4.6 million is directed back to the TPEP from the OHP budget where it was used in the 2005-07 biennium. The remaining $10.5 million is from the proposed Tobacco Tax increase.
- Adds $405,846 of Other Funds to provide more radiation protection services to meet Nuclear Regulatory Commission standards.
- To strengthen oversight of health care facilities, the Health Care licensure program is provided an additional $584,699 Other Funds along with six new positions.
- The program support budget includes $1.8 million Other Funds expenditure limitation that is used to fund personal services and services and supply costs within a variety of public health programs. The revenue used comes from fee increases that were administratively approved during the 2005-07 biennium, but must be sanctioned by the Legislature according to SB 333 (1995).
- Youth substance abuse program funding is increased by $133,515 Other Funds with Oregon Liquor Control Commission revenue.

- The central administration budget includes $1.9 million total funds ($1 million new Tobacco Tax revenue) along with 7 positions to support the implementation of the Governor's Healthy Kids Plan.
- To help facilitate the expansion of the OHP Standard Program, the central administrative staffing budget is increased by $209,469 of Other Funds-Tobacco Tax along with an equal amount of federal Medicaid matching revenue. This funding supports two new positions.

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

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	782,656,473	856,376,737	886,619,273	1,016,043,224
Other Funds	172,368,621	160,107,730	167,596,699	175,173,804
Federal Funds	1,278,193,661	1,464,194,668	1,470,043,625	1,645,249,330
Total Funds	**$2,233,218,755**	**$2,480,679,135**	**$2,524,259,597**	**$2,836,466,358**
Positions	2,109	2,070	2,078	1,978
FTE	1,995.29	1,939.58	1,955.10	1,807.56

Note: The FTE and position count does not include the DHS-funded non-state staff in the Area Agencies on Aging (AAA), regional brokerages and county staff which arrange services for people with developmental disabilities. The Governor's recommended budget supports approximately 1,120 FTE of these non-state employees.

Summary Description

The Seniors and People with Disabilities (SPD) Division includes Medicaid long-term care services for seniors and people with developmental and physical 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 funding for Oregon Project Independence (OPI) and a program that pays spouses to be caregivers.

In addition to long-term care funding, the SPD Division 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 people with disabilities. The Division's budget also contains funding for AAA, county, and state Medicaid field staff, and Federal Funds for the disability determination services unit – disability analysts 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 towards their care, estate recoveries, and nursing facility Medicaid provider taxes.

Budget Environment

Arguably, the most significant development in the delivery of human services to seniors and people with disabilities over the last 25 years has been the shift away from institutional care to community-based care. For Medicaid eligible seniors and people 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 people, 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 people. Services for people 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 people with developmental disabilities.

Another significant budget driver for the senior Medicaid caseload is growth in the elderly population. The state's population over 85 years of age is expected to grow about 7% from the 2005-07 biennium to the 2007-09 biennium. This growth rate is faster than that of the general population of Oregon, which is expected to grow about 3% during the same time period. This growth is expected to moderate somewhat because depression-era birthrates declined from prior decades. From the 2005-07 biennium to the 2007-09 biennium, the number of people born during the depression (those from about 75 to 84 years of age) is expected to decline by 1.5%. Because Oregon's population overall is aging as baby-boomers grow older, the prevalence of people with disabilities is also expected to increase.

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 people with disabilities. There is little doubt that the emphasis on community-based long-term care has provided better care for more seniors and people 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 people seek care.

The Governor and Legislature have recognized the issue of long-term care sustainability, and during the 2005-07 interim, the Governor appointed a work group composed of advocates, service providers, researchers, and agency staff to make recommendations on the future of long-term care in Oregon. After participating in the work group, the Governor's Commission on Senior Services issued a report in November 2006. The report includes a variety of recommendations on long range planning, the community infrastructure of supports for seniors, services, and funding. The report states, "[s]tate leaders must be made aware of the actual and projected costs of long-term care through at least 2011, and it should be assumed that these costs will only increase without changes to how services are made available, delivered and funded." (Page 19, *Riding the Wave: A call to action*.) The work group itself produced a draft report in May 2006 and is expected to release a final report on its findings in early 2007.

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 people 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 DD 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. In light of the state budget situation, however, the settlement agreement was renegotiated in the spring of 2003 and phased-in services at a slower rate than the original agreement. The original settlement agreement ended on June 30, 2007, at which time all eligible people with developmental disabilities would have been entitled to appropriate services. The renegotiated agreement extends the settlement until June 30, 2011.

In response to the state's budget problems during the 2001-03 economic recession, the Legislature made several reductions to the SPD budget. The Assembly eliminated Medicaid long-term care services to people 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 (OPI) programs, and, as noted above, funded Staley settlement services at a lower, renegotiated level. (In 2005, the Legislature eliminated funding for the General Assistance program.) At the same time, however, the 2003 Legislature adopted a nursing facility provider tax which provided a significant increase to Medicaid nursing facility reimbursement. In response to a ballot measure edict, the 2003 Legislative Assembly also funded a wage increase, medical insurance, and worker's compensation insurance for home care workers who provide in-home care to people eligible for Medicaid long-term care.

Governor's Budget

The Governor's recommended budget of $2,836.5 million total funds is 12% higher than the 2005-07 legislatively approved budget (through the December Emergency Board meeting) of $2,524.3 million total funds. General Fund in the Governor's budget of $1,016 million is about 15% higher than the $886.6 million included in the approved budget. The overall increases are attributable to caseload and cost per case increases – primarily within the long-term care program ($235.5 million total funds) as well as new policy initiatives ($72.6 million total funds). Both categories of increases are described in more detail below within specific program discussions.

In summary, the Governor's budget addresses significant caseload increases for long-term care and support services for people with developmental disabilities and cost per case increases for services for seniors and people with physical disabilities. Total 2007-09 caseloads for seniors and people with physical disabilities are expected to be relatively unchanged from the 2005-07 biennium. The Governor's budget assumes that the Nursing Facility provider tax, scheduled to end on June 30, 2008, is instead, continued. OPI is funded exclusively with $16.6 million Other Funds from the senior property tax deferral account as directed by SB 870 (2005).

The budget proposed by the Governor includes a variety of program enhancements including:

- Reimbursement increases for providers of services for people with developmental disabilities of about $29 million. This reimbursement change assumes wages would be increased by $1/hour and other payroll expenses (OPE) would increase from 28% of wages to 34% for the last 10 months of the biennium.
- $3 million General Fund ($7.4 million total funds) to implement recommendations from the Nursing Facility Staffing Commission on certified nursing assistants (CNAs) staffing standards within nursing facilities.
- $5.8 million General Fund ($11.6 million total funds) to improve reimbursement for Area Agencies on Aging who perform Medicaid eligibility and case management services.
- $2.3 million General Fund ($4.3 million total funds to address field staff workload issues related to assisting clients eligible for both Medicare and Medicaid with their Medicare Part D prescription drug benefit.
- $338,204 General Fund ($676,408 total funds) to improve the quality of care within community-based facilities.
- $1.9 million General Fund to develop services for juveniles with developmental disabilities who will be adjudicated under SB 232 (2005). The bill establishes a juvenile panel of the Psychiatric Security Review Board for disposition of youths with serious mental conditions. Currently, DHS does not have specific services for youths who also have developmental disabilities.

The budget also reflects several General Fund reductions including:

- $353,757 General Fund administrative savings.
- $600,000 General Fund savings from closing one state operated community program.
- $1.1 million General Fund savings from closing the Eastern Oregon Training Center.
- $1.3 million General Fund savings from eliminating enhanced reimbursement rates for people with developmental disabilities who now live in nursing facilities. These last three reductions are net savings after clients in these facilities are moved to community-based programs.

SPD – Long-Term Care

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	675,468,817	705,473,361	734,935,068	837,953,723
Other Funds	157,772,170	135,802,877	144,911,822	156,201,828
Federal Funds	1,091,192,610	1,213,150,307	1,220,414,811	1,372,847,013
Total Funds	**$1,924,433,597**	**$2,054,426,545**	**$2,100,261,701**	**$2,367,002,564**
Positions	853	860	860	846
FTE	834.84	850.36	850.36	707.76

Program Description

This program area includes payments to a variety of long-term care facilities and service providers for seniors and people with both physical and developmental 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 people with developmental disabilities, the Eastern Oregon Training Center (EOTC), and support service brokerages for people with developmental disabilities. Until the reorganization of DHS during the 2001-03 biennium, long-term care services for seniors and people with physical disabilities were funded separately from long-term care services for people with developmental disabilities. The Department of Human Services' reorganization brought these two service systems together in the SPD Division. 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 people with developmental disabilities.

Services for Seniors and People with Physical Disabilities

Medicaid Long-Term Care services for the elderly and clients with physical disabilities 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 people 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 under a system of capitated rates, is targeted at people at high risk of needing nursing facility care.

Oregon's current system of long-term care for seniors and people with physical 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 people 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). OPI, 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 4,825 average cases during the 2007-09 biennium. During the same time, substitute home as well as in-home care caseloads increased from 3,000 cases to about 22,635 average monthly 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 $4,753 / month during the 2007-09 biennium. In contrast, an assisted living case is expected to cost less than one-third 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 and to offset some of the reimbursement cost for nursing facilities.

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 "service 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 people 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 $1,809 / month, or about 222% of the Federal Poverty Level for an individual. However, federal law also allows people in states which allow an income eligibility level to exceed 100% of the SSI grant to establish income cap trusts. By establishing an income cap trust, an individual is deemed eligible for Medicaid long-term care, assuming they also have the functional limitations described above. 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 is matched with federal Medicaid funds and used to pay higher Medicaid nursing facility reimbursement rates that, today, are equal to the 70th percentile of audited nursing facility costs. This reimbursement requirement ends June 30, 2007. Though the provider tax is scheduled to end June 30, 2008, the Governor's budget proposes to extend this tax.

Assisted living rates were initially set in 1990 at 80% of the nursing home rate and adjusted over the years. 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 increased over time using inflationary adjustments.

Services for People with Developmental Disabilities

DHS offers an extensive array of services for people 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 people with physical disabilities. That is, clients must meet Medicaid financial eligibility requirements (e.g., household income levels up to 300% of the SSI grant) and 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 people with developmental disabilities also have significant medical or mental health needs. Like seniors or people with physical disabilities, clients with developmental disabilities may use income cap trusts to meet financial eligibility requirements. County staff determine eligibility for DD services.

For the purposes of this discussion, it is useful to organize services for people 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 people 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. The Governor's budget for 2007-09 assumes this institution will be closed and the remaining 38 clients moved to community-based care facilities.

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 people 18 and over with a developmental disability. In most cases, people live in homes that are designed for five or fewer people 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 people who have intensive support needs because of medical or behavioral conditions. There are 31 group homes operated by state employees. The positions and FTE are included in this long-term care budget. These state-operated homes serve, in some respects, as a backstop for people with developmental disabilities who may not be able to live in non-profit 24-hour care residential facilities. The Governor's budget assumes that one of these group homes is closed during the 2007-09 biennium and that its residents are moved to other non-state operated group homes.

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, estate recoveries, and nursing facility provider taxes.

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 people with disabilities also increases. Second, recruiters of care workers are having difficulty finding enough qualified people 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. This program continues into the 2007-09 biennium. 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 people 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. However, during the state's economic recession and concurrent budget problems, the settlement agreement was modified to phase in support and comprehensive services more slowly and the plan was extended through June 30, 2011. The settlement called for elimination of a waiting list for services and the reduction of the number of situations requiring a crisis response. From November 1, 2001 when services under the settlement began through the beginning of the 2005-07 biennium, nearly 4,000 people had been newly enrolled in various support services under the agreement. The modified agreement called for the enrollment of 1,000 people into support services during the 2005-07 biennium and requires that all eligible people be enrolled during the 2007-09 biennium – an expected 1,436 new cases in the Governor's budget. The Staley support services caseload is expected to total about 5,900 in the recommended budget. An additional 130 people are, if necessary, to be allowed access to comprehensive services during both the 2005-07 and 2007-09 biennia. The comprehensive caseload generated under the Staley agreement is expected to total 300 by the end of the 2007-09 biennium. By the end of the 2009-11 biennium, when the agreement terminates, anyone needing support services is to be enrolled within 90 days after becoming eligible. To deliver support services, a "brokerage" system of nine regional brokerages was established statewide to assist people with developmental disabilities and their families to access available support services.

Governor's Budget

The Governor's recommended budget for long-term care reflects additions to the budget for higher costs resulting from expected inflation and caseload growth. Specifically, the budget adds $78.6 million total funds ($31.2 million General Fund) – $63.6 million total funds for inflation of 2.1% each year, $14.3 million for medical cost increases of 5.4% for the biennium, and $662,955 for other inflationary costs.

In addition, the budget includes $211.2 million total funds ($92.6 million General Fund) for caseload roll-up from the 2005-07 biennium, expected caseload changes during the 2007-09 biennium, and cost per case increases above inflationary amounts. Although the increase for seniors and people with physical disabilities is $63.3 million total funds ($27.4 million General Fund), this is not the result of a higher long-term care caseload. In fact, the total long-term caseload for seniors and people with physical disabilities is expected to be relatively flat from the 2005-07 biennium to the 2007-09 biennium. Instead, this increase is attributable to changes in the caseload mix and expected costs per case that are higher than inflation.

In particular, this increase funds nursing facility reimbursement changes that, for the first year of the biennium, are inflated by a medical cost index of 3.6%. Under current law, the nursing facility provider tax is scheduled to end on June 30, 2008. Absent an extension of this tax, agency analysts believe the reimbursement rate for the second year would be calculated using the same methods from before the provider tax was instituted and actually be lower than the first year. To reach these rate levels, however, requires an infusion of $25.7 million General Fund along with federal Medicaid matching funds. The Governor's budget assumes, however, that the nursing facility provider tax will be continued throughout the entire biennium. (This will require a statutory change.) His budget assumes that second year provider tax revenue will be $40.4 million; $25.7 million of this revenue is used to replace the General Fund mentioned above. The remaining $14.7 million is used to increase the second year nursing facility reimbursement rate by an additional $3.5% – a second year medical inflation rate used throughout the Governor's budget.

One provision of the existing nursing facility provider tax statute requires that the reimbursement rate be equal to the 70th percentile of audited nursing facility costs. This current law requirement ends earlier than the tax requirement – on June 30, 2007. The Governor's budget assumes that this 70th percentile reimbursement requirement will not be reinstated. As noted above, nursing facility rates for 2007-09 in the recommended budget reflect increases driven by medical inflation only. Neither year's rates, however, are expected to be equal to the 70th percentile of nursing facility costs. If this requirement is reinstated by the Legislative Assembly, more General Fund (along with some additional provider tax revenue that would be generated from higher nursing facility revenue) would be needed to support the higher rates.

Since the preparation of the Governor's budget, Congress passed the Tax Relief and Health Care Act of 2006 which will have an impact on the state's provider tax. Within this Act, Congress codified the rate ceiling of Medicaid provider taxes at 5.5%, beginning January 1, 2008. This is lower than the rate now imposed on nursing facilities which is close to 6%. While this will lower the provider tax revenue (and probably require additional General Fund to reach the rates assumed in the Governor's budget), this Congressional action also means that the Centers for Medicare and Medicaid Services (CMS) will not be able to lower the rate further (to about 3%) by simply changing administrative rules. CMS had been considering this reduction for some time and had asserted its authority to do so administratively – without Congressional approval.

For people with developmental disabilities, expected caseload increases will cost $147.9 million total funds ($65.2 million General Fund). Of the caseload increase for people with developmental disabilities, $39.4 million total funds ($17 million General Fund) will support the Staley Settlement roll-out; the remaining $108. 5 million total funds ($48.2 million General Fund) is for increases in mandated crisis services caseloads and expected costs per case that exceed inflation. Both the Staley and mandated crisis caseload are expected to increase significantly during the 2007-09 biennium. Non-Staley caseloads total about 15,000 and the mandated crisis caseload increase during the 2007-09 beinnium is expected to be about 1,455 by the end of the biennium. Staley caseloads, as noted earlier, are expected to increase by about 1,566 during the biennium.

The Governor's budget for long-term care includes six budgetary changes that reflect reductions and enhancements to current programs. These are listed below.

- The budget increases funding for Oregon Project Independence (OPI) to $16.6 million, all funded with revenue from the senior property tax deferral account. All General Fund for OPI ($12 million) is removed from the budget. Limited amounts of revenue from the senior property tax deferral account have, for several biennia, been diverted to the state's General Fund. The 2005 Legislative Assembly, however, redirected this diversion to a newly created OPI Fund by passing SB 870. SB 870 requires transfers from the senior property tax deferral account of amounts that exceed the anticipated property tax payments owed to counties and paid on behalf of seniors participating in the program. The $16.6 million total transfer during the 2007-09 biennium consists of two payments to the OPI Fund – $13.4 in January 2008 and $3.2 million in January 2009. The Legislative Fiscal Office (LFO) notes that the second year payment is much less than the first year, and that the overall senior tax deferral account balance is expected to plunge from $27.3 million in July 2007 to $16.7 million in June 2009. Thus, use of this mechanism to fund OPI in the 2009-11 biennium is doubtful. To continue the program into the 2009-11 biennium will most likely require General Fund.

- The Governor's budget replaces $373,560 General Fund with additional Other Funds generated from enhancing the work of the Office of Payment Accuracy and Recovery.
- The budget sets aside $7.3 million total funds ($2.9 million General Fund) to implement the recommendations of the Nursing Facility Staffing Commission which was organized by the Governor to investigate staffing standards for CNAs within the state's nursing facilities. Labor representatives were concerned about fair workloads for CNA union members and nursing facility industry representatives were concerned about potentially higher costs. The commission met during the fall of 2006 and has recommended a CNA staffing standard of 2.46 hours per resident each day. Whether the funds included in the Governor's budget are sufficient to implement the commission's recommendations, and how they will be allocated, are not yet known. An additional $64,471 of General Fund is included in the Program Support and Central Administration budget described below. Total General Fund for the Commission's recommendations is $3 million.
- The budget reflects three actions that are anticipated to save $5.7 million total funds ($3 million General Fund). These are closing Eastern Oregon Training Center ($1.1 million General Fund), closing one state operated community program ($600,000 General Fund), and eliminating enhanced reimbursement rates for clients with developmental disabilities who reside in nursing homes ($1.3 million General Fund). All savings are net of the costs to move current clients to other residences.
- The budget provides $1.9 million General Fund and $77,651 Other Funds to develop services for juveniles with developmental disabilities who are adjudicated under SB 232 passed by the 2005 Legislative Assembly. These costs are not eligible for Medicaid funding under the current waivers Oregon has in place for children with developmental disabilities.
- Finally, the budget for long-term care includes $28.9 million total funds ($11.9 million General Fund) to fund reimbursement increases for providers of services for people with developmental disabilities. This reimbursement change includes a $1.00/hour wage increase as well as other payroll expense (OPE – benefits) increases from 28% of salary to 37%, all for the last 10 months of the biennium. Because this increase would take place over the last 10 months of the biennium, the cost in the 2009-11 biennium, apart from inflation and caseload growth, would be about $69.4 million total funds ($28.6 million General Fund).

SPD – Older Americans Act

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	2,514,972	0	1,141,279	0
Other Funds	117,502	0	1,033,202	0
Federal Funds	30,289,890	26,600,111	30,882,033	32,170,288
Total Funds	**$32,922,364**	**$26,600,111**	**$33,056,514**	**$32,170,288**

Program Description

SPD is the state administrator of the Older Americans Act (OAA), a federal program targeted to people 60 years old and older. SPD distributes the funds to local Area Agencies on Aging (AAA), which deliver a variety of services including information and referral, transportation, congregate meals and "meals on wheels," senior employment programs, legal services, insurance counseling, and family caregiver counseling and training. 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 $500,000 of Older Americans Act funds during the 2007-09 biennium to implement its programs.

Revenue Sources and Relationships

The program has, historically, been supported entirely with Federal Funds. Match rates for these funds are 15%, except for the Title IIIE program (family caregiver program) which requires 25% state funds. Administrative funding also requires a 25% state match rate. Oregon uses OPI General Fund as well as AAA local resources as its required match and to meet OAA maintenance of effort requirements for state funding. In closing out the 2003-05 biennium, DHS staff discovered an over-expenditure of Older Americans Act funding that had been ignored since 1992 that required an infusion of $2.5 million General Fund. Somewhat similarly, the departmental staff also located an over-expenditure of OAA family caregiver funds that had occurred during the 1999-2001 biennium. In its December 2006 rebalance plan, the Department proposed both modestly supplementing family caregiver funding (from General Fund savings within the departmental budget), while also ramping down spending for the remainder of the 2005-07 biennium to ultimately reach a sustainable budget supported exclusively with Federal Funds. In response to this proposal, however, the Emergency Board added $391,279 additional General Fund to maintain the higher level of family caregiver funding for the duration of the 2005-07 biennium.

Budget Environment

The Older Americans Act of 1965 was reauthorized 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.

Governor's Budget

The Governor's recommended budget assumes federal revenue will be sufficient to fund inflationary cost increases. It does not include General Fund support of $1.1 million for the family caregiver program that was added to the DHS budget at the December 2006 meeting of the Emergency Board.

SPD – Direct Financial Support

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	7,200,396	9,886,830	6,518,850	7,312,828
Other Funds	2,425,997	542,592	1,372,633	0
Federal Funds	17,632	0	0	0
Total Funds	**$9,644,025**	**$10,429,422**	**$7,891,483**	**$7,312,828**

Program Description

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

- 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 $603 per month in 2006. For couples, the maximum federal SSI benefit is $904 per month. Increases in the federal grant throughout the 2007-09 biennium are likely, but unknown at this time. OSIP 2007-09 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 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.
- Employed People with Disabilities assists people 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 people 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

The direct financial support programs are now funded with General Fund. The General Assistance program (eliminated early in the 2005-07 biennium) received reimbursement from the federal government for General Assistance payments paid to clients who were determined eligible for federal SSI benefits.

Budget Environment

Because the General Assistance program is eliminated in the Governor's budget, the number of people receiving Supplemental Security Income is now the main driver of the OSIP budget. DHS expects the average OSIP caseload to be about 52,400 during the 2007-09 biennium. As noted above, OSIP payments are a required part of the federal SSI program.

Governor's Budget

The Governor's recommended budget provides funding for the anticipated caseload increase in the OSIP as well as higher costs resulting from inflation within the Special Needs Cash Payments program. The OSIP payment amounts are unchanged from prior biennia. The Governor's budget removes General Fund and Other Funds expenditure limitation associated with both the Employment Initiative and the General Assistance program – both of which were eliminated during the 2005-07 biennium.

SPD – Program Support and Central Administration

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	97,472,288	141,016,546	144,024,076	170,776,673
Other Funds	12,055,255	23,762,261	20,279,042	18,971,976
Federal Funds	156,693,529	224,444,250	218,746,781	240,232,029
Total Funds	**$266,221,072**	**$389,223,057**	**$383,049,899**	**$429,980,678**
Positions	1,256	1,210	1,218	1,132
FTE	1,160.45	1,089.22	1,104.74	1,099.80

Program Description

This program area includes funding for four different types of staffing. First, it includes expenditures for SPD's central administrative functions ($8 million total funds, 30 positions and 27.38 FTE in the Governor's budget). 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 130,000 people receive federal SSDI or SSI benefits that total approximately $70 million each month. DDS includes about 191 positions (186.69 FTE).

The third type of staffing included in program support and central administration is licensing and regulatory staff – about 135 positions in the Governor's budget. These people 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 (about 650 positions), but also for those employed by counties, Area Agencies on Aging (AAA), and non-profit organizations for people 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 people with developmental disabilities, or county staff who determine eligibility for people with developmental disabilities. The number of FTE for these non-state employees totals about 1,120. The last two components of program support and central administration include the Office of Federal Reporting and Financial Eligibility (70 positions) and the Office of Developmental Disability Services (55 positions).

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 $40 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.

Governor's Budget

The Governor's recommended budget includes funding for cost increases associated with inflation and caseload growth as well as anticipated staff merit increases. In addition, the budget reflects roll-up costs from DHS rebalance plan actions approved at the December 2006 meeting of the Emergency Board. The budget proposes several new initiatives including the following:

- $100,000 General Fund is added for the Board of Nursing that, in the Governor's budget, is transferred to the board along with federal Medicaid matching funds.
- Savings of $353,757 General Fund from administrative reductions are included.
- The budget adds $129,835 General Fund and $119,367 Federal Funds along with 1 position (0.88 FTE) to support the development of new services for juveniles with developmental disabilities under the jurisdiction of SB 232. Also, the budget adds $40,132 Other Funds (Tobacco Tax revenue) and $26,010 Federal Funds expenditure limitation to support the Healthy Kids Plan.
- The Governor's budget includes $825,346 General Fund that is transferred to the Department of Consumer and Business Services' Senior Health Insurance Benefits Assistance Program (SHIBA) to enhance assistance to seniors with their Medicare Part D prescription drug benefit choices.
- The budget includes about $93,000 Other Funds and $93,000 Federal Funds that will be transferred to the Long-Term Care Ombudsman.
- $339,915 of Tobacco Tax revenue (Other Funds) along with $339,918 of federal Medicaid funding is added to support the growth of the Oregon Health Plan Standard (OHP Standard) program. This funding is used for 6 new positions (2.35 FTE).
- The budget adds $5.8 million General Fund and $5.8 million Federal Funds to enhance AAA reimbursement. The addition of these funds would increase reimbursement to a level that is equal to 95% of the cost of comparable state offices that provide eligibility and case management for seniors enrolling in Medicaid long-term care.
- $158,963 General Fund is added to allow the Home Care Commission (currently housed within DHS) to become a separate organizational entity.
- The budget adds about $64,471 General Fund along with an equal amount of federal Medicaid matching funds to help implement the Nursing Facility Staffing Commission recommendations (2 positions, 1.00 FTE), and $107,447 General Fund and $50,067 Federal Funds to support the reimbursement increase for providers of services to people with developmental disabilities.
- The budget includes $2.3 million General Fund and $2 million Federal Fund (19 positions and 18.52 FTE) to address ongoing workload increases resulting from assisting dual-eligible clients (clients eligible for Medicare and Medicaid) with their Medicare Part D benefit choices. It adds 6 positions (5.22 FTE) to improve the care provided in community-based long-term care facilities – particularly adult foster homes.

DHS/Department-Wide Support Services – Program Area Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	122,495,818	121,859,618	138,103,251	176,946,586
Other Funds	16,354,865	51,359,098	38,378,682	53,621,594
Federal Funds	154,243,371	212,004,441	242,200,004	254,187,509
Total Funds	**293,094,054**	**385,223,157**	**418,681,937**	**484,755,689**
Positions	988	1,024	1,029	1,126
FTE	950.80	983.63	986.13	1,098.39

Summary Description

The Department-Wide Support Services (DWSS) budget supports the Department of Human Services' central administrative, information technology, and budgetary functions. The Director's Office provides overall leadership for the Department. Central administrative services include accounting and financial reporting, audit and consulting services, budgeting, caseload forecasting, contracts and purchasing, rate setting, human resources, forms and document management, 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. The Governor's Advocacy Office is also part of this budget.

Revenue Sources and Relationships

The DWSS budget is about 36% General Fund, 11% Other Funds, and 52% Federal Funds. The Other Funds and Federal Funds reflect both revenues generated directly by DWSS activities, such as collection recoveries, and resources that originate in the other programs in 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. It replaced the multiple cost allocation plans in place for the previous divisions and program offices. DWSS experienced some shortfalls in its projected revenues as it 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 overpayments. Most of these revenues are used elsewhere in DHS to offset General Fund expenditures for program services, but the DWSS budget reflects the General Fund, Other Funds, and Federal Funds revenue to pay costs of the collection staff. DHS also receives Other Funds from certificates of participation (COPs) issued to finance information technology projects in the Department.

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, Food Stamps and other federal program funding sources. Federal public health grants also pay a share of DWSS' operating costs.

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.

During the 2001-03 biennium, DWSS' funding was reduced as part of several DHS budget rebalance plans, in the 2002 special session actions, and by the 2003 Legislature. The General Fund reductions were made through selected staffing cuts, information systems project savings and reductions, and administrative services and supplies reductions. The 2003 Legislature made more position reductions, and eliminated $1.6 million General Fund in reorganization reinvestment savings that had been earmarked for hardware and software purchases during the 2003-05 biennium. The 2005-07 budget continued to reduce ongoing operating expenditures, although funding for specific information system projects – most notably the replacement Medicaid Management Information System (MMIS) and the Statewide Automated Child Welfare Information System (SACWIS) – increased the budget overall.

In the April 2006 special session, the Legislature adjusted the DWSS budget to align funding for DWSS positions, services and supplies, and capital outlay expenditures more closely with actual cost allocation funding splits. These adjustments added $8.2 million General Fund and $6.5 million Federal Funds to DWSS, but reduced Other Funds by $14.7 million. In its November 2006 budget rebalance plan, DHS used savings in other program areas to allocate $2.7 million General Fund and $2.7 million Federal Funds to temporarily cover DWSS' higher than expected personal services costs due to unfunded double-filled positions, overtime, temporary staffing, and flexible benefit costs. DHS reported DWSS staffing had been underresourced in several areas when the agency reorganized. Budget reductions and frequent organizational realignments can also make it difficult to maintain efficient operations and appropriate staffing levels. The added staffing costs in the rebalance are not carried into 2007-09, however, because DHS indicated it would conduct a comprehensive analysis of its current staffing structures and make any needed changes during the 2007-09 biennium.

During the 2005 legislative session, and during the 2006 special session, the Legislature expressed strong concerns with the Department's financial operations and management, including on-going cash flow issues. DHS created an Operations Review Team, which included professionals from the Department of Administrative Services, the Public Employees Retirement System, the State Treasury, and DHS, to examine the Department's accounting and budget processes, internal controls, banking, and cash flow management. DHS has been working to implement the team's recommendations. It has added a Deputy Director for Finance and realigned its financial services and budget staff, begun a number of personnel management improvements, implemented changes in internal financial controls, modified its forecasting procedures, and is working towards a comprehensive plan for the agency's financial and business functions. A number of other recommended improvements will require additional resources to be put in place. DHS is also continuing to work to resolve its estimated $78 million biennium-end cash flow problem caused by current revenue accrual practices, and recently reported to the Emergency Board on options to address this issue. The Emergency Board directed DHS to submit to the 2007 Legislature, by March 1, 2007, a completed plan, with specific funding proposals, to resolve its 2005-07 biennium-end cash flow issues and implement other related operational improvements.

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 is a multi-biennia effort. DHS presented the initial findings and recommendations for Phase I of the study, which looked at Food Stamps, Medicaid, and adult protective services staffing, to the 2005 Legislature. It has reported to the Emergency Board during the 2005-07 interim on its efforts to implement the short-term and intermediate-term recommendations contained in Phase I. As with the Operations Review Team recommendations, DHS will need added resources to implement some of the staffing study recommendations, particularly those that rely on information system improvements. Phase II of the study, which focused on case management in Temporary Assistance to Needy Families, Vocational Rehabilitation and long-term care programs, was completed in November 2006. DHS is reviewing the Phase II recommendations; it will report on these to the 2007 Legislature during its budget hearings.

Governor's Budget

The Governor's recommended budget is 28.1% General Fund and 15.8% total funds higher than the 2005-07 legislatively approved budget. The major elements of the increase are higher State Government Service Charges, major information systems and Oregon State Hospital project costs, initiatives for operational efficiencies, and DWSS' share of costs for policy and program enhancements in other areas of the Department.

The budget reflects $10.9 million General Fund and $23.7 million total funds increases in State Government Service Charges paid by DWSS for the agency. State Government Service Charges for 2007-09 total $38 million General Fund and $85.5 million total funds, making up more than 20% of DWSS' General Fund budget.

DHS expects the MMIS replacement project to be on line in the first three to six months of the 2007-09 biennium. The budget was adjusted to continue 23 limited duration positions (23.00 FTE), and add $4.8 million General Fund for continuing system work, with a net $8.3 million Other Funds and $8.8 million Federal Funds reduction in project development costs. Work is also continuing on the SACWIS project. The 2007-09 budget continues eight permanent positions (8.00 FTE) and phases in 31 positions (28.43 FTE) for the project. The 2007-09 project costs are estimated at $13.7 million Other Funds from COPs, and $13.7 million in matching Federal Funds.

The DWSS budget also includes $10.8 million General Fund to pay debt service on certificates of partipation (COPs) already issued for these projects and the public health laboratory, and for the COPs expected to be issued in October 2007 for Phase II of the SACWIS project.

The Governor's budget adds $1 million General Fund and $9.8 million Other Funds for financing costs for $91.1 million in COPs to be issued for the Oregon State Hospital (OSH). The $1 million General Fund will pay debt service on $3.2 million of COPs issued to help address OSH's deferred maintenance needs. The Other Funds will be used to pay $1.7 million in costs of issuance and $8.1 million in debt service on $87.9 million of COPs issued for the OSH replacement project. The Other Funds come from capitalizing the costs as part of the COP issuance – that is, using the COPs to borrow the issuance costs and the first biennium's debt service payment as well as the project costs. In 2009-11, the debt service on the OSH replacement project COPs will increase to $16.3 million. The total project cost for the OSH replacement is estimated to be somewhere in the neighborhood of $400 million, and the project COPs will have up to a 25-year amortization. Even though the construction costs are not part of the DWSS budget, the related project financing costs will be a big budget driver for DWSS in future biennia.

In addition to the financing costs, the budget adds $3.2 million Other Funds, financed by COPs, and 20 positions (18.62 FTE) related to the OSH replacement project. This is primarily to begin development of a data system for the new facility, but also reflects central administrative support for the project.

The Governor's budget supports a number of operational improvements in DWSS:

- The budget funds three high-level positions and related costs to continue work DHS started during the 2005-07 biennium to improve DHS' financial operations and management. These are the Deputy Director of Finance, Controller, and Internal Control Officer (internal auditor) positions. An additional $5 million is included for contract professional services for strategic planning, business planning, training and development. The total 2007-09 budget impact is $2.7 million General Fund, $3 million Federal Funds, and three positions (3.00 FTE).

- DHS will begin planning for a new unified eligibility and case management system, to replace current legacy applications used for the Temporary Assistance for Needy Families (TANF), Food Stamps, Day Care, and other self-sufficiency programs. The current systems are old, cumbersome, and have limited functionality. An integrated eligibility system was one of the recommendations of the Phase I staffing study. Funding is included for one project manager position to begin October 2007, with $3.8 million for contracted professional services to help begin project design and development. The 2007-09 cost is $2.6 million General Fund, $1.4 million Federal Funds, and one position (0.88 FTE).

- In 2005, DHS consolidated payment recovery efforts into a new Office of Payment Accuracy and Recovery. The budget adds resources in five areas to strengthen the unit: development of a single, integrated collection system, with seven new system positions; 11 new positions in the Overpayment Writing and the Investigations Units; five new positions for training and policy work; six new positions to process data matches; and six new management positions to replace positions double-filled to create the office. DHS expects these improvements to generate over $5 million in additional recoveries. The budget impact of this initiative for DWSS is $783,333 General Fund, $4 million Other Funds, $2.6 million Federal Funds, and 35 positions (29.83 FTE). However, the General Fund cost for DWSS is more than offset by a total $1.4 million in General Fund savings in the Children, Adults and Families, Health Services, and Seniors and People with Disabilities budgets.

- The budget anticipates actuarial and caseload forecasting improvements by adding eight new positions to establish a full range in-house actuarial function, replacing current contracted services, and four new research and forecasting positions to expand the agency's forecasting, research, and analysis work. Eliminating contracted actuarial services in favor of in-house staff provides a net savings for this package of $244,307 General Fund and $245,146 Federal Funds, although a total of 12 positions (10.00 FTE) are added to the budget.

- $253,720 General Fund, $253,717 Federal Funds, and six positions (3.00 FTE) are added to the budget to develop and maintain a consolidated Criminal Records Information Management System for tracking criminal background checks on employees, volunteers, and service providers.

- Existing internal audit capacity would be expanded by three new internal auditor positions, including one information technology auditor. The package adds $254,705 General Fund, $279,607 Federal Funds, and three positions (3.00 FTE).

- In response to recent federal legislation, the Adam Walsh Child Protection and Safety Act, DHS will implement additional screening checks for all prospective foster parents and adoptive parents, and other adults living in the homes of prospective foster or adoptive parents. The new law requires fingerprint-based FBI background checks, checks of child abuse and neglect registries of other states, and sharing information with other states when requested. The budget adds three new positions in July 2007 and two more new positions in July 2008 to the Criminal Records Unit, at $221,964 General Fund, $221,963 Federal Funds, and five positions (4.00 FTE).

Additional funding is provided in DWSS for central expenditures, such as rent, computers, and office furniture for new staff, related to initiatives in other program areas. These include:

- Efficiency improvements in Children, Adults and Families (CAF) for the Children's Benefit Unit, self-sufficiency program integrity, and Vocational Rehabilitation Social Security recovery; and in Health Services and Seniors and People with Disabilities (SPD) for Medicare Modernization Act implementation and community-based quality of care. Total DWSS cost is $593,715 General Fund, $523,478 Federal Funds.

- $1,050,901 Other Funds, $944,283 Federal Funds, and 4 positions (2.88 FTE) added to DWSS for the Healthy Kids Plan. An additional $1,151,121 General Fund, $58,578 Other Funds, and $716,589 Federal Funds supports initiatives in CAF for childcare improvements, child welfare safety improvements, TANF reauthorization, self-sufficiency client service needs, and interstate placement of foster children; in Health Services for school based health centers and the Healthy Teen Survey; and in SPD for a juvenile Psychiatric Security Review Board.

- Extension and expansion of Oregon Health Plan Standard coverage, and the emergency medical and trauma system initiative, add $718,464 Other Funds and $425,524 Federal Funds in DWSS.

- $2.2 million General Fund, $46,098 Other Funds, $870,232 Federal Funds, and 2 positions (2.00 FTE) related to the staffing in the Health Services budget for the Oregon State Hospital Master Plan, added staffing in the state hospital and state operated residential treatment facilities, and early assessment and support teams.

- $118,194 General Fund, $841,485 Other Funds, and $23,049 Federal Funds to help pay DWSS' costs for staff added in other areas for enhanced tobacco prevention education, youth substance abuse prevention, safe drinking water, and other public health services.

The Governor's budget also transfers the Office of Investigations and Training from the Health Services budget to DWSS. This office is responsible for investigating allegations of abuse and neglect made at state hospitals, residential training centers, and state operated community programs. The impact on DWSS' budget is $1.8 million General Fund, $1.6 million Federal Funds, and 21 positions (20.08 FTE).

DHS/Capital Improvements

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	1,163,318	1,163,318	1,163,318	1,163,318
Total Funds	**$1,163,318**	**$1,163,318**	**$1,163,318**	**$1,163,318**

DHS/Capital Construction

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	0	0	2,103,716	0
Other Funds	0	2	1,015,001	81,584,275
Total Funds	**$0**	**$2**	**$3,118,717**	**$81,584,275**

Program Description

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

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

Budget Environment

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

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

During the summer of 2006, an OSH siting committee met to develop criteria that would be used to assess potential sites. The committee completed its work in August and the Department of Administrative Services (DAS) began to evaluate a variety of site proposals, including a number of state-owned and privately-owned land parcels. DAS expects to complete the full site review by February 15, 2007 and will provide a list of qualified sites to the Governor who will review the list with legislative leadership prior to a final site selection on February 28, 2007.

Governor's Budget

The Governor's recommended budget continues to include $1.2 million General Fund for facility contingencies in the capital improvement budget. It also includes $81.6 million of Other Funds expenditure limitation supported with revenue from certificates of participation (COPs) ($91.1 million par value); $78.5 million of this amount is a rough estimate of OSH hospital replacement expenditures in the 2007-09 biennium. It is uncertain exactly what the COP proceeds will be used for, but presumably the cost of land and initial construction would be included. The remaining $3.1 million is used for deferred maintenance projects at the state hospital. The Department Wide Support Services budget analysis discusses the financing costs for these COPs.

Long-Term Care Ombudsman – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	580,293	545,205	581,337	934,144
Other Funds	1,430,912	1,445,936	1,495,761	1,765,750
Total Funds	**$2,011,205**	**$1,991,141**	**$2,077,098**	**$2,699,894**
Positions	8	8	8	11
FTE	8.00	8.00	8.00	10.00

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.

Agency staff provide on-going training, support, and technical assistance to volunteers, and handle difficult complaints and complex resident problems. If an investigation reveals reasonable cause to suspect abuse, the agency reports the finding to the Department of Human Services for referral to local adult protective services agencies for investigation.

Revenue Sources and Relationships

The Governor's recommended budget increases General Fund support by 61%, or $352,807. The majority of the agency's General Fund ($724,805) is used to match Medicaid and Older Americans Act (OAA) funds through the Department of Human Services (DHS) – the combination of which is expected to generate $1,765,750. The remaining General Fund ($209,339) fills the gap between the revenue received from DHS and the agency's operating budget of $1,975,089.

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 $474,000 for 2007-09, are capped.

Budget Environment

The agency has identified five main activities: complaint resolution (27%); advocacy (12%); volunteer recruitment (27%); technical assistance (27%); and administration (22%). The demand for ombudsmen services is directly related to the number of long-term care facilities and clients. As of August 2006, there were approximately 42,000 beds in Oregon's long-term care system. Residents live in 143 nursing facilities, 229 residential care facilities, 200 assisted living facilities, and 1,620 non-relative adult foster homes. Although there has been little change in the number of beds or facilities over the last two years, the number of non-relative adult foster homes continues to decrease while the number of residential care and assisted living facilities continue to increase. As the population ages, this trend is expected to continue. Complaint response time and facility visitations are directly related to the number of certified volunteers. The number of certified volunteers is constrained by the number of staff available to provide training and technical assistance.

Governor's Budget

The Governor's recommended operating budget is $443,196, or 29%, and three positions (2.00 FTE) greater than the 2005-07 legislatively approved level. The majority of the increase is for two policy packages totaling $296,384 and three positions (2.00 FTE) to improve complaint response time, increase quarterly facility visitations, and address an increasingly complex federal reporting workload. The recommended operating budget also includes personal services cost increases of $99,992 (9%); a 60% increase in State Government Service Charges ($31,868); and other inflationary increases totaling $14,952.

Office of Private Health Partnerships (OPHP) – Agency Totals [Insurance Pool Governing Board]

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	14,770,356	22,061,644	25,125,635	23,873,528
Other Funds	23,582,905	57,419,279	62,806,834	95,855,818
Total Funds	**$38,353,261**	**$79,480,923**	**$87,932,469**	**$119,729,346**
Positions	52	52	58	100
FTE	51.50	51.50	56.80	92.12

Agency Overview

The Insurance Pool Governing Board IPGB was created in 1987 as a private insurance component of the Oregon Health Plan. The 2005 Legislature, however, adopted SB 303 which abolished the seven-member Board and established the Office of Private Health Partnerships (OPHP) 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. The 2007-09 Governor's recommended budget proposes to add one additional program called the Healthy Kids Plan. All three programs are designed to increase access to private health insurance. OPHP is managed by an administrator appointed by the Governor. Advisory committees may be established to "aid and advise" the administrator in his or her management of the Office.

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. The Healthy Kids Plan is a new initiative to expand health insurance coverage to the state's uninsured children.

OPHP – Information, Education, and Outreach

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	483,950	435,425	446,741	462,345
Other Funds	0	125,000	125,000	128,875
Total Funds	**$483,950**	**$560,425**	**$571,741**	**$591,220**
Positions	2	2	2	2
FTE	2.00	2.00	2.00	2.00

Program Description

Originally, OPHP was created to increase access to health insurance for small businesses and the self-employed. The agency certified specially designed health benefit packages for businesses with 25 or fewer employees. In the mid-1990s, health insurance reforms significantly increased insurance options for small businesses and the self-employed. The 1999 Legislative Assembly passed legislation (SB 414) to phase out the certification program. The phase-out was completed in July 2000, leaving the program to focus entirely on serving as a central source of information about health benefits plans for individuals, employers, and the self-employed.

The 2001 Legislative Assembly restored OPHP's responsibility for offering health insurance plans for small employers (HB 3126). The 2003 Legislative Assembly directed OPHP to increase access to health insurance and health care by providing affordable health benefit plans for small employers with at least two, but no more than 50 employees (HB 2537). In response to this directive, OPHP worked with insurance carriers and developed two proposed "certified" plans. 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 was 30 to 50% lower than a typical small group health insurance plan. The second proposed plan was a Children's Group Plan and was designed to cover the children (only) of employees who may or may not be covered themselves under an employer's group insurance plan. While both of these plans are eligible for FHIAP premium subsidies and the agency attempted to market these plans aggressively, response to these products has been negligible.

The 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 Governor's recommended budget. The source of the Other Funds revenue in the Governor's budget is interest income on the agency's Other Funds' balances.

Budget Environment

Significant health care cost increases have resulted in health insurance premium increases. Nationally, premiums rose 11.2%, 9.2%, and 7.7% in 2004, 2005, and 2006, respectively. Higher premiums have, in turn, led to fewer employers offering employer-based coverage as well as more shifting of costs from employers to their workers through higher employee 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 had decreased to 66% by 2004. 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. The most recent published estimate, based on the 2004 Oregon Population Survey, is that 17% of the population or 609,000 persons are uninsured. 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 OPHP 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.

Governor's Budget

The Governor's recommended budget continues the IEO program at its current level, adjusting for inflation and 2007-09 merit pay increases for staff.

OPHP – Family Health Insurance Assistance Program

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	14,286,406	21,626,219	24,678,894	23,411,183
Other Funds	23,582,905	57,294,279	62,681,834	50,913,138
Total Funds	**$37,869,311**	**$78,920,498**	**$87,360,728**	**$74,324,321**
Positions	50	50	56	51
FTE	49.50	49.50	54.80	50.42

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. The Governor's budget would increase that income eligibility standard to 200% for children.

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

The OHP 2 waiver allowed Oregon, for the first time, to receive both federal CHIP and Medicaid matching funds on FHIAP state expenditures. The waiver was implemented beginning in November 2002. The 2007-09 Governor's recommended budget assumes federal revenue of $50.6 million – $38.6 million of CHIP revenue and $12 million of Medicaid funding. CHIP revenue requires match of approximately 27% state funds to 73% federal funds and Medicaid funds are matched 39% state funds to 61% federal funds. Because these federal funds are initially received by the Department of Human Services (DHS) and subsequently transferred to FHIAP, they are spent as Other Funds in the FHIAP budget. The Governor's budget for FHIAP also includes $352,310 of Tobacco Tax (Other Funds) to eliminate premium payments for children already enrolled in FHIAP and to increase income eligibility from 185% to 200% of the FPL.

Budget Environment

Three main factors are influencing the FHIAP budget for the 2007-09 biennium. First, as noted above, health insurance premiums have risen significantly over the last several years. Although these increases may be moderating somewhat – or even decreasing recently, higher premium costs require higher FHIAP subsidies and higher subsidies reduce the number of persons who can be served given a fixed or reduced budget.

Second, 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." This requirement continues through at least October 2007, when the existing OHP 2 waiver agreements end. The Governor's budget includes adequate funding to meet the MOE requirement in OHP 2.

Whether the next set of OHP waivers will continue the existing MOE requirement is uncertain. 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 Legislature set aside a $4 million General Fund special purpose appropriation to the Emergency Board that could be allocated to either OPHP or DHS, depending on how CMS responded to a request for more flexibility in meeting the MOE. In the end, the Emergency Board allocated $2.9 million of the special purpose appropriation in October 2005 to OPHP (prior to a response from CMS) to allow FHIAP to continue to serve those who had already submitted a FHIAP eligibility application. Because CMS later allowed DHS to use funds to enhance the CHIP for FHIAP MOE purposes, the Legislature in an April 2006 special session, shifted the remaining $1.1 million to DHS. DHS used these funds to extend CHIP eligibility from six months to twelve months.

The third factor having an impact upon the FHIAP budget is the ability of program staff to induce employers to offer group health insurance to previously uninsured workers. Historically, the program provided premium subsidies to individuals. The 2001 Legislature, however, directed FHIAP to focus on the employer-sponsored insurance market. 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 emphasis on subsidies for workers receiving employer-sponsored insurance came at the same time as an economic recession, high premium increases, and a decreasing percentage of employers offering health insurance. Although FHIAP staff has made progress in boosting subsidy payments to groups, this effort has proven to be difficult.

Over the 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 subsidy payments may be 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? Should a future FHIAP focus only on subsidies for employer-purchased health care or does emphasizing subsidy payments for individual health insurance provide the best value to taxpayers and FHIAP clients? These policy questions continue to be relevant.

Governor's Budget

The Governor's recommended budget for FHIAP is $74.3 million total funds, $13.1 million less than the 2005-07 legislatively approved budget and $17.9 million less than the amount necessary to continue the program at its current, or essential budget level. The Governor's budget reflects additional funding to account for general inflation for the program's services and supplies, anticipated pay increases for staff, and most importantly, medical inflation of 5.4% for insurance subsidy payments for the biennium. Despite expectations, nationally, of ongoing health care cost increases, OPHP staff expects insurance premium increases over the 2007-09 biennium to be about 5 – 10%. (Please note that health care cost increases are not the same as health insurance premium increases.) Thus, the 5.4% inflation factor used to develop the Governor's budget may be adequate to fund increases in premium subsidies assuming the same mix of subsidy levels, and moderate premium growth.

The budget includes five additional adjustments that are listed below:

- Eliminates six limited duration positions (5.30 FTE) that had been administratively established during the 2005-07 biennium.
- Adds one permanent Information Systems Analyst position (0.92 FTE) to the program, but no additional funding, to enhance the agency's database management.
- Reduces the General Fund and Other Funds (federal matching funds) by $2.7 million and $5.9 million, respectively. This will require that the average monthly caseload be lowered by about 1,400. After this reduction, the FHAIP average monthly caseload is expected to be 13,307 – 7,515 receiving subsidies for employer-sponsored group coverage and 5,792 receiving subsidies for individual coverage.
- Removes $10.5 million Other Funds expenditure limitation that is not needed to accommodate program expenditures.
- Adds $1.2 million Other Funds to make FHIAP consistent with the new Healthy Kids Plan. Households with children enrolled in FHIAP will no longer make any premium payments on behalf of those children, and premium subsidy payments will now be made for households with incomes up to 200% of the FPL, rather than up to 185% of the FPL.

OPHP – Healthy Kids Plan

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	0	0	0	0
Other Funds	0	0	0	44,813,805
Total Funds	**$0**	**$0**	**$0**	**$44,813,805**
Positions	0	0	0	47
FTE	0.00	0.00	0.00	39.70

Program Description

The Healthy Kids Plan is a new program that is being proposed within the Governor's recommended budget for the 2007-09 biennium. The Governor's Healthy Kids Plan consists of three main components. First, OPHP will ramp-up its marketing and outreach efforts to expand existing health insurance coverage for children offered through both DHS and FHIAP. Today, most children in households with incomes under 185% of the FPL are eligible for either Medicaid or CHIP coverage funded within DHS. If they have access to employer sponsored insurance for their children, families with incomes under this level are, alternatively, eligible for FHIAP premium subsidies. Despite the availability of coverage, however, the Department of Administrative Services' Office of Health Policy and Research estimates that 19% of Oregon's children in households with incomes less than 100% of FPL are uninsured and 34% of children in households with incomes between 100% and 200% of the FPL are uninsured. Thus, this marketing and outreach effort is critical if the goal (health coverage for

Oregon's children) of the Healthy Kids Plan is to be realized. As noted in the FHIAP discussion above, the Healthy Kids Plan funds subsidies for households with incomes up to 200% and eliminates premium contributions for children in households with incomes less than 200% of the FPL. Children currently receiving FHIAP subsidies for individual insurance coverage will be allowed to retain that coverage.

The second component of the Healthy Kids Plan is an expansion of employer sponsored health insurance premium subsidies for households with incomes above 200% of the FPL, up to 350% of the FPL. These income levels are equal to annual incomes of $40,000 and $70,000, respectively, for a household of four. Federal matching funds would be available (if approved by the Centers for Medicare and Medicaid Services) as part of the subsidies for households with incomes up to 300% of the FPL. For households with incomes between 300% and 350%, subsidies of 50% of the premium cost are funded with state resources (tobacco tax revenue) only. Although this represents an expansion of the FHIAP, funding in the Governor's budget is included in the Healthy Kids Plan.

The third component of the Healthy Kids Plan is the introduction of a new "private insurance product" for children in households above 200% of the FPL. This private product will be a commercially based insurance product developed with commercial or licensed insurers by OPHP staff. The insurance plans will provide comprehensive benefits and services, similar to those offered today within the DHS Medicaid program and CHIP. Benefits will include medical, dental, mental health, and vision services. The objective of this private product is to provide at least two options in every region of the state, one of which may include a statewide carrier plan and the other, a local or regional plan. While households with incomes above 350% will be allowed to purchase the private product, no state premium subsidies would be available. Subsidies for households with incomes between 200% of FPL and 350% of FPL vary according to income level and range from an 85% subsidy to a 50% premium subsidy.

Revenue Sources and Relationships

The program is funded with two types of Other Funds revenue. First, $22.3 million represents Tobacco Tax revenue from a proposed tax increase of $.84 / pack of cigarettes and a 30% tax increase for other tobacco products. The Governor's budget assumes this tax increase begins on November 1, 2007 and is expected to generate about $180 million of revenue, net of collection costs. The Governor's budget uses $22.7 million of this new revenue within the OPHP budget – $22.3 million of it within the Healthy Kids Plan and $352,310 of it within the FHIAP. The remaining increased tobacco tax revenue is used within the Department of Human Services for the Governor's Healthy Kids initiative, an expansion of OHP Standard, and an increase in tobacco prevention and education programs.

The second source of Other Funds revenue within OPHP Healthy Kids Plan is federal Medicaid funds. These federal resources are transferred to OPHP and spent as Other Funds. In the Governor's budget, Medicaid revenue is about $22.5 million.

Budget Environment

The Office of Health Policy and Research estimates that 117,000 children (about 12.3% of all children) in Oregon under the age of 19 are currently uninsured. Most of them reside in households with incomes less than 300% of the FPL. The consequences of lacking health insurance are well known. Children who are uninsured typically do not perform as well as they could in school. Illnesses and injuries that are treatable in primary care settings either remain untreated, or are cared for in hospital emergency rooms at considerable cost. The Governor's Healthy Kids Plan represents an ambitious effort to reduce the children's uninsurance rate in Oregon.

While the goal of insuring the state's children is ambitious and commendable, there are several policy questions concerning the Healthy Kids Plan that merit consideration by the 2007 Legislative Assembly. First, Oregon Health and Science University researchers point out that a high percentage of children who are uninsured have parents who are uninsured. This relationship needs to be examined. Can OPHP's outreach and marketing efforts aimed at expanding children's health insurance be successful without also expanding coverage for adults? The Governor's budget proposes to increase enrollment in Oregon Health Plan's Standard program somewhat, but this program serves adults with incomes under 100% of the FPL, and the Governor's budget does not expand other adult programs within the FHIAP or Oregon Health Plan. Second, is it appropriate to offer subsidies to households (of four) with annual incomes up to $70,000? In other words, is the use of state resources for this purpose the most important budget use for these funds? Obviously, this question is not unique to this proposed program, but it is striking that most other human services programs such as food stamps, self-sufficiency, or medical assistance for adults, typically serve households or individuals with much lower incomes. A third budget policy consideration is the sustainability of the Healthy Kids Plan beyond the 2007-09 biennium. The state share of the Healthy Kids Plan is funded with tobacco tax – a source of revenue which has not increased significantly each year, unless the tax rate is increased. (In fact, the state's goal of reducing tobacco consumption, if achieved, would also reduce tobacco tax revenue.) At the same time, health care costs have been increasing. Can the budget for Healthy Kids be sustained over time with tobacco tax revenue while health care costs continue to rise? Admittedly, if tobacco consumption was reduced, health care costs could also be lowered – but this cost reduction would probably occur over the long-term rather than during the next biennium.

Governor's Budget

The Governor's budget for the Healthy Kids Plan within OPHP is $44.8 million. This budget is expected to provide services for an average monthly caseload of 15,337 children and the program is scheduled to be rolled out in January 2008. The Healthy Kids Plan budget is comprised of three components that are listed below:

- Subsidy payments of $33.4 million total funds. These payments support an average monthly caseload of 15,337 children, all of whom are from households with incomes above 200% of FPL. Children from households with incomes above 300% of the FPL are expected to comprise 6,154 average monthly cases. Those services will be funded with about $3.5 million of unmatched (with Federal Funds) tobacco tax. The remaining 9,183 average monthly cases will be funded with $11.7 million of tobacco tax and federal Medicaid revenue of $18.1 million. Costs per case are higher for cases funded with tobacco tax and Medicaid because the subsidy levels are much higher than for children in households with incomes above 300% of FPL.
- Outreach payments of $3.6 million total funds. Tentatively, this includes 2 years of funding for outreach grants for community organizations that will augment agency staff outreach efforts. In addition, the budget provides funding for $200,000 of "bonus" or "challenge" grants that will be awarded to groups to defray additional expenses for outreach to specific target populations. Finally, the budget includes $374,668 for finders' fees for organizations or individuals who help clients successfully complete the application process.
- Staffing, services and supplies, and capital outlay expenditures of $7.9 million total funds. The Governor's budget provides funding for 47 positions (39.70 FTE). Clearly, the addition of the Healthy Kids Plan will require more staff to administer the new program. In addition, the budget includes new positions to provide direct outreach and technical assistance to community organizations.

Psychiatric Security Review Board – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	732,047	847,464	879,245	1,110,014
Other Funds	0	2,000	2,000	2,000
Total Funds	**$732,047**	**$849,464**	**$881,245**	**$1,112,014**
Positions	4	5	5	5
FTE	4.00	4.75	4.75	5.00

Agency Overview

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

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

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

Revenue Sources and Relationships

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

Budget Environment

The biggest issue facing the agency is implementation of SB 232. The bill has two operational dates - January 1, 2007, for the establishment of the juvenile panel and July 1, 2007, for the dispositional options for juveniles found to be responsible except for insanity. The staggered operational dates allow for the panel to be appointed and operational prior to a juvenile being placed under the Board's jurisdiction.

Between December 2004 and September 2006, the adult caseload growth slowed significantly, while the percentage of adults on conditional release to community–based programs increased from 41% to 49%.

Governor's Budget

The Governor's recommended budget is $230,769, or 26%, greater than the 2005-2007 legislatively approved level. The growth includes roll-up costs of $58,209 for the newly created juvenile panel and two policy packages totaling $92,167 to increase the number of adult panel hearing days and stipends.

The recommended budget also includes personal services cost increases of $65,944 (10%); an Attorney General rate increase of 14% ($4,338); a 15% increase in State Government Service Charges ($6,174); other inflationary cost increases totaling $6,937; and a $3,000 reduction in Services and Supplies to more closely align the budget with actual spending.

PUBLIC SAFETY

Department of Corrections (DOC) – Agency Totals

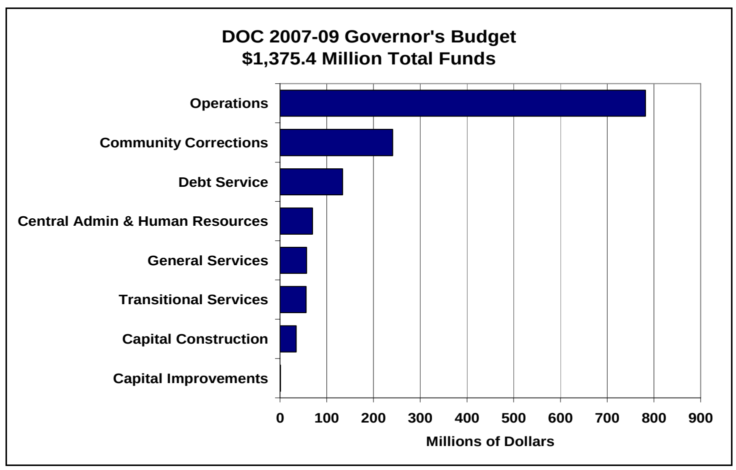
	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	808,397,321	1,037,460,522	1,063,363,561	1,299,776,563
Other Funds	24,260,615	49,071,585	49,386,777	71,156,897
Federal Funds	120,208,050	4,404,146	4,404,146	4,473,659
Other Funds (NL) *	21,651,702	0	11,192,956	0
Total Funds	**$974,517,688**	**$1,090,936,253**	**$1,129,552,448**	**$1,375,407,119**
Positions	3,977	4,287	4,287	4,810
FTE	3,902.76	4,181.91	4,181.91	4,684.40

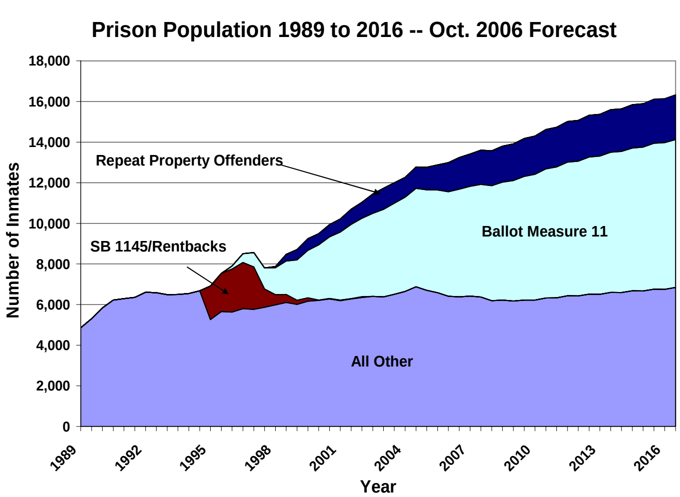
** The Other Funds Nonlimited amounts are the result of refinancing of debt.*

Agency Overview

The Department of Corrections (DOC) has two primary functions – the operation of prisons and the state responsibility for the community corrections system. The Department operates 14 institutions (including the new Deer Ridge facility opening in September 2007) 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 which was 13,361 on December 15, 2006 and is projected to grow by 6.1%, or 819 inmates, to 14,180 in July 2009 (October 2006 forecast). 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 2007-09 Governor's budget is $1,375.4 million total funds, with 56% for the operation, housing, health care, and security in the 14 prisons; 4% for transitional services like substance abuse treatment and education services; 18% for community corrections payments to counties; 10% for the debt service on prison and local jail construction; and 9% for general support services and administration. There is only $1.1 million total funds (less than 1%) in the budget for capital improvements. Capital construction limitation in the budget represents 3%.





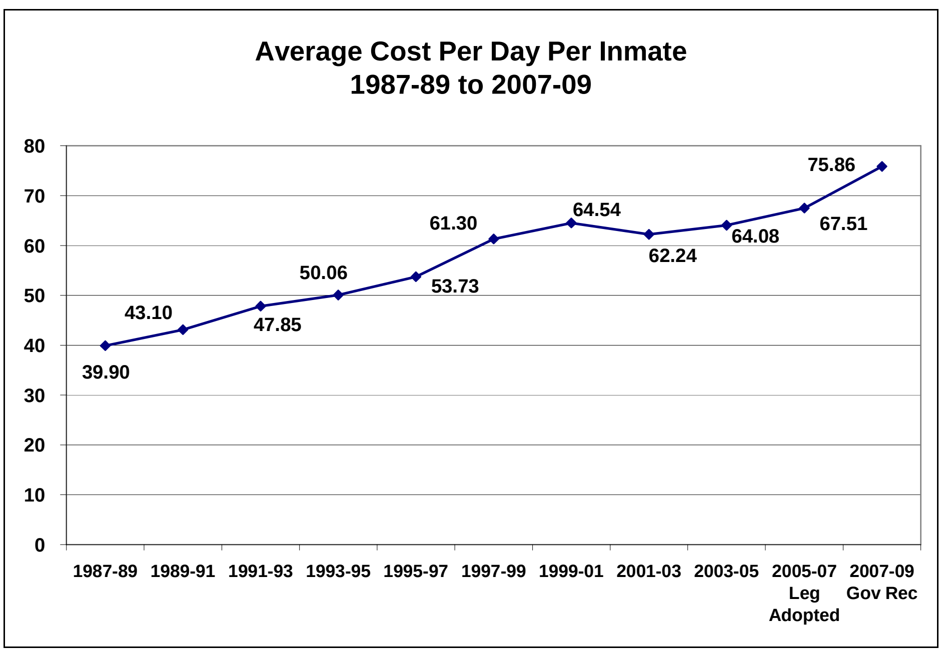
The most significant cost driver for the DOC budget is the number of incarcerated offenders in the prison system. The accompanying graph shows the growth in the actual and projected prison population, increasing from roughly 5,000 in 1989, to the present 13,361 in December of 2006, and to over 16,000 in 2016. This expected 220% 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 to rent beds from counties that had available space in their jails. DOC may continue to rent a limited number of beds in the future.

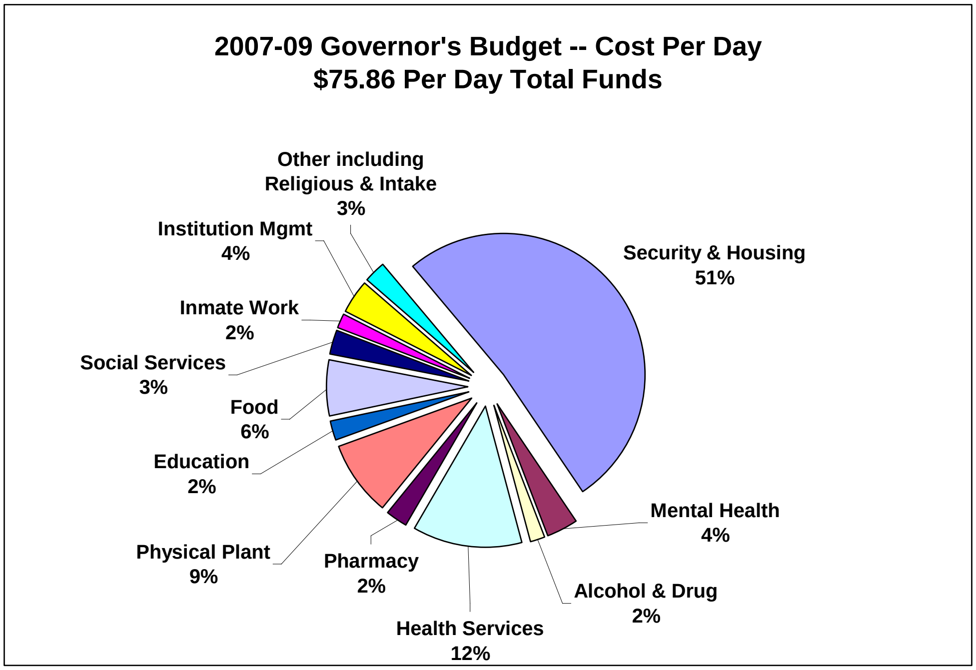
The passage of Ballot Measure 11 (BM 11) created the need to significantly change the corrections systems in Oregon and the need to increase the building program. The increases in the number of inmates due to BM 11 were not so much due to the growth in the number of offenders entering the system as much as were 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 prison population growth is constrained by ballot measures passed by Oregon voters including Measure 11 (1994), which established mandatory minimum sentences for specific major crimes; Measure 4 (1988), which eliminated probation for repeat offenders of specific crimes and eliminated the use of earned time; and Measure 74 (1999), which was part of the crime victims' package and requires that an offender must return to the sentencing court to reduce a sentence. The table below demonstrates the impact of these measures, the number of inmates in each group, and the requirements for changing the sentencing.

Ballot Measures and Time Frames	Number in Prison as of 10/06	Steps to Change Release Date
Non Measures 11 and 4 inmates whose crimes were committed prior to 12/99	998	Simple majority of Legislature
Measures 11 and 4 inmates whose crimes were committed before 12/99	1,551	Two thirds majority of Legislature
Measure 74 offenders whose crimes were committed after 12/99. Includes Measure 11 and 4 inmates after 12/99	10,027	Requires constitutional change

The average cost-per-day for an inmate in 2001-03 was $62.24, increasing to $67.51 for the 2005-07 legislatively adopted budget, and to $75.86 for the 2007-09 Governor's recommended budget. Cost-per-day for the Governor's budget for individual institutions ranged from a low of $53.48 at Mill Creek to over $87 at Shutter Creek. The estimated cost per day of the new Deer Ridge Facility will be higher ($128), but that is because newly opened facilities are generally higher as the fixed costs are spread among fewer inmates until the full capacity is reached. Facility -by-facility variance is due to a number of factors including age of facility, seniority of staff, programming at each facility, and the security level.





This chart shows the breakdown by spending category for the cost-per-day for the 2007-09 Governor's budget ($75.86 per day). Staff costs are the primary driver for this figure. Debt service, department-wide administration, business services, and capital construction are not included in these costs.

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

Governor's Budget

The Governor's 2007-09 recommended budget of $1,375.4 million total funds for DOC represents a 21.8% increase over the legislatively approved budget for 2005-07. The General Fund budget of $1,300 million increases 22.3%, or $237 million, for the same period. Major reasons for the growth in the DOC budget include:

- Almost $64 million General Fund is due to the "roll-up" of staff costs to account for a full 24 months of costs for positions added for inmate growth during 2005-07 and for employee compensation issues.
- Another $89 million General Fund is the amount proposed to add for staff and other costs associated with the projected prison growth and the increase in the community corrections caseload during 2007-09. Over 500 positions and 426.08 FTE are added for this growth.
- Adjustments for inflation and other cost increases account for another $25 million General Fund.
- The rates that drive the distribution of the community corrections funding are "rebased" based on recently completed actual cost studies at a cost of almost $25 million. This is over and above the increases for caseload growth and general increases for inflation.
- New funding is added to address mental health-related issues across the agency by adding permanent staff and opening up further mental health special unit beds at Snake River ($4.1 million General Fund).
- A new pre-release program for high risk sex offenders is created ($0.8 million General Fund) as well as more transition / reentry coordinators are added ($0.9 million General Fund).
- Critical infrastructure needs are addressed by providing over $24 million Other Funds for priority 1 deferred maintenance projects and $6.5 million Other Funds to replace the wireless communications systems at two facilities.

DOC – Operations

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	420,773,992	611,738,478	634,323,774	765,167,047
Other Funds	9,566,322	12,406,813	12,398,254	12,311,397
Federal Funds	118,063,995	4,339,146	4,339,146	4,473,659
Total Funds	**$548,404,309**	**$628,484,437**	**$651,061,174**	**$781,952,103**
Positions	3,480	3,737	3,737	4,214
FTE	3,438.66	3,655.10	3,655.10	4,097.41

Program Description

The Operations Division is responsible for the security and operation of the 13 existing correctional institutions and one new facility scheduled to be opened in September 2007. Functions of this Division include institution operations, security, food service, health care, mental health services, inmate work, inmate intake, and inmate transportation.

Operations Division Budget
2003-05 to 2007-09 Total Funds

Budget Area	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Institution Operations	441,865,810	517,438,448	604,618,382
Health Services	60,470,011	76,958,875	104,152,688
Pharmacy Services	17,136,854	21,050,085	24,784,841
Mental Health	12,963,095	18,019,366	28,943,181
Other Division Costs	15,968,539	17,594,400	19,453,011
Total	**548,404,309**	**651,061,174**	**781,952,103**

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, ($7.27 million); sale of items produced by inmate work and training programs ($1.67 million); Inmate Welfare Fund revenues received from inmates or inmate-related sources such as coin operated telephones, canteen profits, vending machines, and copiers ($1.7 million); and miscellaneous grants and donations ($389,893). 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 and succeeding budgets backfill for the one-time federal funding. The 2007-09 legislatively adopted budget assumes $4.5 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 amount only funds a portion of the total costs of incarcerating illegal aliens.

Budget Environment

The budget for Operations is driven by the prison population forecast; sentencing laws; custody level requirements; local arrest, prosecution, and sentencing practices; and Ballot Measure 17 (1994) inmate work related requirements. The Department of Administrative Services' Office of Economic Analysis prepares the Prison Population Forecast approximately every six months. The October 2006 forecast, on which the Governor's budget is based, shows an anticipated increase of the total prison population of 578 inmates from 13,602 in July 2007 to 14,180 in July 2009 (4.2% increase). In the past few years, the forecasts have been generally trending downward, delaying the opening of prison beds. Between legislative sessions, DOC rebalances within its budget if forecasts estimate additional changes in the prison population.

The Department plans to open one new mixed minimum and medium security level facility – Deer Ridge in Madras– in September 2007. Over the 2007-09 and 2009-11 biennia, units at this facility will open to meet anticipated inmate growth. The full capacity for the Deer Ridge facility is 1,884. The next facility will likely be built in either White City or Junction City; but will not likely open until the end of 2012 based on the current prison population forecast.

Department of Corrections Facilities

Existing Facilities	Location	Primary Security Level	Budgeted Capacity
Coffee Creek Correctional Facility	Wilsonville	Women's / Intake	1,531
Columbia River Correctional Institution	Portland	Men's Minimum	546
Eastern Oregon Correctional Institution	Pendleton	Men's Medium	1,659
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	895
Oregon State Penitentiary	Salem	Men's Maximum / Minimum	2,388
Santiam Correctional Institution	Salem	Men's Minimum	440
Shutter Creek Correctional Institution	North Bend	Men's / Women's Minimum	362
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	1,812
Warner Creek	Lakeview	Men's Minimum	406
New Facility			
Deer Ridge Correctional Institution	Madras	Men's Minimum / Medium	* 1,003

** Deer Ridge has a planned total capacity of 1,884 but only 1,003 will be required by the end of 2007-09.*

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, will have almost all available cells at double occupancy. Structural load issues prevent the double occupancy use of the remaining single occupancy cells at the Oregon State Penitentiary. As of June 2007, DOC had 977 men's and 63 women's temporary or emergency beds in the system. Work camp beds may also be added as work becomes available.

DOC has started to rent beds from counties that have space in their jails. At the end of the 2005 legislative session, the population management plan, based on the April 2005 forecast, anticipated the use of over 500 rental beds by the end of the 2005-07 biennium. More recent forecasts showed less need for rental beds. At this time, only minimal use of rental beds is expected for 2007-09. Counties may need these available beds as their need or financial capacity to house the offenders for which they have responsibility increases.

The federal constitution requires that sufficient health, mental health, and pharmacy services be provided under the 8th amendment (Cruel and Unusual Punishment Clause). Failure to do so in other states has led to significant increases in state budgets under federal court orders. For example, the California prison system's health care system is under the supervision of the federal courts and is now facing significant cost increases as new requirements are placed on the system by the court. Health and Pharmacy costs continue to rise (see table above) since they are under the same pressure that other health care programs are experiencing. DOC has undertaken or plans to undertake a number of actions to reduce, or at least limit, the cost of these programs including a treatment oversight committee to suggest cost effective treatment for non-emergency cases, and establishing a pharmaceutical formulary. Even with these and other cost saving management actions, the cost of health care and pharmacy services continue to grow. The agency also has had trouble filling health-related positions in many areas of the state.

A recent mental health report prepared by 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 needs vary significantly, but as of October 2006, 3,410 received some kind of mental health service, over 2,500 were severely and persistently mentally ill, and over 300 were developmentally disabled. The percentage of inmates who are severely mentally ill has increased from 12% of the total prison population in 2000 to 19% in 2005. 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 is a more appropriate setting. 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.

Governor's Budget

The Governor's 2007-09 recommended budget of $782 million total funds for the Operations Division is 20.6% greater than the 2005-07 legislatively approved budget while General Fund growth for the same period is 20.1%. Almost all of this growth is due to inflation and the increasing prison population (mandated caseload) since the growth in the Governor's budget over the essential budget level (General Fund) is only $4.2 million, or less than 1%. The overall General Fund growth of $153.5 million in the Governor's budget from the budget passed by the 2005 Legislature is due to the following factors:

- Almost half of the increase, or $74.5 million, is the increased costs of employee compensation, impact of the roll-up in the inmate growth during 2005-07, and the net effect of one-time costs.
- Another $8.2 million is the adjustment for cost increases including 15% for health care services and 8% for pharmaceuticals. Costs for health care services not provided in the prisons have been increasing much faster than this 15% increase provided for in the budget.
- $67 million is due to the estimated increase of almost 600 inmates for the period July 2007 through June 2009. Over 460 positions (381.85 FTE) are proposed to meet this growth

The Governor's budget does include $4.2 million General Fund in policy packages, but most of this increase is to continue spending and services the Department has found funding for this biennium out of existing resources. Policy packages for the Operations Division include:

- Over $3.1 million General Fund is expected to fund 30 permanent positions (30.00 FTE) for on-going mental health services. These positions will replace existing contractors, limited duration positions, or double-filled positions currently delivering these services. The agency asserts that without these permanent positions, up to 1,100 inmates with significant mental health issues will not have a case manager.
- An increase in the number of beds from 22 to 60 at the Snake River Special Management Unit ($861,720 General Fund). Four positions (3.50 FTE) are added including a psychiatrist, mental health specialist, and two nurses. These would be permanent positions and in part replace activities formally performed by contractors.
- An increase of $194,000 General Fund to continue the monitoring of groundwater at Oregon State Penitentiary. The funds will be used to operate and maintain the existing Ground Water Stripping Tower system. There is a companion package in the General Services Division's budget.

DOC – Community Corrections

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	183,427,368	190,173,778	190,491,873	239,369,772
Other Funds	637,229	1,811,284	1,811,284	1,867,434
Total Funds	**$184,064,597**	**$191,985,062**	**$192,303,157**	**$241,237,206**
Positions	48	48	48	47
FTE	19.02	48.00	48.00	47.33

Program Description

The community corrections program provides 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. For 2007-09, it was anticipated that 35% of the amount distributed to counties will be used for felony probation, 23% 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 2006 local offender population forecast and the proposed rate structure, but counties may spend it differently based on local decisions.

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

Budget Environment

The Community Corrections Grants budget is primarily driven by the local offender population forecast issued by the Department of Administrative Services' Office of Economic Analysis, which forecasts the number of offenders on probation, parole, post-prison supervision, local control, and Level 3 sanctions (see table). The number of community corrections cases continues to grow and generally outpaced the forecasted caseloads for the past few years.

Community Corrections Forecast

October 2006 Forecast

	Felony Probation	Parole & Post Prison	Local Control	Level 3 Sanctions	Total
July 2006	19,584	13,169	1,169	541	34,463
July 2007	20,231	13,184	1,207	567	35,189
July 2008	20,684	13,428	1,250	591	35,953
July 2009	21,003	13,592	1,277	604	36,476
July 2010	21,278	13,723	1,298	615	36,914

In the past, funding for Community Corrections Grants generally increased from one biennium to another based on inflation and the projected number of offenders supervised or incarcerated at the county level. The rates were based on cost studies completed in the early 1990s. During the 2005-07 interim, the community corrections directors, sheriffs, counties and DOC undertook a project to "rebase" the rates based on cost studies for both jail operations (local control population) and supervision operations (all other). The Governor's budget for 2007-09 is based on the supervision cost study, but the budget used the cost of incarcerating a DOC inmate (minus the cost of debt service) instead of the jail cost study. These funds are allocated to individual counties through a capitation model, based on the number and risk levels of offenders in each county.

State law provides for counties to "opt out" from the community corrections system and return responsibilities to DOC. This may happen only when funding for community corrections does not keep pace with caseload growth, and/or the amount provided does not include an inflation increase equal to or more than the increase included in legislatively adopted budget for the rest of the DOC budget. Counties must give notice to DOC at least 180 days prior to opting out. Two counties (Douglas and Linn) formally opted-out and transferred responsibility for their community corrections programs to DOC during 2003-05. The amount provided for these two county programs are determined in the same way as all other counties. Funding levels for 2005-07 and as proposed in the Governor's budget for 2007-09 would not allow further counties to opt out.

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 58% experiencing serious issues. Reductions in previous biennia to these treatment programs did reduce the available resources for the community corrections caseload.

Governor's Budget

The Governor's 2007-09 recommended budget of $241.2 million total funds for the Community Corrections program is an increase of 25.4%, or $48.9 million. This budget represents a major departure in how it was developed. As described above, the Governor in part based his budget on studies on actual costs prepared over the last year for the probation and post-prison supervised offenders, or linked the cost of local jails to what it costs DOC to incarcerate an inmate (minus debt service). In previous years, the budget was based on inflating the amount from the previous biennium and adjusting for caseload changes. Even though the budget was not developed based on the essential budget level, the Governor's budget represents a $24.6 million, or 11.3%, increase from the essential budget level (EBL). The amount available to counties in the Governor's budget far exceeds the amount necessary to prevent any further counties from opting out of their statutory responsibilities for the program. Over the next few biennia, it is assumed the community corrections budget will again be adjusted based on inflation and caseload changes. Then after three biennia, another cost study will be completed to "rebase" the system again.

DOC –Transitional Services

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	29,948,486	34,991,962	35,857,980	47,740,231
Other Funds	7,106,323	8,420,351	8,424,514	8,350,809
Federal Funds	1,609,192	65,000	270,000	0
Total Funds	**$38,664,001**	**$43,477,313**	**$44,552,494**	**$56,091,040**
Positions	114	119	119	139
FTE	112.50	117.50	117.50	135.38

Program Description

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

Transitional Services Division Budget
2003-05 to 2007-09 Total Funds

Budget Area	2003-05 Actual	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Workforce Development	16,229,279	17,944,474	19,375,277
Alcohol & Drug Treatment	6,470,802	6,984,938	12,861,055
Religious Services	4,400,274	5,611,644	6,246,345
Offender Info & Sentence Computation	6,990,052	8,788,730	10,126,986
Other Division Costs	4,573,594	5,017,708	7,481,377
Total	**38,664,001**	**44,347,494**	**56,091,040**

Revenue Sources and Relationships

Transitional Services are expected to receive $8.4 million in Other Funds for 2007-09 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 ($6.2 million). Inmate welfare funds are used to pay for transportation, housing, and other costs when an individual is released from prison ($703,663).
- Resources transferred in for alcohol and drug programs ($215,465) from a federal grant.
- Resources transferred in for education programs from the Department of Education and the Department of Community Colleges and Workforce Development ($203,577).

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 to overcome significant barriers so they are able to function in the general community.

Governor's Budget

The Governor's 2007-09 recommended budget of $56.1 million total funds for the Transitional Services Division represents a 26.5% increase over the 2005-07 legislatively approved budget while the General Fund budget of $47.7 million represents a 33.1% increase for the same period. Of the $11.8 million General Fund increase, $1.8 million is due to employee compensation increases and roll-up increase of existing employees, $0.8 million accounts for the adjustment made for inflation and other cost increases, and $5.2 million is added for the estimated growth of the prison population during 2007-09. Some of the increases for the growth in the number of inmates appears to be greater than one would expect for an increase in the population of less than 5%. This may merit further review during the Joint Committee on Ways and Means review of this budget.

This Division does include $4.8 million General Fund in new initiatives or expansions over and above the essential budget level including:

- Six transition / re-entry coordinators (5.25 FTE) and $920,520 General Fund are added to assist with the transition of newly released inmates (3,800 annually) back into the community. The coordinators will develop and deliver a curriculum related to employment, housing, financial management, and what the expectations will be of those released under supervision (parole). DOC currently has one coordinator at Oregon State Correctional Institution in Salem and the six new coordinators will be located at other releasing institutions across the system.
- An increase of $3 million General Fund to increase the rates paid to providers of alcohol and drug treatment services inside the prisons. Currently, there is no standard rate paid but a collection of inconsistent rates that have been negotiated with individual providers over time. This package assumes a standardized rate of $33.68 per day per bed which is comparable to the rate paid through the Department of Human Services (treatment component).
- Funding of $803,000 General Fund to start a pre-release program for high risk sex offenders. Currently, there is little or no specialized services for the over 4,000 sex offenders in the prison population until they are released from prison. This initiative will create a 50 bed program at the minimum facility at the Oregon State Penitentiary to provide structured interaction with high risk sex offenders who are within six months of their release.

DOC – General Services

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	33,069,017	36,876,039	38,140,738	45,596,726
Other Funds	3,676,367	4,774,240	5,007,973	11,204,915
Federal Funds	534,863	0	1,000,000	0
Total Funds	**$37,280,247**	**$41,650,279**	**$44,148,711**	**$56,801,641**
Positions	205	221	221	246
FTE	203.08	210.60	210.60	242.57

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 $1.1 million Other Funds derived from the sale of certificates of participation (COPs) for activities related to construction. The Distribution Services unit receives over $3 million Other Funds from charging for services.

Budget Environment

Information Systems and Services has responsibility to keep existing automated systems running efficiently for over 5,000 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. During 2007-09, DOC will begin the rewrite of one of its major information systems – the Corrections Information System – from a COBOL based system to a internet based system. This will be funded out of the existing budget. Federal grant funds will be used to build or modify existing information systems to meet the requirements of the federal Prison Rape Elimination Act.

Governor's Budget

The Governor's 2007-09 recommended budget of $56.8 million total funds for the General Services Division is an increase of $13.7 million, or 31.6%, over the 2005-07 legislatively approved budget. The Division's General Fund budget increases by $7.5 million, or 19.5%. Increases in employee compensation, roll-up of 2005-07 position increases, and inflation are offset, in part, by decreases in state government service charges and elimination of one-time expenditures for 2005-07. The Governor's budget increases by $6 million General Fund for the impact of prison population growth expected during 2007-09 (just under 600 inmates). This increase includes the cost of 21 new positions across the Division ($2.1 million); and $4 million for the purchase of equipment (e.g., tele-communications), much of which will be one-time purchases that will not carry forward into future biennia. As with the staff increases in other Divisions related to the increased prison population, this proposed increase merits further review during the legislative budget process.

The Governor's budget also includes equipment and staffing infrastructure investments including:

- An increase of $225,000 General Fund to continue the monitoring of groundwater at Oregon State Penitentiary. The funds will be used to operate and maintain the existing Ground Water Stripping Tower System. There is a companion package in the Operations Division's budget for a total cost across the agency of $419,000.
- Funding of $759,818 General Fund for six new positions (4.88 FTE) including a security position for the financial systems, two accounting technicians to support fiscal service functions at facilities in the Salem and Portland area, and three positions and increased funds for contracting for information systems needs. This is over and above the 12 new positions provided for these two sections in relation to the increase in the 2007-09 prison population described above.
- A $6.5 million Other Funds investment to replace wireless communications systems at Snake River and Coffee Creek. Both replacement systems are to be compatible with the anticipated design of the Oregon Wireless Interoperability Network (OWIN), which is further described in the Department of State Police section. The funding for these investments will be from the sale of COPs, and the 2007-09 debt service for this is $883,822 General Fund.

DOC – Central Administration, Human Resources and Public Services

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	38,201,335	60,960,326	61,829,257	66,962,221
Other Funds	1,978,183	6,210,782	6,300,801	2,608,705
Other Funds (NL)	206,850	0	92,145	0
Total Funds	**$40,386,368**	**$67,170,473**	**$68,130,058**	**$69,570,926**
Positions	130	162	162	164
FTE	129.50	150.91	150.91	161.71

Program Description

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

- *Central administration* includes the Office of the Director, the Internal Audits Office, and the Planning and Budget Office. In addition, this unit includes the new Population Management Office created in 2006 which is responsible for the development and implementation of population management strategies. These include the day-to-day management of assigning inmates in the existing system, and the long-term planning to insure the right type of beds are built in the future.

- The *Public Services Division* includes the function relating to investigations of inmates, hearings, rules coordination, research and evaluation, and public information.
- *Human Resources* staff provides agency wide services including labor management, recruitment, employee development, training, employee safety, risk management, and payroll services.

Revenue Sources and Relationships

These units almost entirely rely on the General Fund. Central Administration relies on $1.9 million from the proceeds of the sale of COPs for funding construction-related activities mainly in the Population Management Office. Proceeds also fund the issuance costs of the COPs. A small amount of rent revenue is received by the Population and Management Office from property easements and rental income.

Budget Environment

As inmate population grows, there is an increase in the need for investigations, searches, work site monitoring, drug testing, internal audits, and hearings. Opportunities for contraband in institutions also increase since more non-DOC staff will have contact with inmates through work crews, prison industries, public/private partnerships, and contract services. To better utilize limited Special Investigations Unit resources, more cases are being referred back to functional units for further investigation.

From July 1, 2005 to June 30, 2006, DOC hired approximately 1,400 employees, continuing a trend since 1995 as DOC has opened or expanded facilities. Recruitment strategies are in place to assist with the increased workload of recruiting and performing background checks. Recruitment resources are being directed toward those types of positions that are hard to fill, including Correctional Officers and various medical positions. During the end of 2005-07 and into 2007-09, recruitment and hiring staff for the new facility in Madras will be a priority.

Governor's Budget

The Governor's 2007-09 recommended budget of $69.6 million total funds for these three divisions is an increase of $1.4 million, or 2.1%, from the 2005-07 legislatively approved budget. General Fund resources grow by $5.1 million, or 8.3% over the same period. The Other Funds budget is reduced by $3.7 million primarily because of the elimination of one-time issuance costs of COPs issued in 2005-07. In addition, almost $11 million General Fund is eliminated in this budget for the 2005-07 funding for rental beds that are not required for 2007-09. This bed capacity is replaced with the opening of beds at the new Deer Ridge facility, which is budgeted in the Operations Division.

General Fund increases in these divisions' budgets include:

- Increases of $10.9 million in state government service charges. This represents the increase for the entire agency.
- Funding for 13 new positions (12.46 FTE) related to the expected increase in the prison population during 2007-09. They include positions in budget and planning (1), audit (1), special investigations (4), hearings (2), and human resources (5).
- Resources of $1 million Other Funds for the issuance and other costs related to the sale of the COPs for deferred maintenance and initial planning funds for the construction of the next facility.

DOC – Debt Service

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	101,010,754	101,640,940	101,640,940	133,828,118
Other Funds	1,296,191	15,208,750	15,208,750	0
Other Funds (NL) *	21,444,852	0	11,100,811	0
Total Funds	**$123,751,797**	**$116,849,690**	**$127,950,501**	**$133,828,118**

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

Program Description

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

1145 population, purchase of property, design costs, siting costs, major improvements or upgrades of existing facilities, and the staff costs associated with the construction and improvement of facilities.

Revenue Sources and Relationships

For 2007-09, this budget unit is funded with General Fund for the debt service on existing and proposed COPs. In 2003-05 and 2005-07, the Other Funds expenditures were capitalized interest payments where 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 Deer Ridge (Madras), and future facilities, will lead to increases in debt service costs in future biennia.

A portion of the debt service is for the local facilities (SB 1145) financed in part by the state to incarcerate/treat offenders. Through 2006, 1,669 beds have been built with state funding or transferred from DOC use to local use (Clackamas County). This capacity is equal to or close to the amount required to incarcerate 100% of the local control population which has ranged between 1,200 and 1,834 since 1998. Overall, there is presently excess local jail capacity primarily due to local funding constraints.

Governor's Budget

The Governor's 2007-09 recommended budget of $133.8 million total funds for DOC's debt service represents a $5.9 million, or 4.6%, increase from the 2005-07 legislatively adopted budget. The increase in the General Fund resources for debt service is much greater over the same period – $32.2 million, or 31.7%. The large increase is due to three primary reasons:

- For the 2005-07 budget, debt service interest on COPs issued during 2005-07 was capitalized using proceeds from the COPs to pay for the debt service. The cost of this action over the entire multi-biennia term of the COPs will increase. The 2007-09 budget is adjusted by reducing the Other Funds limitation to account for the one-time use of the proceeds.
- General Fund resources are increased by $28.6 million to account for the "roll-up" of debt service for COPs issued during 2005-07. Since the COPs were issued throughout the biennium, this increase adjusts for the 24 month costs for 2007-09. Part of this roll-up is related to the use of capitalized interest described above.
- The Governor's budget assumes issuance of new COPs during 2007-09 and the budget includes $3.5 million to begin to repay these during 2007-09. Approximately $1.2 million of this debt service is related to the initial planning and design of the next DOC facility to be built, $1.5 million is related to deferred maintenance items, and $883,822 is for the replacement of the wireless systems described in the General Services section.

DOC – Capital Improvements

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	1,966,369	1,078,999	1,078,999	1,112,448
Other Funds	0	240,000	240,000	0
Total Funds	**$1,966,369**	**$1,318,999**	**$1,318,999**	**$1,112,448**

Program Description

These funds are used for deferred maintenance and asset protection projects. These projects must be less than $500,000 or they are categorized as capital construction.

Revenue Sources and Relationships

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

Budget Environment

The Department owns approximately 250 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 $58 million still remain. The ten year plan for these projects requires $11.6

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.

Governor's Budget

The Governor's 2007-09 recommended budget of $1.1 million total funds for DOC capital improvements represents very little change from the 2005-07 level. The budget is adjusted down by $240,000 Other Funds to eliminate the 2005-07 one-time clean-up costs for DOC property in the Salem area. The remaining $1.1 million is woefully inadequate to address ongoing maintenance needs of the extensive properties owned by DOC for a two year period. 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 have significant needs. Failure to invest now will likely lead to increases in costs in the future. Since the Governor's budget does include $24.2 million in capital construction authority (and the corresponding COP authority and debt service), the funding for 2007-09 is sufficient. Future biennial needs will continue to increase so additional funding will be required after 2007-09. Further discussion of deferred maintenance needs is found below in the Capital Construction section.

DOC – Capital Construction

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	0	0	0	34,813,637
Total Funds	**$0**	**$0**	**$0**	**$34,813,637**

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. Currently, a new facility in Madras (Deer Ridge) is scheduled to open in 2007 and planning is in the early stages for the next facility to be built in either White City or Junction City. The timing for this new facility depends on the Prison Population Forecast which is estimating further growth in the inmate population reaching to 16,000 inmates by 2015. Based on the most recent forecast, the new prison will not need to open until 2012 so capital construction limitation will not be required until 2009-11 except for the planning, design, and site development costs included in the Governor's budget for 2007-09.

Governor's Budget

The Governor's 2007-09 recommended budget for Capital Construction reflects two major initiatives: (1) $10.6 million for the planning, design, and initial infrastructure needs for the next facility to be built by DOC for the growing prison population; and (2) $24.2 million for a range of deferred maintenance projects. Resources for debt service and issuance costs for the COPs associated with these two initiatives are found in the Debt Service and Central Administration sections above.

The $10.6 million allocated for the next new facility is to be used as outlined in the table below.

New Facility-Related Capital Construction

Facility Design	$2,872,000
Infrastructure and Site Development Planning	$2,872,000
Wetland and Pre-engineering Study	$1,020,000
Intergovernmental Agreement Negotiations	$325,500
Contract and Project Management Consultant	$1,601,600
Contingency (10%)	$869,110
Project Staff	$1,038,879
Total	**$10,599,089**

Sufficient resources are provided to address the current identified priority 1 deferred maintenance needs. Other priority needs are not addressed in the Governor's budget. The $24.2 million is planned to be used as the table below outlines.

Deferred Maintenance Project Costs

Building Envelope (windows, siding, roofs)	$934,277
Electrical-Related	$8,812,770
Environmental (asbestos, lead paint)	$2,074,253
Fire Alarm/Suppression	$862,798
HVAC Systems	$5,613,029
Plumbing	$1,630,216
Safety-Related	$1,657,247
Gath Road Firing Range Clean-up	$1,408,888
City of Salem Development Charge	$1,000,000
Deferred Maintenance Project Staff Costs	$1,221,070
Total	**$24,214,548**

Criminal Justice Commission – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	6,865,328	1,126,359	3,655,061	6,474,041
Other Funds	293,852	106,541	106,541	3,630,475
Federal Funds	1,535,359	99,437	101,293	100,000
Total Funds	**$8,694,539**	**$1,332,337**	**$3,862,895**	**$10,204,516**
Positions	12	6	6	6
FTE	11.29	6.00	6.00	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 and replaced 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 CJC's primary focus has returned to developing and maintaining a state criminal justice policy and comprehensive long-range plan for the state's criminal justice system. Specifically, CJC:

- staffs and supports the Commission in its functions relating to the state criminal justice policy and administering the sentencing guidelines;
- administers a drug court start-up or expansion grant program begun in 2006;
- provides data and other information on criminal justice issues to legislators, state and federal agencies, and the public including the activities of the Statistical Analysis Center;
- 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.

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. A recent Supreme Court decision upheld the legality of Ballot Measure 3 which severely limited civil forfeiture. The agency estimates only $15,000 will be collected from this source during 2007-09. In past biennia, the agency has relied on the beginning balance but this has become more difficult.

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. In the past, the Commission has struggled in meeting this role due to resource constraints and other required functions (e.g., administration of the sentencing guidelines and asset forfeiture oversight). 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. 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. During 2005-07, the Commission has strived to upgrade the skills of its staff so it can provide a higher level of research regarding the public safety system. Its present activities include examining the policy issues associated with the state's current policy and the costs/savings resulting from the policy. One issue being examined is the relationship between incarceration and the crime rate. Commission staff have also developed a cost/benefit model to evaluate programs designed to reduce crime.

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. The Legislature provided one staff position and $2.5 million for the funding of the actual grants for one year. The Commission awarded 17 grants, 11 expansions of existing drug courts and six new drug courts. The grants were awarded to a variety of models including adult, juvenile, and family drug courts. With these grants and the courts already operating across the state, there are now drug courts in 26 of the 36 counties. The Commission also coordinated the awarding of these grants with those funded with one-time federal funds of $2.6 million (Byrne grant). Since the funding for both of these grants sources were for only a one year period, continuation of these grants at the same level for the entire 2007-09 biennium will require roughly double the 2005-07 amount.

Governor's Budget

The Governor's recommended budget for the Commission is $10.2 million total funds ($6.5 million General Fund) representing a 164.1% increase from the 2005-07 legislatively approved budget (77.1% increase in General Fund). The primary reasons for this increase is the "roll-up" of the funding for the drug court grants ($2.6 million General Fund increase) so that funding is available for 24 months, and a $3.6 million Other Funds increase to continue those drug court grants in 2007-09 funded with one-time federal Byrne grant funds during 2005-07. The source of this $3.6 million in increased Other Funds resources is liquor-related revenues passed through the Department of Human Services. The Emergency Board, at its January 2006 meeting, noted that the Bryne-related funds were one-time funds and drug court programs receiving these funds will need to find alternative funding in the future.

While the General Fund portion of funding should be able to cover the costs of continuing the grants funded with General Fund resources for 24 months, the $3.6 million in Other Fund resources will not be sufficient to continue the funding for the grants made from one-time federal Bryne funds. It is unclear how the Commission plans to adjust funding for these grants to stay with the level of funding within the Governor's budget. Another issue is the long-term plan for this grant program which was established to start new drug courts and expand existing courts. Should the Commission be responsible for administering a program that will provide continuing funding for drug courts, or should the ongoing responsibility for the program be transferred to another agency? Currently, the Oregon Judicial Department funds a number of drug courts across the state.

Other features of the 2007-09 Governor's budget that are not common to all state agencies include:

- Roll-up costs for the position associated with administering the drug court program so resources are available for 24 months. This position is also funded at a level to match the classification of the position.
- Continued funding for the Law Enforcement Contracts Committee ($130,000 General Fund).
- Funding ($40,000 General Fund) for the contract with the Department of Corrections (DOC) for the financial activities of the Commission. The 2005 Legislature eliminated a position with the instructions for CJC to receive the services from DOC. This amount is insufficient to fully reimburse DOC for its services.
- Increasing the FTE for a research position from 0.25 FTE to 1.00 FTE ($92,951 General Fund including Services and Supplies). This position had been reduced during 2005-07 to partially finance a reclassification of a position to upgrade the analytical skills of the Commission.

District Attorneys and Their Deputies – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	9,327,704	8,857,799	9,170,797	10,658,236
Total Funds	**$9,327,704**	**$8,857,799**	**$9,170,797**	**$10,658,236**
Positions	36	36	36	38
FTE	36.00	36.00	36.00	38.00

Agency Overview

District Attorneys and their deputies prosecute state criminal offenses committed by juveniles and adults. In addition to criminal prosecution, district attorney legal duties include enforcement of child support obligations in non-welfare cases, prosecuting civil forfeitures, presenting evidence at mental health hearings, ruling on public records requests, representing interests in child dependency cases, assisting juvenile courts, and advising and representing county officers. District attorneys and their deputies are also active in local public safety coordinating councils, child abuse prevention teams, and community outreach activities. There are or recently have been three basic 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 $55,140 annually; in the nine largest counties the salary is $94,332; and in the remaining 24 counties the salary is $79,512. 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 360 deputy DAs in the state, ranging from no deputies in some smaller counties to approximately 90 in Multnomah County. The 2005-07 legislatively approved budget 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. State funding was discontinued for witness fee costs starting in 2003-05.

Budget by Program Area

	DA Compensation	Deputy Supplements	Witness Fees	Administration	Total
1999-2001 Actual	$ 6,528,458	$ 1,857,311	$ 569,888	$ 581,233	$ 9,536,890
2001-03 Actual	$ 6,874,347	$ 2,003,844	0	$ 394,700	$ 9,272,891
2003-05 Actual	$ 7,156,346	$ 1,018,776	0	$ 1,152,582	$ 9,327,704
2005-07 Legislatively Approved	$ 7,915,097	0	0	$ 942,702	$ 8,857,799
2007-09 Governor's Recommended	$8,513,455	$ 810,290	0	$1,334,491	$10,658,236

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 county DA office survey compiled in 2000 showed that state funds covered between 2% (Multnomah) and 70% (Wheeler) of county prosecution budgets.

Budget Environment

The state's share of funding for prosecution expenses of DA offices has fallen significantly over the past 25 years based on data collected as part of the Association of Oregon Counties (AOC), District Attorneys Association, and Department of Justice (DOJ) report to the 2001 Legislature. In 1975, the state portion represented 19% of the total prosecution expenses (state and county) of $6.4 million for all DA offices. By 1993, the state share had dropped to 14% of the total expenses of $34 million statewide, and by 2000 the state share was 9% of the $57 million total statewide expenses. Counties have backfilled the loss in the state's share of funding but their capacity to do so is limited. Factors such as the economy and growing demands in other county budget areas have led counties to limit the growth in DA resources.

For the most recent year data is available (2006), a majority of counties (24 out of 36) provided an annual monetary supplement ranging from $8,618 to $36,000 to the salary paid by the state. 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. When factoring in the county share of salaries, DAs' annual salaries range from $55,140 to over $129,000. In comparison, the annual salary for circuit court judges is $95,800, for the Chief Justice it is $107,600, for the Attorney General it is $77,200, and the top range of the Senior Assistant Attorney General classification at DOJ is $93,948. It should be noted that not every county provides a supplemental amount for their DA, and county boards can decide to rescind the payment of a supplement.

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 under 166,000 in 2005. 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 nine years.

Filings	1997	1998	1999	2000	2001	2002	2003	2004	2005
Misdemeanor	65,332	64,677	62,833	65,486	62,803	65,549	69,055	65,602	63,456
Felony	33,719	39,589	37,470	35,749	37,646	37,905	36,508	38,397	40,758
Total	**99,051**	**104,266**	**100,303**	**101,265**	**100,449**	**101,265**	**105,563**	**103,999**	**104,214**

While the number of criminal filings and the number of arrests are both indicators of DA workload, they do not capture all of the potential workload. A significant part of the DA workload is not linked to arrests. In the past, DAs estimate that as much as one-third of the regular statewide workload corresponded to pre-arrest case reviews, where DAs and deputies are asked to assess the sufficiency of evidence collected and provide advice on the need for additional investigation, search warrants, or involvement of task force experts. The amount of time spent on cases, the quantity of cases prosecuted, and methods used vary from county to county depending on available resources and local judicial practices. When reported crimes and arrests are higher, DA offices must take a variety of actions to meet the increased demand, including: (1) prioritize cases; (2) rely more on plea bargaining negotiations and alternative dispositions (deferred sentencing and reduction of certain felonies and misdemeanors to violations) to reduce the number of trials; and (3) limit the amount of time spent in preparation and prosecution of each case.

One of the major issues facing DAs currently under discussion is the roles of the DAs, the Attorney General's Office, Department of Human Services (DHS), and other actors in the area of child welfare representation. The DAs play a major role in this area, often representing the same interests as the state. Given individual county financial pressures and decisions, DA offices have provided varying levels of "service" in this area. Two counties approached the Emergency Board in 2005 for further funding to continue these services but did not receive any additional funding. The Attorney General has convened a work group to address this issue and a report should be available for the 2007 legislative session. The 2007-09 Governor's budget includes resources to address this issue (see below).

Governor's Budget

The Governor's recommended budget for District Attorneys and their deputies increases 16.2% from the 2005-07 legislatively approved budget. Since this budget is mostly for compensation of the DAs, much of the increase is due to compensation changes common to all state agencies. The budget includes two compensation changes for the DAs: (1) a 3% increase for all DAs effective July 2008, which is generally consistent with the Governor's budget assumptions for increases for other state management employees; and (2) a further collapsing of the salary tiers for the DAs started in 2005-07. The rationale for the first change is in part due to DAs not being eligible for annual step increases like most other state employees. Under the second proposed change, the three counties now in the third tier and receiving $55,140 annually would be folded into the second tier. There was no classification review by the Human Resources Services Division of the Department of Administrative Services (DAS) for the second proposed change. Total cost of these two compensation changes for 2007-09 is $284,816 General Fund.

The Governor's budget also proposes reinstating the practice of providing state funding to counties for paying a portion of deputy district attorneys. This funding was discontinued for 2005-07 but the Governor provides

$801,290 General Fund for this purpose in his 2007-09 budget. Funding for this purpose in 2003-05 was just over $1 million and it was over $2 million in 2001-03. Total costs for the over 350 deputy DAs statewide far exceed the amount the state has paid. The Governor's budget does not propose a specific distribution of these funds. In the past, a set amount was given to each county for their first three deputy DAs and the remainder was distributed based on the total number of deputies. This distribution favored the smaller counties with fewer deputies.

Also included in the Governor's budget is $2 million in the DOJ budget available for distribution to county DA offices for child welfare representation. This proposal is the result of the Attorney General's workgroup on this issue. Funding would be available to DA offices which enter into agreement with DHS and DOJ to provide specific services. Most counties already provide all or some of these services without this funding, but the rationale for this proposed funding is to ensure consistent representation in every county.

In the past, the only state staff for this agency has been the 36 elected DAs. The DOJ dedicated a position (General Fund) to support and coordinate the joint activities of the DAs through the Oregon District Attorneys Association (ODAA). The Governor's 2007-09 budget proposes transferring this position to this agency, and also adding an Executive Director whose responsibilities would include overseeing the operation of the ODAA, providing consistent leadership to the Association, representing the DAs in legislative hearings and other settings, and being responsible for the operation of this state agency. Total cost of this proposal is $382,710 General Fund, of which approximately $218,000 represents new costs after accounting for the transfer of the current position from DOJ. The position is funded at a Principle Executive Manager (PEM) F level, but DAS's Human Resources Services Division's evaluation of the position designates it at a PEM D level. While this new position will likely act in some ways as an agency head and will be appointed by the Governor, it will have no supervision authority over any of the 36 elected DAs or their staff. This is a unique relationship in state government, but apparently matches how some other states are organized.

Department of Justice (DOJ) – Agency Totals

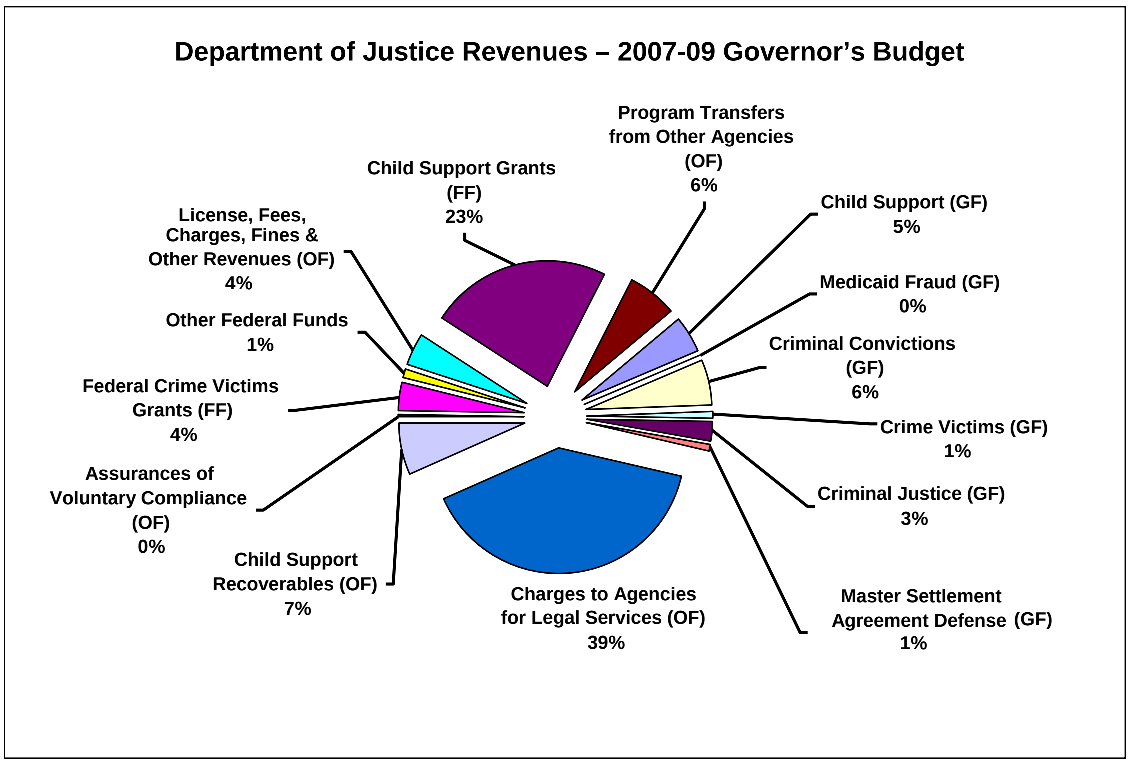
	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	31,610,875	31,804,268	34,170,674	52,833,644
Other Funds	131,788,358	151,469,237	159,834,994	207,878,638
Federal Funds	82,407,915	79,402,505	81,786,510	87,667,018
Other Funds (NL)	7,024,800	7,674,025	7,994,025	7,339,368
Federal Funds (NL)	0	12,299,813	16,399,813	13,969,281
Total Funds	**$252,831,948**	**$282,649,848**	**$300,186,016**	**$369,687,949**
Positions	1,201	1,208	1,226	1,275
FTE	1,190.07	1,198.25	1,212.01	1,258.49

Agency Overview

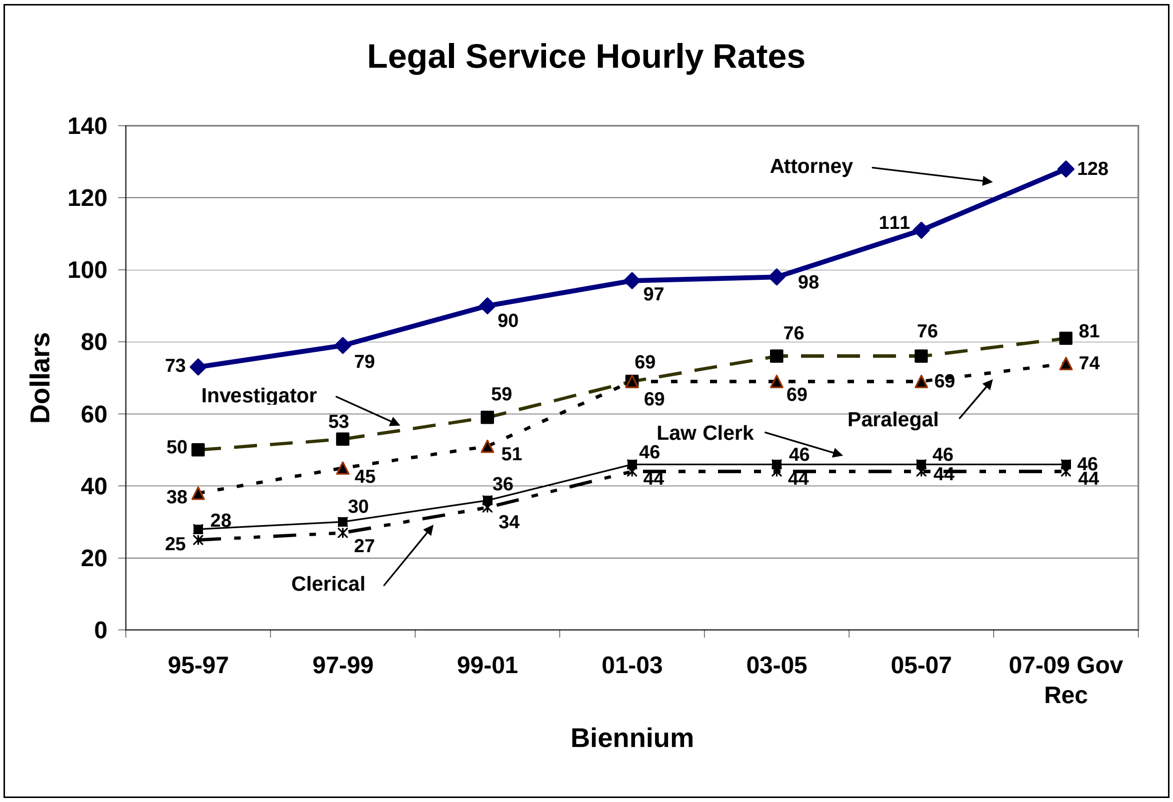
The Department of Justice (DOJ) is responsible for general legal counsel and supervision of all civil actions and legal proceedings in which the state is a party or has an interest. State statute places responsibility with DOJ for all the state's legal business that requires an attorney or legal counsel. DOJ is also responsible for a number of programs, including child support, district attorney assistance, crime victims' compensation, charitable activity enforcement, organized crime-related law enforcement, and consumer protection services.

Revenue Sources and Relationships

The Department of Justice relies on a variety of funding sources. For the 2007-09 biennium, the General Fund accounts for 14.3% of the Governor's 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 58.2% of the budget and include charges to agencies for legal services, licenses and other fees, charges, and fines. Federal Funds make up 27.5% 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 that its legal services are billed not only to state agencies but also internally. For example, the Trial and Appellate Divisions bill the Defense of Criminal Convictions Fund to cover costs of defending challenges to criminal convictions which are not billable to other state agencies. Although the Attorney General has the statutory authority to determine the hourly rates, they have historically been reviewed through the legislative process. The rate also covers indirect costs of providing administrative services tied to services funded by charges to state agencies. Employee compensation is the major factor which drives the changes in the rate. The hourly rates for attorneys and other staff are shown in the graph below. The Governor's 2007-09 budget assumes an attorney rate of $128 per hour, a 15.3% increase from the 2005-07 rate of $111 per hour. The Legislature will review this rate and may assume a different hourly rate affecting the budgets for all state agencies. In past biennia, the Legislature has usually reduced the rate from what is assumed in the Governor's recommended budget.



Governor's Budget

The Governor's recommended budget of $369.7 million total funds for the Department of Justice represents a 23.2% increase from the 2005-07 legislatively approved budget. The Governor's total funds budget is almost 15% higher than the essential budget level. Overall, the budget grows by almost $70 million total funds; but $23.2 million of this growth is attributable to a change in the methodology in the accounting for the indirect administrative costs. This does not change the actual spending levels but does duplicate these expenditures for budget purposes. After factoring out this change, the overall increase in total funds spending is 15.4%. For the same period, the $52.8 million General Fund budget is 54.6% greater than 2005-07 and 21.4% higher than the essential budget level General Fund need. Major changes leading to the $18.6 million increase in the General Fund budget include:

- Growth in the mandated caseload for the Defense of Criminal Convictions ($8.1 million General Fund) and an increase of 22 positions.
- Shift in the funding mix for the Child Support Division from Federal Funds to General Fund resulting from a change in federal law ($4.9 million General Fund).
- Increase of $1 million General Fund for providing services to victims of domestic and sexual violence.
- Allocation of $2.5 million General Fund as a placeholder to cover the legal costs of defending the revenues generated from the Master Settlement Agreement with tobacco companies.
- Restoration of the reductions made in 2005-07 in the District Attorney Assistance program and the Organized Crime unit ($0.9 million General Fund).

Other features of the 2007-09 budget as proposed by the Governor include:

- Continuation of the Tobacco Tax Compliance Task Force at 2005-07 staffing levels which is scheduled to sunset at the end of 2007 ($1.1 million Other Funds).
- Further review of child welfare cases and greater representation of Department of Human Services staff by increasing the number of attorneys and other staff in the General Counsel Division by 16 positions ($4.7 million Other Funds). This amount includes $2 million in payments to county District Attorney offices to provide consistent legal representation in shelter care and pre-jurisdictional court proceedings.
- An increase of 10 positions in the General Counsel and Trial Divisions ($1.9 million) to keep pace with the workload resulting from the increased number of Measure 37 claims.
- Increases of $3 million in Criminal Fines and Assessment (CFAA) resources for crime victims programs.

DOJ – Administration

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	7,875,145	13,136,988	13,917,018	22,934,513
Federal Funds	149,025	152,332	152,332	0
Total Funds	**$8,024,170**	**$13,289,320**	**$14,069,350**	**$22,934,513**
Positions	90	114	114	115
FTE	87.34	111.85	112.38	113.38

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 25 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.

Governor's Budget

The Governor's recommended budget of $22.9 million for the Administration Unit is 63% greater than the 2005-07 legislatively approved budget. This significant increase is primarily due to the change in the method of accounting for the indirect charges in the agency. In prior biennia, the agency used the reduction of expense to account for the indirect charges, but a 2005 budget note directed the agency to develop the 2007-09 budget using the full-cost accounting method which is used by other agencies in state government. The result is a $23.2 million increase across the agency, but it represents double counting these indirect administrative charges for budget purposes.

Other changes in this budget which are not common to all state agencies include:

- Addition of two budget positions, one budget manager PEM E and one Fiscal Analyst 3 to meet growing expectations of the budget staff from both internal and external requests. To partially finance this package, one part-time Fiscal Analyst 1 position is eliminated. Net cost of this package is $324,707 Other Funds.

- Expansion of the Honor's Attorneys program by two permanent positions ($270,955 Other Funds). This program recruits law school students generally in their third year. They assist with legal work across multiple divisions and many are hired permanently. There are currently eight Honor's Attorneys positions.

DOJ – Appellate Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	8,867,971	10,098,631	10,484,803	16,635,479
Total Funds	**$8,867,971**	**$10,098,631**	**$10,484,803**	**$16,635,479**
Positions	49	50	49	66
FTE	48.88	49.50	48.88	64.63

Program Description

The Appellate Division represents the state in all cases that are appealed to state and federal appellate courts in which the state is a party or has a significant interest. Attorneys in this Division spend the majority of their time preparing briefs and arguing appeals in criminal, civil, and administrative cases in which the parties disagree with the trial court or agency results. In most of these cases, attorneys appear before the Oregon Court of Appeals, the Oregon Supreme Court, and the federal Ninth Circuit Court of Appeals. Attorneys occasionally appear in other federal appellate courts and the U.S. Supreme Court. Attorneys in this Division also must prepare and defend ballot titles, a significant workload issue in recent years.

Revenue Sources and Relationships

Although the Division's budget is totally supported with Other Funds, the principal source of funds to pay the billings is the General Fund appropriation for Defense of Criminal Convictions (see later section). Revenue for civil or administrative appeals is Other Funds generated from the hourly fees billed to the state agencies.

Budget Environment

Since the Department is usually responding to appeals filed by others, it has little or no control over its workload. The Division handles roughly 3,300 cases (approximately 1,000 civil and 2,300 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. Criminal appeals are expected to continue increasing, and are driven by projected increases in the prison population (longer mandatory sentences imposed under Ballot Measure 11 and repeat property offender convictions), greater funding for the Public Defense Services Commission, and 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. The Emergency Board provided an additional $995,000 from the Emergency Fund in September 2006 to augment the amount appropriated by the 2005 Legislature for the workload in this Division and the Trial Division.

While the Department receives few death penalty appeals during each biennium, these cases are very complex and time consuming. As the agency has successfully litigated more of the death penalty appeals through the system, the cases are moving into the later stages of legal review. Four death penalty cases have reached the federal review stage; and, since these cases represent the first opportunity for the federal courts to review the state's death penalty system, they are expected to be very costly to defend. Another factor increasing the costs of the federal review of these cases is that the federal public defenders are much better funded than their state colleagues.

This Division also experiences greater workload demands because 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 doubled since 1997.

Governor's Budget

The Governor's recommended budget of $16.6 million total funds for the Appellate Division is 58.7% greater than the 2005-07 legislatively approved budget. The primary reason for this growth is the increase in the mandated caseload related to the Defense of Criminal Convictions workload by $4.2 million Other Funds. A total of 19 new positions (17.75 FTE) are added to meet the growing workload. Positions are also added in the

Trial Division. Funding is from the Defense of Criminal Convictions budget unit and is financed with General Fund. This issue is discussed further in the Defense of Criminal Conviction section below.

The budget also increases by $25,691 Other Funds to pay for this Division's share of increases in the central administrative unit, and by $1,469,232 Other Funds for the costs of removing the reduction of expense methodology which is describe in more detail in the Administrative Division section above.

DOJ – Civil Enforcement Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	404,089	392,323	1,232,653	2,940,671
Other Funds	26,030,768	24,448,768	25,334,457	32,428,225
Federal Funds	1,844,670	1,812,386	1,864,904	2,141,129
Total Funds	**$28,279,527**	**$26,653,477**	**$28,432,014**	**$37,510,025**
Positions	131	133	134	138
FTE	130.33	132.44	133.31	136.86

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 fraudulent billing by Medicaid-funded providers; instances of patient abuse or neglect committed by Long-Term Care Facilities or their employees; and fraud in the administration of the Medicaid program. Federal Medicaid law requires each state have a fraud unit separate from its Medicaid designated agency (DHS).
- The *Financial Fraud/Consumer Protection* section educates consumers to better protect themselves against marketplace fraud and abuse. It also 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.

This Division also enforces the tobacco Non Participating Manufacturer (NPM) law, a statute relating to the Master Settlement Agreement (MSA) entered into by tobacco companies and the states. Enforcement of the NPM law is necessary to protect the approximately $150 million received in MSA payments in each biennium.

Revenue Sources and Relationships

Revenue to support the Family Law and Civil Recovery sections comes from billings to 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 allows DOJ to use Medicaid recoveries for the state match in some cases as long as the Medicaid program and other victims are first made whole. Financial Fraud / Consumer Protection section services are funded by Other Funds, including funds in the Consumer Protection and Education Revolving Account paid by companies and organizations that sign assurances of voluntary compliance for violations of consumer protection laws. The General Fund for the program was eliminated for the 2003-05 biennium and no further General Fund was added for 2005-07. Fees charged to charitable and non-profit organizations for registration, filing financial reports, and gaming activities provides funding for the Charitable Activities section, but revenues from these sources are unable to keep pace with program costs.

Budget Environment

Despite its relatively small size when compared to other states, Oregon's Medicaid Fraud unit is recognized as one of the top performers. 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 in 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 that federal prosecutors may not pursue the Oregon cases and fraudulent activity relating to Medicaid in Oregon may increase. Federal oversight staff have expressed concern and asked for advance notification of further reductions.

The Financial Fraud / Consumer Protection section anticipates a continued flow of consumer complaints, including that of Internet fraud. Consumer hotline calls totaled 110,770 for the two year period ending June 2006 and written complaints totaled almost 2,700 for the same period. Restitution to consumers from cases opened after 2003 and closed in 2005 and 2006 totaled $1.5 million. Before 2003-05, General Fund resources represented roughly one third of the funding for this program, but now it relies on recoveries from enforcement actions. The agency is not requesting any General Fund for 2007-09, but does not believe the program can continue to be self-financed for future biennia.

The number of registered charitable organizations has increased from about 3,000 in the early 1990s to 14,188 in 2006. This unit must monitor performance and proposed actions of charitable organizations. Prior to modifying or terminating a charitable trust, the trust's proposed actions must be reviewed by this unit. Over the past three years, there has been an average of 36 such reviews performed. Nonprofit gaming organizations, numbering 596, are also monitored including screening applicants for licenses and insuring compliance with rules.

Governor's Budget

The Governor's recommended budget of $37.5 million total funds for the Civil Enforcement Division represents a 31.9% increase from the 2005-07 legislatively approved budget. The $2.9 million General Fund budget is a 138.5% increase from 2005-07, but almost all of this is due to the $2.5 million designated for the on-going legal costs for the state's defense of the revenue stream from the Master Settlement Agreement with tobacco companies. The total amount due for these legal costs for 2005-07 is still uncertain as are the 2007-09 costs; so this $2.5 million is viewed as a placeholder. While the Governor has designated General Fund as the revenue source in his budget, the Legislature may want to explore using the MSA revenues as a funding source depending on the cash-flow needs for the bond debt service payments already designated from this revenue stream. Three positions are requested for this item with the remaining amount for outside counsel.

Other increases in this budget include the addition of one position to process ODOT cost recovery claims faster and reduce an existing backlog ($121,078 Other Funds), resources to pay for this Division's share of increases in the central administrative unit ($55,920 total funds), and $4.8 million total funds for the costs of removing the reduction of expense methodology which is described in more detail in the Administrative Division section above.

DOJ – Criminal Justice Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	6,803,088	7,254,327	7,356,847	9,110,076
Other Funds	8,491,786	9,732,141	10,545,834	12,044,700
Federal Funds	665,600	953,698	1,291,198	1,172,118
Other Funds (NL)	500	135,734	215,734	229,379
Total Funds	**$15,960,974**	**$18,075,900**	**$19,409,613**	**$22,556,273**
Positions	65	70	71	73
FTE	62.82	67.29	69.62	69.13

Program Description

The Division is organized into two sections:

- The *District Attorney Assistance* section assists the 36 District Attorney offices in criminal cases and matters relating to prosecution and law enforcement in their respective counties by providing trial and investigative assistance, technical-legal and prosecutorial advice and services, and legal education and training in criminal law and procedures. In isolated cases, DOJ staff may step in and act as the county District Attorney.
- The primary purpose of the *Organized Crime* section is to detect and combat organized criminal activities in the state and to investigate allegations of corruption or malfeasance by public officials in Oregon. This section operates the Criminal Intelligence Unit (CIU), which provides analytical services to Oregon law enforcement and also maintains the Oregon State Intelligence Network, the primary intelligence sharing network for Oregon law enforcement. This section also hosts the Western States Information Network for Oregon which shares intelligence information among five western states; participates with the Department of State Police and Department of Revenue in the Tobacco Tax Compliance Task Force; administers the Internet Crimes Against Children program which seeks out those who prey against kids on the internet; participates as part of the Cooperative Disabilities Investigation Unit; and participates as part of the federal/state/local High Intensity Drug Trafficking Areas (HIDTA) initiative.

Revenue Sources and Relationships

District Attorneys' Assistance and the Criminal Intelligence sections are funded primarily by the General Fund, federal asset forfeiture ($107,763 Federal Funds), Marijuana Eradication ($915,703 Federal Funds), federal funding for the Internet Crimes Against Children program ($148,824 Federal Funds), and funding from Department of Revenue for the Tobacco Tax Compliance Task Force ($1.4 million Other Funds). In 2007-09, the General Fund will also support the Methamphetamine initiative ($803,023). The Division also receives funds from a contract with the California Department of Justice, which administers the federal grant supporting the Western States Information Network ($1.1 million Other Funds). The Department of State Police provides Other Funds ($2.2 million) to support the efforts of the federally designated High Intensity Drug Trafficking Area program. A grant from the Department of Transportation ($165,543 Other Funds) supports the DUII program, and funds from the Department of Human Services provide for the operation of the Cooperative Disability Investigations Unit ($884,303 Other Funds).

Budget Environment

The Organized Crime section and the Criminal Intelligence Unit have seen an increasing workload due to a significant demand from law enforcement agencies across the state. As of November 2006, the Division had 96 organized crime cases open (not including tobacco and DPSST-related cases), 15 open DA Assistance cases (many of them murder cases), and 46 open election violation investigations. Even though the Division saw a 13% reduction in funding for 2005-07, it closed 209 cases so far in 2006 compared to the 131 cases closed in 2005. Comparison between years is difficult since each case is different and requires varying amounts of time, resources, and skills.

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 has increased. The number of DAA cases opened roughly doubled between 1999-2001 and 2003-05. The Department temporarily handled the additional workload with existing staff through overtime and slower response time as well as limiting the work done on certain cases. The reductions made to this program during 2005-07 resulted in the notification to District Attorneys (DA) that the program would be unable to take any but the most urgent cases at the end of the biennium. Management actions taken by the agency made additional resources available to minimize the impact of this to DAs. In addition, the program has had to take, or will take, responsibility for the operation of DA offices in a number of counties as vacancies occur during 2005-07.

Governor's Budget

The Governor's recommended budget of $22.6 million total funds for the Criminal Justice Division represents a 16.3% increase from the 2005-07 legislatively approved budget. General Fund resources in this Division's budget increase by 23.8% over the same period to $9.1 million. Changes in the General Fund budget include:

- Restoration of $921,805 to offset the 10% General Fund reduction made in 2005-07 in the Division. Funding is restored to both the District Attorney Assist and the Organized Crime sections.
- Transfer of the position (-$164,145 General Fund) currently supporting the Oregon District Attorneys Association to the District Attorneys (DA) and Their Deputies agency budget. A companion package in the DA budget includes this position as well as an executive director position for this activity. It is assumed that DOJ will continue to perform many of the financial and administrative activities it currently does.

Other and Federal Funds changes in the budget not common to all agency budgets include:

- Continuation of the Tobacco Tax Compliance Task Force staff for all of the 2007-09 biennium. The Task Force is currently scheduled to sunset at the end of 2007. The Governor's budget assumes it continues operation at its 2005-07 levels. Overall, $1.1 million Other Funds fund six positions.
- Continues one limited duration Senior Attorney position through September 2008 for the DUII Prosecutions program ($165,543 Other Funds). This program is funded with a grant from ODOT which is scheduled to expire at that time, but the agency hopes funding will continue after that date. These funds are used for training police and prosecutors on DUII law and coordination of DUII prosecutions.
- Distribution of $200,000 Federal Funds to counties to eradicate illegal marijuana growing operations. The agency has not been formally notified these federal funds will be available at this time, but it is included in the Governor's budget.
- Increases in funding for the Division's share of the central administrative increases in the DOJ budget ($18,170 Other Funds) and the change due to the change in the accounting methodology for indirect administrative costs ($884,415 Other Funds and $6,271 Federal Funds).

DOJ – Crime Victims' Programs

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	2,409,403	2,473,397	2,559,165	3,712,073
Other Funds	11,248,371	18,068,310	18,187,185	23,444,254
Federal Funds	10,835,922	11,449,778	11,653,143	13,698,281
Other Funds (NL)	7,024,300	3,851,891	3,851,891	3,069,311
Total Funds	**$31,517,996**	**$35,843,376**	**$36,251,384**	**$43,923,919**
Positions	26	28	29	32
FTE	25.92	26.30	27.53	29.34

Program Description

This program is formally part of the Criminal Justice Division, but starting in the 2007-09 biennium it is a separate budget unit. The Crime Victims' Assistance section is responsible for administering the following programs on behalf of innocent crime victims:

- The *Crime Victims' Compensation program* was created to provide assistance to innocent victims who sustain injuries resulting from criminal activity.
- The F*ederal Victims of Crime Act* is a program that provides funds to states and local organizations for victims' assistance.
- The *Prosecutor-based Victim/Witness Assistance* program is a grant program to certified prosecutors' offices across the state 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.

The Address Confidentiality Program is also administered by this section and provides a substitute address for forwarding mail for victims of domestic violence, sexual assault, and stalking. Through an Interagency Agreement with the State Police, this section is currently administering the Federal Violence Against Women Act formula grant. The agency has submitted a legislative concept for the permanent transfer of this program as part of the larger transfers relating to Homeland Security, the Criminal Justice Services Division of the State Police, and the Office of Emergency Services.

Revenue Sources and Relationships

The Crime Victims' Compensation program is supported by the Criminal Fine and Assessment Account (CFAA) ($18.9 million), punitive damages and restitution ($2.2 million), and federal grant funds ($13.7 million).

These federal grants are derived from penalty assessments levied against offenders in federal courts. The General Fund provides resources for the Address Confidentiality Program and the Domestic and Sexual Violence Program. In 2005, Crime Victims' received a grant from the U.S. Department of Justice for insuring the rights of crime victims and the amount expected during 2007-09 totals $94,452.

Budget Environment

The number of applications for crime victim benefits continues to increase, averaging 305 per month in 1999-2001, 370 in 2001-03, and 428 in 2003-05. For 2005-07, the monthly claim average rose to 466. 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.

Governor's Budget

The Governor's recommended budget of $43.9 million total funds for the Crime Victims' Program represents a 21.2% increase over the 2005-07 legislatively approved budget. General Fund spending increases by 45.1% over the same period to $3.7 million. Two program enhancements account for this General Fund increase:

- The Address Confidentiality Program, which started in 2007, is continued for all of the 2007-09 biennium to insure the confidentiality of the addresses of victims of domestic violence or stalking. The program will cost $145,311 to fund the one position processing the mail. The program was originally to be funded with donations and gifts, but the Emergency Board provided General Fund resources for 2005-07.
- The Oregon Domestic and Sexual Violence Services Program is expanded by $1 million. The amount of funding distributed to non-profit and other entities providing local services to victims of domestic and sexual violence is proposed to be increased by $909,941. The remaining funds are used to add one position to coordinate and promote collaboration among the local service providers funded through the program.

CFAA funds are used to increase overall funding for other major programs:

- The Crime Victims' Compensation Program (CVCP) and the Victim / Witness Assistance Programs (VAP) are expanded by $2 million Other Funds. Part of this increase is for a new position to respond to growing workload of processing and paying claims.
- The Child Abuse Multidisciplinary Intervention (CAMI) program which supports child abuse intervention centers and county multidisciplinary teams in each county is expanded by $1 million.

The Governor's budget transfers the Violence Against Women grant program from the State Police (Criminal Justice Services Division) as part of the larger transfer of the homeland security responsibilities and the Office of Emergency Management from State Police to the Military Department. Of the total $1.7 million Federal Funds transfer, over $1.5 million are for grants and the remaining $140,000 funds a position to administer the grants. Also included in this budget are this program's share of the central administrative increases in the DOJ budget ($14,377 Other Funds) and the increase due to the change in the accounting methodology for indirect administrative costs ($954,595 Other Funds and $160,187 Federal Funds).

DOJ – General Counsel Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	30,321,880	35,242,608	38,792,205	51,351,136
Total Funds	**$30,321,880**	**$35,242,608**	**$38,792,205**	**$51,351,136**
Positions	166	166	178	195
FTE	164.82	164.97	173.00	189.86

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 several biennia following a period of substantial growth. Actual demand for General Counsel services depend on the needs of state agencies. The DOJ asserts the legal work performed by this Division is becoming more complex. Areas where workload is increasing include Measure 37 claims, siting of renewable energy projects and liquefied natural gas terminal facilities, juvenile dependency matters, innovative business transactions involving information technology and intellectual property, and water quality work related to the Portland riverfront. Areas of decreased work include legal advice for the Oregon University System and the Department of Consumer and Business Services. Overall, the total number of pending matters has leveled off. In July 2000, the number of pending matters was 19,591, in July 2004 it was 22,824, and in July 2006 it was 20,494.

Over the past few years, DOJ and the Department of Human Services (DHS) have tried to address the issue that DHS staff receive little consistent legal representation or advice in preparing for court hearings. DHS staff, who do not generally have formal legal training, in the past spent 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 2005 Legislature placed $2.5 million in a special purpose appropriation to the Emergency Board with the intent that the funds would be used to provide consistent legal assistance to DHS and to free up caseworker resources to spend time in traditional child welfare activities. In October 2005, the Emergency Board allocated the funds after DHS and DOJ proposed an approach which identified certain "high priority" child welfare cases for which DOJ would always provide legal review and attorney resources as needed. The DOJ received $1.6 million and ten positions for the remainder of the 2005-07 biennium. At the same time, the Attorney General initiated a work group to further explore the issue including the proper roles of the DOJ, DHS, and the District Attorneys. The outcome of the workgroup is addressed in the Governor's budget described below.

Governor's Budget

The Governor's recommended budget of $51.4 million total funds for the General Counsel Division is 32.4% higher than the 2005-07 legislatively approved budget. Almost $3.8 million of this increase is due to the methodology change in the accounting of indirect administrative costs which has no direct impact on the spending of the Division. Without this double counting of expenditures, the increase from 2005-07 would be 22.6%. This still sizable increase is, in part, due to compensation and other increases common to all state agency budgets, but also includes major new or expanded initiatives including:

- Adds resources for legal advice to state agencies on the defense of Measure 37 claims. This package funds two Senior Attorneys, one paralegal, and one legal secretary for a total cost of $715,133 Other Funds. The Governor's budget staff stated that the latest available information was not used in formulating this package and the companion packages in the Departments of Administrative Services and Land Conservation and Development.
- Provides an additional 16 positions (ten attorneys, two paralegals, and four support staff) beyond the ten positions authorized by the Emergency Board in October 2005 to provide legal representation to DHS child welfare staff. The package is designed to provide 100% legal review of all cases at two critical stages in the process. In addition, there is $2 million in payments to county District Attorney offices to provide consistent legal representation in shelter care and pre-jurisdiction proceedings. This package is the outcome of a workgroup chaired by the Attorney General and costs $4.8 million.
- Funds a Senior Attorney position who will be part of a multi-agency team to address cleanup of the Portland Harbor Superfund site.
- Provides one limited duration Senior Attorney position to provide legal work for the Water Resources Department to complete the final order and determination of the Klamath water rights adjudication. Work is expected to be completed in 2009.

DOJ – Trial Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	14,572,977	15,056,105	16,313,745	21,442,246
Total Funds	**$14,572,977**	**$15,056,105**	**$16,313,745**	**$21,442,246**
Positions	81	83	89	94
FTE	80.37	82.71	85.71	93.71

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 are filed by or on behalf of incarcerated persons and are charged against the General Fund appropriation for the Defense of Criminal Convictions.

Budget Environment

The largest unit in this Division is the Corrections Litigation Unit. It opened 971 post-conviction and *habeas* cases in 2005 (up from 737 in 2004) and, as of October 2006, there were 949 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, and has continued to grow since then. Case complexity has also increased. The Department has been interested in adding more attorneys to this Division so that Oregon trial attorney caseloads will be more comparable to those used in two neighboring states (e.g., 77 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. Past reductions in services funded by the state 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 in calendar year 2003, 72 in 2004, 75 in 2005, and 38 in the first half of calendar year 2006. In addition, the Division has recently opened 22 Measure 37 related cases in 2005 and 60 Measure 37 related cases through September 2006. These cases are expected to increase significantly in light of the nearly 2,500 administrative claims that have been filed with the state under Measure 37. The Department of Administrative Services (DAS), Department of Land Conservation and Development (DLCD), and DOJ requested funding, expenditure limitation, and positions from the Emergency Board in June 2006; DOJ received eleven limited duration positions split between the Trial (six positions) and General Counsel (five positions) Divisions. The workload continues to grow and will remain until the high number of initial claims are reviewed and processed. The Governor's budget includes further resources for this legal work.

Governor's Budget

The Governor's recommended budget of $21.4 million total funds for the Trial Division is 31.4% greater than the 2005-07 legislatively approved budget. Over $2 million of this $5.1 million increase is due to the methodology change in the accounting for the indirect administrative costs. Without this change, the increase would have still been over 19%. Beyond the compensation and other increases common to all state agencies, this increase is due to:

- Three positions and $682,176 Other Fundsare added to meet the growing workload resulting from increases in the mandated caseloads for the Defense of Criminal Convictions. Positions are also added in the Appeals Division. Funding is from the Defense of Criminal Convictions budget unit and is financed with General Fund (see further discussion below).
- Six positions and $1.2 million Other Funds are added for the defense of Measure 37 cases in trial courts for state claims. The positions include three attorneys, one paralegal, and two support positions (one of which is limited duration).

DOJ – Child Support Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	10,488,678	11,123,461	11,466,430	16,983,544
Other Funds	24,379,460	24,860,118	25,609,179	27,598,085
Federal Funds	68,912,698	65,034,311	66,824,933	70,655,490
Other Funds (NL)	0	3,686,400	3,926,400	4,040,678
Federal Funds (NL)	0	12,299,813	16,399,813	13,969,281
Total Funds	**$103,780,836**	**$117,004,103**	**$124,226,755**	**$133,247,078**
Positions	593	564	562	562
FTE	589.59	563.19	561.58	561.58

Program Description

This Division locates parents, establishes paternity, enforces and modifies child support obligations, and receives and distributes support payments from absent parents. The Child Support program provides these services automatically for families that are requesting, are receiving, or have received, public assistance from the Department of Human Services (DHS); if the child is in the care of DHS's child welfare program or the Oregon Youth Authority (OYA); or if the case has been referred by another state. The program also provides these services to other families if they request the service. In addition, the 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 61.3% of the program costs (excludes Nonlimited expenditures); General Fund covers 14.7%, and local funds and recoverables pay the remaining 24% based on the Governor's budget. The Deficit Reduction Act of 2005 (DRA) discontinues the Child Support Program's ability to federally match incentive award funds. This effectively changes the funding mix necessary to keep the program at the same level as in the past, thereby increasing the amount of General Fund required. The DRA also affects the programs operated by the District Attorneys (DA) in a similar manner. The Governor's budget includes state funds to offset the effect of the DRA for both the DOJ and DA programs.

Budget Environment

The program serves roughly 251,000 families per year and is expected to grow slightly for 2007-09. In the past, the DA programs have provided services to approximately 19% of these families. 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. Collections continue to grow, in part, due to economic factors like inflation. The total collections to the Division's cost ratio is increasing; for every dollar spent, $5.35 was collected in 2001-03, $5.93 for 2003-05, and the current amount is estimated at $5.62. Compared to surrounding states, Oregon's performance in child support is relatively good. In federal fiscal year 2005, 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 346, with California averaging 184 and Washington at 207.

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.

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 November 2006, no report has been issued and it is not likely to be released until the Spring of 2007. Preliminary information shared by the auditors disclosed that certain types of cases referred by the Oregon Youth Authority were not eligible to receive matching federal funds. While the impact of this disqualification is not yet fully known, the Child Support program may 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. The 2005 Legislature included $400,000 for this issue in the 2005-07 budget, but the total cost is unknown.

Governor's Budget

The Governor's recommended budget of $133.2 million total funds for the Child Support Division represents an increase of 7.3% over the 2005-07 legislatively approved budget. The General Fund resources grow over the same period by over 48%, or $5.9 million. Over $4.9 million of this increase is due to the changes in the Federal Deficit Reduction Act of 2005 which discontinued the ability to match incentive payments with federal funds. To maintain the same level of service, the Governor's budget adds the $4.9 million General Fund replacing the lost federal matching funds to avoid reductions in payments to families receiving child support. Of this amount, $2.8 million will be paid to county DA offices for the impact of the federal change on their programs' funding with the remaining going to the DOJ program. A correction will be required in the budget since almost $2 million total funds ($543,372 General Fund) more than required was added back in the development of the budget.

The Governor's budget also increases the Nonlimited Other and Federal Funds by $4.3 million to fully reflect the amount required for the program after it was transferred a few years ago from DHS. Also included in this budget are this Division's share of the central administrative increases in the DOJ budget ($84,584 Federal Funds) and the increase due to the change in the accounting methodology for indirect administrative costs ($878,654 Other Funds and $436,719 Federal Funds). In the past, more up to date information available during the legislative session has resulted in new estimates for recoveries and incentive payment which has led to further General Fund reductions.

DOJ –Defense of Criminal Convictions

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	11,505,617	10,560,760	11,555,579	20,087,280
Other Funds	0	825,568	825,568	0
Total Funds	**$11,505,617**	**$11,386,328**	**$12,381,147**	**$20,087,280**

Program Description

Defense of Criminal Convictions (DCC), formally referred to as Criminal Appeals, is a budgetary unit to track the cost to the Department of defending the state in cases in which sentenced offenders challenge their convictions or sentences. Three types of cases are funded from these funds: (1) direct criminal appeals where the offender's challenge is on alleged legal or factual errors of the trial; (2) post-conviction challenges where the offender challenges the effectiveness of their counsel; or (3) federal *habeas corpus* where the offender challenges violations of the constitutional rights in the federal courts. Personnel and resources connected to this work are part of the Trial and Appellate Divisions who bill this budget unit for the work on the individual cases. Work on ballot measure titles is also billed to this fund.

Revenue Sources and Relationships

Criminal and capital appeals work is primarily financed by the General Fund. In 1997-99 and 1999-2001, this program was "subsidized" by adding a "surcharge" to the fee charged to agencies for legal services. In 2001-03, the subsidy was terminated when General Fund was added to this budget unit.

Budget Environment

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 the amount of resources available for the Public Defense Services Commission (PDSC) programs change, this can affect the number of appeals at the state level. Courts still may require parties in the case to file in a timely manner even if their resources are constrained and the nature of the cases will change. The agency asserts that an increase in the resources for the PDSC programs has led to growth in the number of appeals. The backlog of DCC cases per attorney has increased by over 400% since January 2004 and may continue to climb.
- If there are delays in the state appeals process, 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 have been reversed and remanded to the trial courts. In addition, the opinions have left unanswered critical questions about how to implement the decisions. While many of the issues have been resolved, a number of unanswered questions remain which the state appellate courts and, potentially, the U.S. Supreme Court must address.

Overall General Fund resources for the DCC program were reduced by 3% between 2003-05 and 2005-07 (legislatively adopted budget) even though costs were increasing (attorney billing rate increased from $98 to $111 per hour) and the number of cases were growing. In addition, the Court of Appeals implemented a policy of limiting the number of days a case can be delayed for hearing which decreased the agency's flexibility in meeting their workload. The Oregon Supreme Court was also hearing more DCC-related cases, and the agency has had three cases recently heard in front of the United States Supreme Court. The agency took a number of actions to manage the growing caseload within the current 2005-07 budget including: (1) instructing DOJ attorneys to concentrate their work on the core or important issues of each case to limit the time spent on individual cases; (2) using boiler-plate or "abbreviated briefing" for cases with similar legal issues; (3) requiring managers to better monitor the performance of DOJ attorneys; (4) coordinating with PDSC staff and Oregon Court of Appeals to identify lead cases to present legal arguments, and apply the Court's findings to similar cases; and (5) delaying hearings on cases to the limit allowed by the courts (over 1,200 cases were delayed into the 2007-09 biennium).

Even with all of these actions, the agency still required almost $1 million in Emergency Fund resources (September 2006). Unfortunately, the agency has little flexibility to reduce or delay the growth in the number of cases which must be addressed during 2007-09. One of the few alternatives remaining is for the agency to waive appearance on behalf of the state on certain cases. Without DOJ representing or advocating the state's position on the appeal, the court could not choose to rely solely on the Public Defender's advocacy of the defendant. The courts would likely invest resources to "work" the case resulting in a cost shift from DOJ to the courts.

Governor's Budget

The Governor's recommended budget of $20.1 million total funds for the Defense of Criminal Convictions (DCC) represents an increase of 62.2% over the 2005-07 legislatively approved budget. During the same period, the General Fund resources for DCC grows by 73.8%. In addition, there is a $2 million special purpose appropriation to the Emergency Board for the DCC program over and above the amount included in the DOJ budget. The Governor's budget removes $825,568 of Other Funds limitation which has no revenue to support it.

The significant growth in this budget of $8.5 million General Fund is due primarily to the Governor's and the agency's estimate of the growth in the number of cases that must be "worked" during 2007-09. The issue is not so much the growing number of cases, but the mix of cases, with new cases being more complex or entering the federal system. The Governor's budget is based on 4,618 cases being worked during 2005-07 including 1,210 that were delayed from 2005-07. Even with this increase in proposed funding, 1,044 cases are assumed to be delayed into the 2009-11 biennium. The budgets of the Trial and Appellate Divisions include 21 new positions to address this increase in cases worked. Several issues must be addressed prior to final action on this budget including:

- The agency asserts that much of the growth in the DCC workload growth is due to increases in the resources for PDSC. It is not clear to what degree PDSC funding has affected the DCC workload since it has not kept pace with its caseload growth either. In addition, the Governor's budget for PDSC likely does not have sufficient resources to meet its expected workload growth for 2007-09 so it is unclear if the Governor has fully linked DCC and PDSC funding in his budget.
- Another five or six months of caseload and workload experience will be available to the Legislature before the final budget for DCC must be set.
- The budget assumes 21 positions related to the DCC increase. Since the trial and appeals work for DCC cases is often complex, the agency may have difficulty finding a sufficient number of trained and experienced attorneys. The agency states that it will be able find this number of staff, in part by looking for experienced attorneys in other areas of the agency. If this is the case, other areas of the agency may be adversely affected.
- Even though the agency has implemented a number of management actions to more effectively address the issue in the current biennium, there may be further actions that can implemented to reduce the size of this backlog.

Military Department (OMD) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	14,290,303	17,378,874	18,418,816	23,902,616
Other Funds	18,403,819	8,663,334	11,269,590	96,784,255
Federal Funds	98,475,956	70,037,613	70,799,561	181,436,936
Other Funds (NL)	0	0	649,012	4,623,210
Federal Funds (NL)	0	0	0	45,003,964
Total Funds	**$131,170,078**	**$96,079,821**	**$101,136,979**	**$351,750,981**
Positions	469	470	473	525
FTE	411.84	429.91	432.82	485.46

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 with a dual mission: (a) provide combat-ready units and equipment in support of national defense, and (b) provide units and equipment to protect life and property during natural disasters, civil unrest, as well as to provide backup support to law enforcement. The National Guard serves on a day-to-day basis under the command of the Governor, but is available to the federal government upon order of the President of the United States. The Department is overseen by an Adjutant General, appointed by the Governor to a four-year term of office. The Adjutant General also services as a homeland security advisor to the Governor.

In addition to its current state and federal statutory responsibilities, the Governor's recommended budget proposes moving the state's Office of Emergency Management (OEM), and a portion of the Criminal Justice Services Division (CJSD) related to homeland security from the Department of State Police (OSP) to the Military Department. This proposal requires legislative approval. However, it is the understanding of the Legislative Fiscal Office that the Military Department and OSP have already entered into a formal memorandum of agreement that transferred "operational control" of OEM and homeland security functions to Military, effective October 31, 2006. The Executive Branch's legal authority to enter into such an agreement is of question given current statute.

In order to understand the budgetary impact of this transfer on the Military Department, the following table reflects what the Department's 2007-09 Governor's recommended budget would have been without the aforementioned transfer. The Department's budget would have been $170.8 million, which is $69.7 million, or 69%, above its 2005-07 legislatively approved budget of $101.1 million. In other words, the budget would be $180.9 million and 40.88 FTE less than the amount proposed in the recommended budget.

OMD Budget Excluding State Police Transfer of Office of Emergency Management

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	14,290,303	17,378,874	18,418,816	21,758,461
Other Funds	18,403,819	8,663,334	11,269,590	26,209,709
Federal Funds	98,475,956	70,037,613	70,799,561	122,848,581
Other Funds (NL)	0	0	649,012	0
Federal Funds (NL)	0	0	0	0
Total Funds	**$131,170,078**	**$96,079,821**	**$101,136,979**	**$170,816,751**
Positions	469	470	473	484
FTE	411.84	429.91	432.82	444.58

Revenue Sources and Relationships

As a federal-state partnership, the federal government provides two types of funding for the Department: (a) direct federal support and (b) funding for federal/state agreements and major construction projects. The Department receives from the National Guard Bureau direct federal support of approximately $425 million

(2,132 FTE). These federal funds are received outside of the state budget process and are used to fund federal employees, guard member salaries and wages, and equipment. Alternatively, those Federal Funds that are budgeted by the State of Oregon, or those included in the Governor's recommended budget, are used to finance each of the Department's six major program areas.

The level of federal support varies by program, type of facility, and type of construction project. For example, troop training costs are entirely supported by Federal Funds as are base security, fire fighters, and Science and Technology Academy Reinforcing Basic Aviation and Space Exploration (STARBASE). Approximately 75% of the costs associated with logistical sites are federally funded. Between 75% and 85% of utility, maintenance, and supply expenditures of the Air National Guard are federally funded. Sixty percent of the Oregon Youth Challenge Program costs come from the federal government. Federal Funds converted to Other Funds support almost entirely the Other Funds expenditures related to the Department's administrative costs. Lastly, OEM and the CJSD receive Federal Funds for emergency management and disaster recovery, homeland security, and Chemical Stockpile Emergency Preparedness Program grant funds.

In 2007-09, National Guard Federal Funds revenue is expected to increase from $62.2 to $69.6 million, or 12.5%, in the essential budget, excluding Major Capital Construction. The major share of the increase is attributed to the amount of funds available for facilities.

General Fund support is used to pay wages and salaries of state employees, as state matching funds for various federal/state agreements, debt service, and the transferred OEM. General Fund makes up approximately 6.8% of the Department's total budget, 12.7 % in the Governor's budget without the OEM transfer, and for the 2005-07 legislatively approved budget it was 18.2%.

Other Funds revenue received by the Department totals $96.8 million plus an additional $4.6 million Nonlimited Other Funds. Other Funds now make up approximately 28.5% of the Department's total budget; 15.3% in the Governor's budget without the OEM transfer, and for the 2005-07 legislatively approved budget it was 11.1%. Historically, the source of Other Funds for the Department has been predominantly facility rental fees and some miscellaneous sales revenue. Rental revenues earned from federally supported facilities are required by the federal government to be used in support of the facility that earned it. The Department's facility rental revenue is $2.58 million before a $110,935 debt service transfer. Miscellaneous sales revenues are derived from vending machine profit, coin operated telephones, and recycling programs. Other Funds revenue now includes approximately $100,000 in Oregon individual tax check-off deduction revenue that will begin with the 2006 tax year and is associated with the Emergency Financial Assistance Program. The Governor's budget contains $19.1 million in certificates of participation (COPs) proceeds for Major Construction Projects. OEM is funded with 9-1-1 surcharge revenues, and a variety of grant funding for emergency management performance.

The Department's overall ending balance, excluding its Capital Construction Account balance of $1.8 million, is $40.9 million. Of this amount, $40.1 million is in the OEM program area and is related to the 9-1-1 surcharge.

Budget Environment

The budget environment of the Military Department, like many state agencies, is of increasing complexity. It includes old challenges and new. The new challenges include: (a) successfully integrating OEM/homeland security functions into the Department; (b) addressing the state's emergency preparedness issues; (c) addressing the state's homeland security issues; and (d) helping to address the needs of returning National Guard soldiers and veterans. Continuing challenges include: (a) management of the increasing number and duration of federal and state deployments; (b) recruitment and retention of soldiers and airmen; (c) maintenance of installations for purposes of the retention of existing units, to enhance recruitment and retention of soldiers and airmen, to provide for emergency preparedness, and to generate rental income; (d) construction of new installations; (e) increasing necessity of volunteerism via individual's participation in the State Defense Force; (f) position reclassifications; and finally, (g) dealing with the critical issue of urban and environmental encroachment on most of its installations, especially training.

Governor's Budget

The Governor's recommended budget of $352 million total funds (485.46 FTE) is $251 million, or 248%, more than the Department's 2005-07 legislatively approved expenditure level of $101 million. As noted, the most significant reason for the increase is the transfer of OEM and homeland security to the Department ($180.9 million; 40.88 FTE). The second notable reason is policy packages related to the National Guard ($76.7 million;

13.50 FTE). Also of note is the Department's reduction of one-time funding associated with the 2005 legislative session Veterans' Assistance Packages.

The Department's budget does not include any reductions. The Governor's budget continues, as well as enhances, all the Department's programs. OEM's program is enhanced through four separate policy enhancements ($42.3 million; 6.10 FTE). The major enhancements, by program area, include:

- *Administration ($596,275 total funds; 3.50 FTE)*: Continued and increased funding of the Reintegration Program ($234,427; 2.00 FTE); hunting and angling license reimbursement for veterans ($60,000); Homeland Security policy advisor ($189,022; 1.00 FTE); Occupational Health and Safety Program ($5,558); and a limited duration Fiscal Analyst 3 position to permanent part-time ($98,302; 0.50 FTE).
- *Operations ($3.8 million total funds; 8.00 FTE)*: Salem Flight Operations and Maintenance costs ($343,435); Central Oregon Readiness Center facility costs ($37,293); deferred maintenance ($1.4 million); Portland and Kingsley Field Civil Engineering ($436,043); maintenance positions ($417,975; 5.00 FTE); construction positions ($432,436; 3.00 FTE); store front recruiting leases ($513,590); electronic security system update for armories ($50,000) and position reclassifications ($201,999).
- *Emergency Management ($42.3 million total funds; 6.10 FTE)*: Included with the transfer amount is a redirection of Oregon Wireless Interoperability Network (OWIN) funds (<$168,591>) back to OSP; the re-authorization of 9-1-1 ($41.8 million; 4.22 FTE); Public Affairs and Outreach ($328,941; 2.00 FTE); and additional program support positions for information technology and federal grant administration ($332,851; 2.00 FTE).
- *Community Support ($506,201 total funds; 2.00 FTE)*: A fund shift of nine Other Fund positions to General Fund ($366,639); position reclassifications ($47,451); limited duration positions for a Group Life Supervisor and Cook to permanent full-time ($186,421; 2.00 FTE); and services and supplies request ($272,329).
- *Debt Service ($1.2 million total funds)*: To repay $19.1 million in certificates of participation issued for major construction projects.
- *Capital Construction ($70.1 million total funds)*: For the planning / design and or construction of six major construction projects.

As noted, some of the Department's program areas include the reclassification of positions. In total, the budget includes 34 such reclassifications across three policy packages. Thirty-one of the reclassifications are upward and three are downward. The total cost is $13,394 General Fund, $21,899 Other Funds, and $217,915 Federal Funds for an all funds total of $253,208.

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

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	2,970,345	5,493,026	5,848,965	5,095,112
Other Funds	993,316	1,729,268	1,784,663	1,846,795
Total Funds	**$3,963,661**	**$7,222,294**	**$7,633,628**	**$6,941,907**
Positions	24	24	27	28
FTE	22.67	23.75	25.41	27.25

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 2,631 state and federal employees, commands over 8,000 soldiers and airmen, and provides oversight for approximately $2.8 billion in facilities and equipment. In addition, the program is responsible for the Reintegration Program and Veterans' Assistance Program. The Department would, under the Governor's budget, assume responsibility over the state's emergency management and homeland security functions.

Budget Environment

Effective management will be the order of the day for the Department. It will have many competing priorities over the next biennium, all of which are important. The most critical of these are: (a) successfully integrating OEM / homeland security functions into the Department; (b) addressing the state's emergency preparedness issues; (c) addressing the state's homeland security issues; (d) addressing the needs of returning National Guard soldiers veterans, (e) management of the increasing number and duration of federal and state deployments; (f) recruitment and retention of soldiers and airmen; and (g) continued work on the maintenance and construction of new installations, and finally, (h) addressing the issue of encroachment on all installation.

The preliminary outcome of the 2005 Veterans' Assistance Package is noteworthy, especially given that the results are to-date somewhat mixed. The Emergency Financial Assistance Program will likely expend its entire $500,000 appropriation. The program has helped over 154 participants with assistance packages averaging $2,083 each. The Hunting and Angling License Reimbursement Program has reimbursed 462 participant's combination licenses at a cost of $19,883. This is out of a total appropriation of $350,000. Lastly, the Tuition Waiver Program has paid out through the Oregon Student Assistance Commission (OSAC) a total of $140,615 in assistance to approximately 127 recipients. The average amount for Army National Guard soldiers was $947 and $2,986 for Air National Guard airmen. The Air National Guard amount is higher due to the fact that it does not have a federal tuition assistance program and relies exclusively on the state program. Federal tuition assistance funding for federal fiscal year (FFY) 2007 is expected to be similar to that of FFY 2006 at approximately $2.2 million. The balance of the original $500,000 appropriation is in an interest-bearing account at OSAC and will be available into the future for further grants of assistance. The above figures are through October 2006.

Governor's Budget

The Governor's recommended budget of $6.9 million total funds is $691,721, or 9.06%, less than the 2005-07 legislatively approved expenditure level. The budget is comprised of $5.1 million General Fund and $1.9 million Other Funds. The budget includes 28 positions (27.25 FTE).

The primary reason for the reduced budget is the elimination of one-time funding associated with the 2005 legislative session's Veterans' Assistance Package. This included the removal of $1.35 million in General Fund: (a) $500,000 General Fund for tuition waivers, (b) $500,000 Emergency Financial Assistance, and (c) $350,000 hunting and angling license reimbursements. The Department retained $500,000 in Other Fund limitation for the Emergency Financial Assistance Fund in anticipation of Oregon individual tax check-off deduction revenue that will begin with the 2006 tax year. Since this is a new deduction, the Department is unsure of how much revenue will be collected, but has conservatively estimated $100,000. The Department also eliminated $209,633 Other Funds for unemployment insurance costs that are no longer required.

The Governor's recommended budget includes enhancements totaling $596,275 of which $492,415 is General Fund and $103,860 is Federal as Other Funds. There are four new positions (3.50 FTE) requested for this program and the reclassification of one existing position. The enhancements are as follows:

- *Reintegration Program ($243,393 General Fund; 2.00 FTE)*: This package would make two limited duration positions (Administrative Specialist 2) the Department received authorization to establish at the October 2005 meeting of the Emergency Board permanent full-time. The positions would support three federally funded positions in the federal budget to assist guard members with hardship issues associated with their federal activation, their reintegration back into civilian life after their discharge, and also provide additional help through the federally funded Career Transition Assistance Program.
- *Hunting and Fishing Licenses ($60,000 General Fund)*: This package funds only one of three veteran assistance packages provided by the 2005 Legislature. The program reimburses veterans up to $43.45 of the costs of a residential annual combination hunting and angling license obtained from the Oregon Department of Fish and Wildlife. Eligible recipients must have served in any of the Armed Forces, and have been on active duty, the reserves, or have retired within 12 months from one of the services. The program would provide funding for approximately 1,381 license reimbursements.
- *Homeland Security Policy Advisor ($189,022 General Fund; 1.00 FTE)*: This package establishes one new permanent full-time position (1.00 FTE) to act as homeland security policy advisor. The position will advise the Governor and the Adjutant General on homeland security issues, and help determine program policies and priorities. The request includes $189,022 in personal services and has no provision for associated

services and supplies. There is a question whether this position, once filled, will reside within the Department or the Governor's Office.

- *Occupational Health and Safety Program ($5,558 Other Funds)*: This package requests an upward reclassification of a Human Resource Analyst 2 to a Safety Specialist 2. The position will implement the Department of Administrative Services' Safety Leadership Initiative and Occupational Health and Safety Program. The source of funding is Federal as Other Funds administrative prorate.
- *Limited duration to permanent full-time position ($98,302 Other Funds; 0.50 FTE)*: This package makes one part-time limited duration position (Fiscal Analyst 3) permanent part-time to assist with the Department's financial and budgetary workload.

One issue unresolved in the Governor's budget is the re-classification of the Department's Adjutant General and the Deputy Director positions. This issue may be addressed on a statewide basis by the Department of Administrative Services. Whether this will occur in time to be considered by the 2007 legislative session is of question. Until that time, the two positions are currently being paid at their respective higher (out-of-class) classifications.

The recommended budget also includes an essential budget personal services cost decrease of $54,005, or 1.36% (this number is negative because of an elimination of $209,633 Other Funds unemployment assessment); an Attorney General rate increase of $1,470; a $69,832 increase in State Government Service Charges; and Other inflationary increases totaling $59,207.

OMD – Operations

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	9,220,232	10,411,371	10,657,287	13,099,095
Other Funds	2,309,110	3,155,408	3,155,408	3,521,478
Federal Funds	49,429,424	57,819,501	57,464,899	65,896,797
Total Funds	**$60,958,766**	**$71,386,280**	**$71,277,594**	**$82,517,370**
Positions	399	402	402	410
FTE	345.54	362.16	363.41	371.33

Program Description

The Operations program is responsible for the operation and management of the Army and Air National Guard programs on a daily basis. The Operations program consists of three major areas of responsibility for the National Guard's 15 subprograms, which are as follows:

There are three Army National Guard subprograms:

1. *Army National Guard Facilities Operations and Maintenance*: This program combines all Army National Guard facilities operations and maintenance activities into one program including real property operations and maintenance, logistical facilities, armories, training facilities, security, and automated target systems. The program provides basic operation, maintenance, repair, and alteration support for Oregon Army National Guard facilities. The program is funded primarily by Federal Funds with a state matching requirement of 0% to 50%, depending on the nature of the program.
2. *Army National Guard Construction Operation:* This program manages construction of Oregon Army National Guard facilities. Construction management includes project oversight, contract administration, and quality assurance to ensure that construction work is completed according to plans, specifications, and terms of the contract. The program is funded with General Fund and Federal Funds.
3. *Army National Guard Environmental Program*: This program is responsible for overseeing compliance with federal and state environmental regulations for Oregon Army National Guard facilities. The program is 98% federally funded and 2% General Fund.

There are seven Air National Guard subprograms:

4. *Air National Guard Administration Program:* This program provides command and administrative support for all Oregon Air National Guard programs. Administrative staff is 100% federally funded, while services and supplies are funded by the General Fund.

5. *Air National Guard Civil Engineering Program:* This program provides facility operations and maintenance, repair, and alteration support for the Portland Air Base, Kingsley Field, and Camp Rilea Air National Guard facilities. The program is funded primarily by Federal Funds, with a state match of 15% to 25%.
6. *Air National Guard Security Program*: This program provides security police protection at the Portland Air Base and Kingsley Field. Security personnel are instrumental in protecting aircraft and facilities against theft, sabotage, vandalism, and trespassing. This program is 100% federally funded.
7. *Air National Guard Fire Protection Program*: This program provides fire protection at the Portland Air Base and Kingsley Field. Personnel are trained to contain aircraft fires, perform air crew extraction, and provide structural fire fighting protection. It is the only source for crash/rescue and fire fighting at the Klamath Falls Airport. Some of the structural resources have been used on Conflagration Act fires as recently as the 2006 fire season. This program is 100% federally funded.
8. *Air National Guard Environmental Program*: This program monitors and ensures environmental compliance at the Portland Air Base, Kingsley Field, and Camp Rilea Air National Guard facilities. The program is funded through a federal-state cooperative agreement and requires state matching funds of 15% to 20%, depending on the program location.
9. *Kingsley Field Billeting Program:* This program provides lodging to Oregon National Guard members, F-15 fighter pilot students, and flight medicine students receiving training at Kingsley Field. The program is 100% federally funded.
10. *Air National Guard Family Support Services*: This program provides family readiness and support assistance to the Air National Guard members and their families in Klamath Falls and Portland. Services focus on family and personal readiness, economic viability, and overall satisfaction with life in the Air National Guard by members and their families. The program is 100% federally funded.

The other five subprograms include:

11. *Equipment Refurbishment Program*: This program provides repair for excess unserviceable electronics, power generation, and support equipment that is then redistributed to fill critical equipment shortages in the National Guard. The program is operated at Camp Withycombe in Clackamas, Oregon and is 100% federally funded.
12. *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.
13. *Electronic Security System Program:* This program provides electronic security systems for all facilities designed for storage of small arms or ammunition. Electronic security system equipment and replacement components are procured directly through the federal supply system with 100% Federal Funds.
14. *Telecommunications Program*: This program provides procurement, operation, and maintenance of the Oregon Army National Guard telecommunications system and is 100% federally funded.
15. *Distance Learning Program:* This program provides soldiers and their communities access to video teleconferencing, video programming, computer based training, web-based training, interactive audio and video, and electronic mail and network systems. There are seven classroom sites at OMD facilities throughout Oregon. The program is 100% federally funded.

Budget Environment

The Oregon National Guard currently has 596 buildings totaling 3.9 million square feet spread across the state in 27 counties. The largest of these facilities are fifteen training/logistical sites, two air bases, and 40 armories. The age of a majority of the Army National Guard facilities, especially armories, makes them inefficient and expensive to operate and maintain. The average age of all Army National Guard facilities is 38 years. A recent analysis indicates that 22.5% meet National Guard Bureau/Department of Army standards and are in the best condition, 12.5% do not fully meet the standards and are in fair condition, 47.5% are categorized as being below the standard and are in poor condition, and 17.5% are dysfunctional or substandard and in very poor condition. The worsening condition of facilities results in a decline of lease and rental revenue that is a primary revenue source available for operation and maintenance of the armories. It also has a direct and negative impact on recruiting, training, and retaining soldiers not to mention the retention of such units by the state. The backlog of deferred maintenance is estimated at $89 million and is increasing at an estimated 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 continues to project a significant increase in repair costs, as critical repairs are delayed to future biennia.

Governor's Budget

The Governor's recommended budget is $82.5 million total funds, which is $11.2 million, or 15.8%, more than the 2005-07 legislatively approved expenditure level of $71.3 million. The budget is comprised of $13.1 million General Fund, $3.5 million Other Funds, and $65.9 million Federal Funds. The budget includes 410 positions (371.33 FTE).

The Governor's recommended budget includes enhancements totaling $3.8 million, of which $1.6 million is General Fund, $165,316 Other Funds, and $2.1 million Federal Funds. There are eight new position (8.00 FTE) requested for this program and the reclassification of 24 existing positions. The enhancements are as follows:

- *Salem Flight Operations and Maintenance ($85,859 General Fund and $257,576 Federal Funds)*: This package would fund facility operation, maintenance, and repair costs for the yet-to-be constructed 48,100 square foot facility, which has a completion date of July 2007.
- *Central Oregon Readiness Center Operations and Maintenance ($37,293 General Fund)*: This package increases basic facility operations, maintenance, and utilities for the readiness center in Prineville. This is the former Oregon Youth Authority Ochoco facility that the Department leases from the Department of Administrative Services for $1.4 million a biennium. The funds would also be used for similar expenses at the Redmond Armory. The requested amount of services and supplies is in addition to $60,000 General Fund in the Department's base budget.
- *Deferred Maintenance ($1.4 million General Fund)*: This package addresses Army National Guard facilities repair and maintenance issues at seven armories and the Oregon Youth Challenge Program. There are no structural issues identified, only issues related to roofs ($628,415, or 44.5%), heating / air conditioning / ventilation ($431,400, or 30.5%), building exteriors ($132,500, or 9.4%), and other ($220,636, or 15.6%). This request should technically be budgeted in Capital Improvement, not under the Operation program expenditures.
- *Portland Airbase and Kingsley Field Civil Engineering ($73,895 General Fund and $362,148 Federal Funds)*: This package is required to maintain a 20% state to 80% federal cost-share for the operation and maintenance and engineering requirements at Oregon's two airbases. This cost-share is provided for through a state-federal Facility Operation and Maintenance Agreement and is driven by an increase in the airbases' federal budget.
- *Maintenance Engineer Reclassification ($4,477 General Fund and $20,936 Federal Funds)*: This package requests the reclassification of four maintenance manager positions at: Camp Rilea, Camp Withycombe, the Portland Airbase, and Kingsley Field Airbase. All four positions go from Principal Executive Manager B to C managers.
- *Operations Program positions ($159,039 Other Funds and $258,936 Federal Funds; 5.00 FTE)*: This package requests the establishment of five permanent positions (5.00 FTE): two Facility Maintenance Specialists, one Custodian, and two Custodial Services Coordinators. These positions would operate, maintain, repair, and manage various armories across the state. The request includes only $417,975 in personal services and has no provision for associated services and supplies.
- *Limited duration to permanent full-time positions ($432,436 Federal Funds; 3.00 FTE)*: This package makes three limited duration positions (Construction Project Manager 3; Construction Project Manager 2; and a Procurement and Contracts Specialist 2) that the Department created as part of an administrative action permanent full-time positions to assist with the Department's major construction projects, both new and proposed. The Department may not require all three positions if the 2007 Legislature delays or eliminates any of the proposed projects.
- *Operations Program Reclassifications ($6,277 Other Funds and $168,509 Federal Funds)*: This package requests the reclassification of 20 positions.
- *Store front leases ($513,590 Federal Funds)*: This package requests additional Federal Funds to cover a 5% escalation in storefront recruiting office leases across the state.
- *Electronic Security Systems ($50,000 Federal Funds)*: One-time upgrade to electronic security systems at all of the state's National Guard armories.

The recommended budget also includes an essential budget personal services cost increase of $4 million, or 9.7%; an Attorney General rate increase of $9,423; a $267,289 increase in State Government Service Charges; and Other inflationary increases totaling $952,043.

The Lane County Armed Forces Reserve Center policy package for $235,503 operations and maintenance costs was not approved in the Governor's recommended budget. The facility will be occupied in October 2008. These costs will be even more significant in 2009-11 on a full biennial basis. The Executive Branch has assumed that the Department can absorb these costs within its budget.

Of final note, for the 2009-11 biennium, there can be anticipated significant Operations Program budget requirements associated with any approved Capital Construction projects, including operation and maintenance and custodial personnel or services.

OMD – Office of Emergency Management

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	0	0	0	2,144,155
Other Funds	0	0	0	70,574,546
Federal Funds	0	0	0	58,588,355
Other Funds (NL)	0	0	0	4,623,210
Federal Funds (NL)	0	0	0	45,003,964
Total Funds	**$0**	**$0**	**$0**	**$180,934,230**
Positions	0	0	0	41
FTE	0.00	0.00	0.00	40.88

Program Description

The Governor's recommended budget proposes moving the state's Office of Emergency Management (OEM), and a portion of the Criminal Justice Services Division related to homeland security, from OSP to the Military Department. This proposal requires legislative approval. However, it is the understanding of the Legislative Fiscal Office that the Military Department and OSP have already entered into a formal memorandum of agreement that transferred "operational control" of OEM and homeland security functions to Military, effective October 31, 2006. The Executive Branch's legal authority to enter into such an agreement without legislative approval is of question.

OEM and homeland security functions would become a single, separate program within the Military Department. What changes the Adjutant General plans to make in regard to this program is unclear. For the purpose of this analysis, it is assumed that both OEM and homeland security will continue to function as they have in the past, except that the director of OEM will report to the Adjutant General rather than the Superintendent of the State Police, as required under current state law.

OEM would continue to take the lead in responding to emergencies across the state and coordinate a statewide emergency services system. This system incorporates the separate local and state emergency service elements into a comprehensive capability to prepare for, respond to, and recover from disaster conditions. Activities include preparedness planning as well as the development and implementation of mitigation strategies. The program would have six major areas of responsibility:

1. *Oregon Emergency Response System (OERS)*: Maintaining OERS 24 hours / seven days a week and act as a single point for reporting and coordinating emergencies that might require state and / or federal assistance.
2. *Statewide 9-1-1 System*: Administrating the 9-1-1 system which provides funding to local systems and takes the lead in developing and implementing new technology.
3. *Grant Administration*: Administer grants used to respond to emergencies, hazard mitigation planning, and project implementation throughout the state.
4. *Chemical Stockpile Emergency Preparedness Program (CSEPP)*: Administer CSEPP in Eastern Oregon. CSEPP is the offsite preparedness program that prepares communities to ensure that local and state plans are in place to respond to issues surrounding the demilitarization of chemicals at the Umatilla Army Depot.

5. *Search and Rescue Program*: Work with sheriffs in relation to the ground, marine, and air search rescue program.
6. *Domestic Preparedness*: Provide the central point of planning, training, and exercising for the state's domestic preparedness efforts and offer guidance to local governments that receive grant funds through the Program.

Other duties proposed by the Governor's recommended budget include homeland security functions under the Criminal Justice Services Subprogram (CJSS). This subprogram would presumably serve as the administrative "agency" for federal homeland security grants. It would be responsible for seeking and obtaining homeland security grants, and then distributing grant proceeds to sub-grantees as well as monitoring grant outcomes.

Revenue Sources and Relationships

The major funding source is Federal Funds received by the CJSS for state homeland security. OEM also receives Federal Funds for CESPP, Federal Emergency Management Agency (FEMA) disaster recovery, FEMA CESPP pass-through grants, and Non-Disaster Emergency Management Performance grants (Federal Funds Limited and Nonlimited). These funding sources are used for general OEM operations, development and administration of the emergency response infrastructure, training, and grants passed through to local governments for their emergency management programs. Some of the funds require a 50% state or local match. OEM also receives funding from CJSS for planning, training, and exercise coordination in the state's Domestic Preparedness / Weapons of Mass Destruction program. This funding has decreased recently, as Congress appropriates funding for homeland security-related training activities to cities rather than states.

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 ($80.1 million Other Funds revenue was assumed in 2007-09 budget). These funds are distributed in accordance with a statutory formula, with the majority of the funds being distributed to local government for the operation of local public safety answering points (PSAPs). The 9-1-1 program will sunset at the January 1, 2008, unless re-authorized by the 2007 Legislature. OEM also receives Emergency Performance Grants (Other Funds Nonlimited).

Funding for responding to Presidentially-declared disasters and pre-disaster mitigation is available from the Federal Emergency Management Agency (FEMA) and requires a 25% state or local match. There is also funding dedicated for the CSEPP program (no match required) to pay for OEM and 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 50 Primary 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.

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 $101 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.

Governor's Budget

The Governor's recommended budget is $180.9 million and represents the total amount of funds transferred into the Department from OSP. The budget is comprised of $2.1 million General Fund, $70.6 million Other Funds, $4.6 million Other Funds Nonlimited, $58.6 million Federal Funds, and $45 million Federal Funds Nonlimited. The budget includes 41 positions (40.88 FTE). The Legislative Fiscal Office was informed that the amounts transferred are not complete and that further adjustments in Other and Federal Funds limitations will be required. Currently, these changes are estimated to be a reduction of approximately $254,955 Other Funds and an increase of $198,101 Federal Funds. There will likely be further changes as the transfer is better understood by the Military Department and OSP, and if the transfer is authorized by the Legislature.

Imbedded within the transfer of OEM and CJSD to the Department are four policy packages and one technical adjustment. The technical adjustment eliminated excess Federal Funds limitation from the U.S. Department of Homeland Security. The policy enhancement packages total approximately $42.3 million, of which $150,456 is General Fund, $41.8 million is Other Funds, and $342,745 is Federal Funds. There are two new positions (net 6.10 FTE) requested for this program and there are no reclassifications of existing positions. The enhancements are as follows:

- *Oregon Wireless Interoperability Network (OWIN) (a reduction of $168,591General Fund; and 2.00 FTE)*: This package redirects OEM administrative resources, formerly approved for the Office of Homeland Security for the OWIN program back to OSP. OWIN was not part of the State Police transfer to the Military Department. The Legislative Fiscal Office was informed that an addition of $254,955 that should have been included in this package was mistakenly omitted. This error will be addressed during the upcoming legislative session, if this package is advanced.
- *Re-authorization of 9-1-1 ($41.8 million Other Funds; 4.22 FTE)*: This package is the re-authorization of the 9-1-1 system surcharge for emergency telephone service within Oregon. The funding is given to local jurisdictions to provide 9-1-1 services for all types of telephone services such as: land line, wireless, voice over internet protocol, and deaf telephone devices. The Department believes that if this program is not funded, it would impose an unfunded mandate on local governments and could adversely impact local public safety funding by diverting funds currently used by other services to 9-1-1 call-answering. Eight existing positions within the Program rely upon 9-1-1 revenues to fund a portion of their salaries and wages.
- *Public Affairs and Outreach ($256,438 General Fund and $72,503 Federal Funds ; 2.00 FTE)*: This package requests two positions for crisis communication and public outreach.
- *Additional Program Support Positions ($62,609 General Fund and $270,242 Federal Funds; 2.88 FTE)*: This package requests one Accountant 3 position to assist with federal grant administration and three Information System Specialist 7 positions to assist with various information technology needs of the Program in general, and 9-1-1 and CSEPP needs in particular. The cost of this package is partially offset by a reduction of $150,880 Other Funds in existing services and supplies dollars.

The Governor's budget eliminates $82.6 million Federal Funds due to a reduction in the level of Department of homeland security grant funding. This leaves $50.9 million in OEM for distribution to state government, cities, counties, and other entities.

The Governor's budget does not include funding for seismic rehabilitation under SB 3 (2005), or a Military Department policy package seeking added resources to integrate the OEM function, or a package re-aligning OEM positions within the Department (e.g., centralization of accounting or information technology functions within the Administration Program).

OMD – Community Support

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	633,316	552,566	990,653	1,503,263
Other Funds	1,628,387	1,669,398	2,308,259	1,680,501
Federal Funds	4,161,382	4,468,112	4,699,662	5,385,215
Total Funds	**$6,423,085**	**$6,690,076**	**$7,998,574**	**$8,568,979**
Positions	44	44	44	46
FTE	43.29	44.00	44.00	46.00

Program Description

The Community Support program coordinates support for local programs and emergencies. The program contains:

1. *Oregon Youth Challenge Program*: 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.
2. *Science and Technology Academy Reinforcing Basic Aviation and Space Exploration (STARBASE):* STARBASE is designed to increase at-risk third through eighth grade students' awareness of the importance of math and science. The curriculum demonstrates math and science applications in aerospace operations. National Guard members demonstrate applicability of math and science to flight operations, weather reporting and forecasting, electronics maintenance, and fire fighting facilities.
3. *Emergency Operations*: In times of state emergency, the Governor can call upon the National Guard to provide personnel and equipment to assist agencies with the state's response to such emergencies. For example, Governors have ordered the National Guard to assist the Oregon Department of Forestry and the State Fire Marshal's Office with their wildland fire suppression efforts. The Office of Emergency Management is the coordinating entity for state resources. The National Guard typically provides four types of assets with associated support personnel: (a) helicopters; (b) ground transportation including fuel trucks; (c) field support equipment such as generators; and (d) firefighting apparatus from Kingsley Field and the Portland Airbase fire stations for Conflagration Act fires. Soldiers and airmen called into active duty are paid a State Active Duty (SAD) rate, which is a uniform daily rate of pay based upon a soldier or airman's rank. National Guard equipment, as assets of the U.S. Department of Defense, are invoiced separately to the federal government. The Department's legislatively approved budget does not contain Other Funds expenditure limitation for what it categorizes as Emergency Operation expenses since such expenses are unpredictable. Therefore, the Department has historically requested an increase in expenditure limitation from the Emergency Board for amounts it is unable to absorb within its normal operating budget.

Budget Environment

The Youth Challenge Program is 60% federally funded up to $3.5 million, requiring 40% state matching funds. A portion of the required state match is received from Average Daily Membership (ADM) Other Funds revenue through the Bend-LaPine School District and the remainder has historically been received from the General Fund. The STARBASE program is 100% federally funded through the National Guard Bureau. There is not an anticipated Federal Funds increase for the program beyond a 3.1% inflation adjustment. The revenue for Emergency Operations comes from the state agencies that the National Guard is supporting.

Governor's Budget

The Governor's recommended budget is $8.6 million total funds, which is $570,405, or 7.13%, more than the 2005-07 legislatively approved expenditure level of $8 million. The budget is comprised of $1.5 million General Fund, $1.7 million Other Funds, and $5.4 million Federal Funds. The budget includes 46 positions (46.00 FTE).

The Governor's recommended budget includes enhancements totaling $506,201, of which $450,124 is General Fund, a reduction of $247,643 Other Funds, and a $303,720 increase in Federal Funds. There are two new positions (2.00 FTE) requested for this program and the reclassification of nine other positions. The enhancements are as follows:

- *OYC Program Fund Shift ($366,639 Other Funds to General Fund)*: This package shifts three Group Life Coordinators 3 and six Group Life Coordinator 2 from Other Funds to General Fund. The rationale for this shift is that the Average Daily Minimum revenue from the Bend-La Pine school district used to pay for personal service costs does not automatically adjust for personal service cost increases as they would if they were budgeted with General Fund.
- *OYC Position Reclassifications ($8,917 General Fund, $10,064 Other Funds, and $28,470 Federal Funds)*: This package requests nine reclassifications.
- *OYC limited duration positions to permanent full-time ($74,568 General Fund and $111,853 Federal Funds; 2.00 FTE)*: This package would make two limited duration positions (Group Life Supervisor and Cook 1) that the Department created as part of an administrative action permanent full-time.
- *OYC Services and Supplies ($108,932 Other Funds and $163,397 Federal Funds)*: This package would reconcile accounting requirement changes stipulated by the Department of Administrative Services and which relate to the Youth Challenge Program's accounting for Oregon Department of Education National School Lunch and School Breakfast Program expenditures.

The policy package in the OYC Program that shifts nine positions from Other Funds to General Fund has the effect of increasing the Program's Other Funds ending balance. At the essential budget level, the Program's ending balance is $49,469, or 2.65%, of $1.9 million budgeted expenses. This is less than one month's operating expense, which is well below the minimum recommended three month cash reserve. With the fund shift, however, the Program's ending balance is increased to $297,112, or 17.7%, of $1.7 million budgeted expenses. This represents 4.2 months of cash reserves.

ADM revenue for the new biennium is likely to increase given the resources that the Governor is recommending be directed toward education. The Department, however, has assumed relatively flat rate ADM revenue at $1.5 million, or an amount roughly equal to the actual revenue it received during the 2003-05 biennium.

The recommended budget also includes an essential budget personal services cost increase of $292,616, or 6%; an Attorney General rate increase of $830; a $11,770 increase in State Government Service Charges; and other inflationary increases totaling $86,713.

OMD – Debt Service

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	516,410	921,911	921,911	2,060,991
Other Funds	24,006	109,260	109,260	593,468
Other Funds (NL)	0	0	649,012	0
Total Funds	**$540,416**	**$1,031,171**	**$1,680,183**	**$2,654,459**

Program Description

The Debt Service Program provides the funding to make payments on principal, and interest, and financing costs associated with the issuance of certificates of participation (COPs). COPs are tax exempt government securities. Prior to the 2007-09 biennia, the Department's debt service was budgeted under the Operations Program.

Budget Environment

The Department relies, although not entirely, on the issuance of COPs to match National Guard Bureau Federal Funds when constructing, altering, or repairing National Guard installations. The percentage of state matching funds required varies by the type of installation. The Department's Other Funds Capital Construction Account, the revenue source of which comes from the sale of real surplus property, generally has an insufficient balance to meet matching fund requirements on major construction projects. COPs also provide financing for federally non-allowable project costs, which for example include the cost of real property.

Revenue Sources and Relationships

The Department's debt service is funded with a combination of General Fund (89%) and Other Funds (11%). For the 2007-09 biennium, only the Department's 2004-A COP issued for the Baker City Readiness Center is paid from Other Funds. The source of Other Funds is facility rental income.

Governor's Budget

The Governor's recommended budget for Debt Service is $2.7 million total funds, or 58%, more that the Department's 2005-07 legislatively approved budget. The Department's base budget debt service is $999,084.

The increase in the Governor's recommended budget is due to the issuance of $19.1 million in COPs during the 2007-09 biennium for a term of 20 years. Of this amount, $18.6 million are proceeds to finance the planning / design and / or construction of six major construction projects. The remaining amount of $482,533 is related to the cost of issuance. The issuance would increase the Department's 2007-09 debt service by $1.17 million General Fund. The entire amount of Debt Service for next biennium represents an interest only payment. This is due to the timing of the issuance. For the 2009-11 biennium, as well as successive biennia, principle and interest payments increase to $5.5 million General Fund per biennia until the COPs are repaid.

The Department has another obligation, although technically not budgeted as debt service. The Central Oregon Readiness Center located in Prineville, which is formally the Ochoco Oregon Youth Authority Facility, is being leased by the Department from the Department of Administrative Services (DAS) for $1.4 million per biennium through July 31, 2014. This lease payment is used by DAS to pay the facilities debt service. This payment is budgeted under the Operations Program.

OMD – Capital Improvement/Major Construction

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	950,000	0	0	0
Other Funds	13,449,000	2,000,000	3,912,000	18,567,467
Federal Funds	44,885,150	7,750,000	8,635,000	51,566,569
Total Funds	**$59,284,150**	**$9,750,000**	**$12,547,000**	**$70,134,036**
Positions	2	0	0	0
FTE	0.34	0.00	0.00	0.00

Program Description

This program provides for new construction, remodeling, or improvements to facilities to carry out the agency's mission. Oregon faces the loss of National Guard units to other states if the readiness of facilities is not adequately maintained. Capital Improvement projects, or those under $500,000, are budgeted in the Operations Program. Since 1986, the Department has undertaken 35 major construction projects totaling over $122 million with a state / federal funding ratio of 8:1.

Revenue Sources and Relationships

The revenues associated with the Department's projects are used to match federal capital construction funding and to pay for certain costs ineligible for federal match (e.g., real property, local permitting, etc.). The sources of revenue are: General Fund, the Department's Capital Construction Account, and certificates of participation.

Depending on the type of facility constructed, the federal government pays between 67% and 100% of the approved construction cost. By emphasizing construction of Armed Forces Reserve Centers wherever possible, the Department can access Federal Funds for approximately 97% of the design and construction costs, requiring 3% state matching funds. Site improvements and multi-purpose accommodations outside the federal guidelines are 100% state obligations. Where possible, the Department partners with other federal, state, or county agencies to co-locate functions. This reduces the Department's design and construction cost obligations, and reduces the long-term operations and maintenance burden of each agency.

The Department's Capital Construction Account is an interest-bearing account containing funds from the sale of the Department's surplus real property. The account's balance is $1.9 million. This balance has the potential to increase based upon the sale of armories that are being replaced or available for surplus. The Department requires legislative approval to dispose of surplus property. Some of the Department's real property originally donated by counties is on a reverter clause, which requires that the land revert to the county if the Department determines it is no longer needed for military purposes.

The Department is also cognizant of the need to build facilities with multi-purpose features that enhance a facility's rental income.

Budget Environment

The agency plans to pursue all available Federal Funds for new facility design and construction and is looking to continue to partner with other state agencies to share services and reduce operational expenses. In the future, Federal Funds for capital construction are expected to be more limited and highly competitive. There is concern that National Guard Bureau construction funding at the national level will be diverted or delayed due to the wars in Iraq and Afghanistan. The agency has more than 20 projects identified in the National Guard Bureau Long-Range Construction Plan, with estimated project costs estimated at $255 million. Of that amount, the state would be required to pay $84 million, or 33%, of costs. Deferred maintenance expenditures under the Operations Program Area delays, where possible, installation replacement.

Governor's Budget

The Governor's recommended budget of $70.1 million total funds is $57.6 million, or 459%, more than the 2005-07 legislatively approved expenditure level. The Governor's budget provides planning and design and construction funding for the following projects, some of which were previously approved by the Legislature:

- *Ontario Readiness Center ($3.2 million Other Funds and $7.7 million Federal Funds)*: Provides for the construction of a Readiness Center on the Treasure Valley Community College Campus in Ontario.
- *Camp Withycombe (Clackamas) Armed Forces Reserve Center ($3.9 million Other Funds and $43.8 million Federal Funds)*: Provides for the construction of an Armed Forces Reserve Center.
- *Phase-I Armory Addition/Alterations ($11.4 million Other Funds)*: Provides for funding to address space, electrical, mechanical, and structural issues at the Woodburn Armory, St. Helens Armory, Newport Armory, and the Gresham Armory. The Department was unable to provide an individual cost-breakdown by armory.

The source of revenue for the state's share of Capital Construction projects is net proceeds from the sale of COPs, which total $18.6 million in Other Funds. Repayment of newly issued COP proceeds, as discussed under the Debt Service Program Area, is General Fund.

The Governor's budget does not contemplate the use of the Department's Capital Construction Account.

The Governor's budget outlines the construction plans for the Department beyond the 2007-09 biennium. Specifically, there is anticipated for the 2009-11 biennium a Phase-II and for the 2011-13 biennium a Phase-III armory addition / alterations. Similar to the 2007-09 biennium, the financing for these projects is proposed to be with COPs and Federal Funds. Phase-II costs are $12.4 million Other Funds and $7.5 million Federal Funds. For Phase-III, costs are $27.7 million Other Funds and $56.7 million Federal Funds. In other words, over the next three biennia, the Department has plans to issue $58.7 million in COPs and receive $115.8 million in Federal Funds. These costs are exclusive of debt service and issuance costs.

Lastly, an additional roll-up cost associated with Capital Construction Projects is related to increased operation and maintenance and custodial personnel or services needs of a facility. Such costs are material given the increasing size and complexity of the Department's planned new construction activities.

Board of Parole and Post-Prison Supervision – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	3,260,365	3,344,973	3,534,784	3,702,255
Other Funds	9,281	9,517	9,517	9,812
Total Funds	**$3,269,646**	**$3,354,490**	**$3,544,301**	**$3,712,067**
Positions	16	15	15	15
FTE	14.88	15.00	15.00	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 General Fund. Other Funds revenue is generated from the sale of documents and hearing tapes to the public and to offenders, as well as court ordered restitution payable to the Board.

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 and certain dangerous 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 1,074 in 2006. In contrast, the number of post-1989 offenders has increased to over 12,094 for 2006. 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 (October 2006), this number is expected to continue its growth from 11,033 in April 2002, to 13,184 in July 2007, reaching 13,592 by July 2009. Roughly 90% of this population is under the jurisdiction of the Board and the remainder are 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 24 counties. The remaining 12 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 119 in 2006.
- The Board issues *arrest warrants* for those offenders who abscond supervision. The number of warrants has averaged approximately 484 per month in 2006. 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 from 300 in 1988 to over 11,426 in 2006, due in large part to the growth in the number of registered victims. The growth during the current biennium to date has been approximately 3.7%.

Governor's Budget

The Governor's recommended budget for 2007-09 of $3,702,255 General Fund is 4.7% greater than the 2005-07 legislatively approved budget. Other Funds expenditures are expected to grow slightly between the two periods from $9,517 to $9,812. The Governor's budget generally reflects the essential budget level and the increase is due to growth in personnel and other costs common to all agencies. The Board does face fiscal challenges from potential under-funding in the amount required for Attorney General costs and it may need to reduce expenditures in other areas to meet this demand under the Governor's budget. The Board has very little control over its legal expenses since most of the costs are due to challenges to the Board's decisions by those under the Board's supervision. The Emergency Board did add over $73,000 General Fund in April 2006 and this increase is part of the base budget for 2007-09.

Department of State Police (OSP) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	160,900,644	172,907,032	181,808,308	173,913,061
Lottery Funds	5,537,710	6,357,583	6,567,977	6,836,155
Other Funds	129,017,815	142,141,280	146,771,465	674,215,256
Federal Funds	100,257,424	147,912,929	151,620,600	18,135,285
Other Funds (NL)	0	4,623,210	4,623,210	0
Federal Funds (NL)	33,071,970	45,186,647	45,186,647	0
Total Funds	**$428,785,563**	**$519,128,681**	**$536,578,207**	**$873,099,757**
Positions	1,181	1,142	1,166	1,359
FTE	1,163.53	1,140.07	1,154.71	1,269.10

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 the merger of the Boxing and Wrestling Commission, Office of Emergency Management, Law Enforcement Data System, and State Fire Marshal. The 1995 Legislature further expanded agency responsibilities by adding two more functions, the Medical Examiner and Criminal Justice Services Division.

The Governor's 2007-09 recommended budget proposes transferring the Office of Emergency Management (OEM) and the homeland security grant programs of the Criminal Justice Services Division (CJSD) to the Military Department, the Violence Against Women grant program of CJSD to the Department of Justice (DOJ), and the domestic criminal justice related grant programs of CJSD to the Administrative Services Division of the State Police. The amounts in the table above show the transfer of these programs for 2007-09 but the budgets for the transferred units remain for 2003-05 and 2005-07. The table below removes the budgeted amounts for the transferred units for 2003-05 and 2005-07 to demonstrate the changes in the OSP budget for the units remaining in the OSP budget as assumed in the Governor's budget. While the total General Fund and Lottery Funds are not affected significantly by the proposed transfer, the other and federal amounts are reduced significantly, specifically by the programs that transfer funds to local governments such as the 9-1-1 program and homeland security grants.

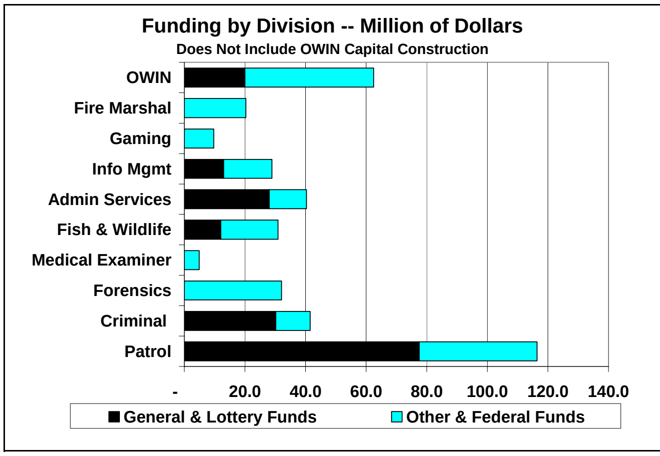
OSP Budget Without Units Transferred by the Governor's 2007-09 Recommended Budget

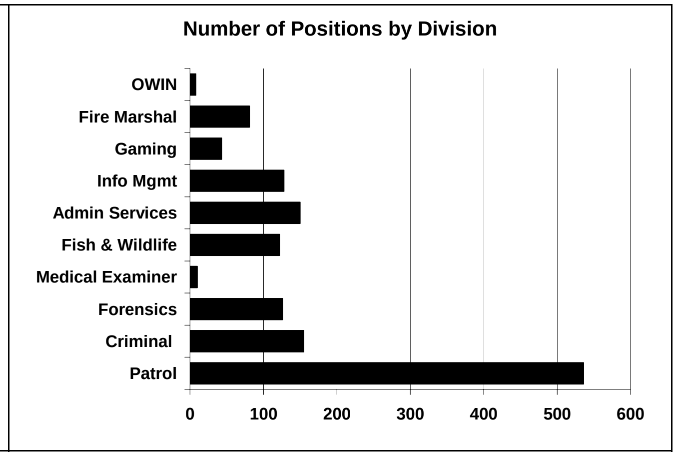
	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	159,291,901	171,025,421	179,302,642	173,913,061
Lottery Funds	5,537,710	6,357,583	6,567,977	6,836,155
Other Funds	65,131,639	73,306,139	74,954,360	674,215,256
Federal Funds	45,203,509	35,343,955	36,464,180	18,135,285
Other Funds (NL)	0	0	0	0
Federal Funds (NL)	0	0	0	0
Total Funds	**$275,164,759**	**$286,033,098**	**$297,289,159**	**$873,099,757**
Positions	1,137	1,102	1,123	1,359
FTE	1,120.28	1,100.11	1,112.62	1,269.10

Governor's Budget

The Governor's 2007-09 recommended budget of $873.1 million total funds for OSP represents a $336.5 million, or 62.7%, increase from the 2005-07 legislatively approved budget. The increase is even more dramatic after factoring out the units that are proposed to be transferred in the Governor's budget. Without the Office of Emergency Management and other programs that the Governor proposes to move in his budget, the increase is more than $575 million over the same period; but $485.7 million represents the new capital construction limitation for the Oregon Wireless Interoperability Network (OWIN) project. The funding (not including OWIN capital construction limitation) and number of positions by division are displayed in the following chart.

Governor's 2007-09 Recommended Budget





The General Fund resources in the Governor's 2007-09 budget actually decrease by over $5 million from the 2005-07 legislatively approved budget. Two major fund shifts are the primary reason for this decrease:

- Almost $36.3 million in Criminal Fines and Assessment Account (CFAA) revenues are used to replace General Fund resources in the Forensics Division, Office of the Medical Examiner, Law Enforcement Data System program, and for training. In addition, CFAA funding , rather than General Fund, is used to expand these programs.
- In the Patrol Division, $23.8 million Other Funds generated from a new proposed surcharge on certain auto insurance coverage is used to fund a net increase of 139 new troopers and backfill General Fund resources for 46 existing trooper positions.

If General Fund had continued to be used to fund these programs and their expansions, the General Fund increase between the 2005-07 budget and the Governor's 2007-09 budget would have been $60.7 million, or 33.9%.

Major features of this budget include:

- 139 trooper positions ($17.5 million) are added to provide for what the agency calls minimal 24/7 coverage on state highways. The additional troopers are funded with a surcharge on premiums for certain auto insurance coverage. In addition, funding for 46 existing trooper positions ($6.3 million) is shifted from the General Fund to the insurance premium surcharge.
- 15 detective positions ($2.3 million General Fund) are added to address the growing fraud and identity theft problems as well as to provide more resources for methamphetamine and other drug investigations.
- 47 positions ($5.9 million General Fund and $ 7.9 million total funds) are added to strengthen the infrastructure of the agency and restore many of the positions lost over the past few biennia through budget reductions. Positions include fiscal staff, evidence technicians, vehicle maintenance technicians, dispatch personnel, and information systems staff.
- 15 forensic lab positions ($3.1 million CFAA Other Funds) are restored representing half of the positions necessary for what the Governor's budget considers full staffing for the lab system. The plan is to add another 15 positions in 2009-11.
- Funding is included to start the replacement and enhancement of the wireless communications systems for state government. The projected cost for OWIN is $665 million over three biennia. Resources in the Governor's budget include $485.7 million in capital construction limitation, $42.4 million Other Funds resources for certificates of participation (COPs) issuance costs and purchase of radios and other equipment, and $20.1 million General Fund for debt service costs and project management and staff costs.

OSP – Patrol Services

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	66,926,454	72,171,966	81,168,331	77,454,106
Other Funds	7,332,603	12,233,266	11,722,360	38,614,972
Federal Funds	115,067	321,373	321,373	330,910
Total Funds	**$74,374,124**	**$84,726,605**	**$93,212,064**	**$116,399,988**
Positions	351	360	380	536
FTE	341.71	360.00	372.18	459.94

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.

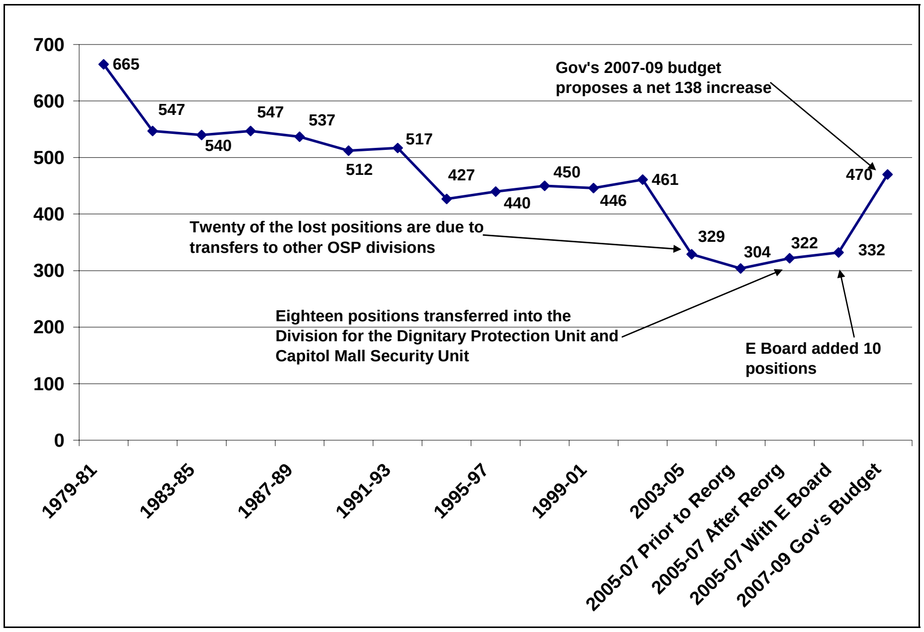
Revenue Sources and Relationships

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 ($2.3 million), and the Parks and Recreation Department, including the State Fair ($655,765). Also included in the Other Funds for this Division is the Capitol Mall Security unit ($2.6 million) which is funded by the Legislative Administration Committee and the Department of Administrative Services. Federal funding for this Division includes a grant for protective vests ($199,510), and funding from the Army Corp of Engineers ($93,400) and the Forest Service ($38,000).

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 in 1980 to 332 by 2005-07, or 50% (see chart below). The amount of the troopers available on the road is actually less than these figures since this number includes the troopers assigned to Dignitary Protection (5 positions), Oregon State University security (9 positions), and Capitol Mall Security (12 positions), and does not account for vacancies and temporary assignments. Prior to 2001-03, this reduction was due, in part, to the need to shift staff to address increases in criminal activity (violent crime, juvenile crime, drug activity, crimes against children) and increased competition for limited General Fund resources. Since 2001-03, the decrease is due to state budget shortfalls and the need to fill other crucial holes in the State Police budget. As a result of sworn staff reductions, almost all of the state is currently without 24-hour coverage, patrol areas have been expanded, many duties have been eliminated, response time has increased, and trooper safety has been compromised.

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 been reduced from approximately 450 to the current 332. Direct comparisons are difficult because of reorganizations since 1980. The Governor's budget for 2007-09 proposes adding another 139 trooper positions which the agency states will provide 24-hour coverage state-wide, but no formal study such as the Gap Analysis has been completed recently. 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. The agency has kept the number of troopers in this Division at or near full strength during 2005-07 at the expense of other divisions such as Criminal Services. The agency views the importance of the number of troopers on the highway not only for driving safety issues to enforce traffic and DUII laws, but also as a deterrent and enforcement for other crimes such as drug-related crimes. Significant quantities of methamphetamine and other drugs have been found during traffic stops.

In an October 2006 survey of other states, OSP found that Oregon ranked last in the number of "line" troopers per capita working full time patrolling highways (does not include supervisors). The survey found Oregon had 6.98 troopers per 100,000 of population with the remaining states ranging from 7.09 (Minnesota) to 44.00 (Alaska). The rate for surrounding states included Washington (9.18), Idaho (9.94), Nevada (13.42) and California (17.12). When compared to number of highway miles, Oregon ranked 44th (out of 49 states). If the net 139 new troopers are added as proposed by the Governor, Oregon will rank 38th with 10.8 troopers per 100,000 in population. One must be careful in using these comparisons since the number of local police and sheriff deputies vary significantly across the states; and this is not necessarily a measure of total law enforcement officers per capita, but of state troopers.

From 1985 to 1997, the number of annual traffic accidents statewide remained below the 1985 level (50,284) until 1998 when the number of accidents reached 51,785. For 2005, the number of accidents was 44,878. 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 2005, the number of persons statewide killed in accidents was 488. For state highways, which is a more appropriate area for state troopers, the total number of accidents was 21,564 in 1999 falling to 19,288 in 2005. The number of deaths on state highways has increased from 258 in 1999 to 275 in 2005. The tie between the falling number of troopers and the number of traffic accidents and highway deaths is difficult to measure. 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.

Governor's Budget

The Governor's 2007-09 recommended budget of $116.4 million total funds for the Patrol Division represents an increase of $23.2 million, or 24.9%. General Fund resources actually drop over the same period due to a fund shift of over $23.8 million where General Fund is replaced with a Governor's proposed premium surcharge on certain auto insurance coverage. Without this fund shift and continued use of General Fund to fund continuing operations and expansions, the General Fund increase would have been almost 25%.

The Emergency Board added ten new trooper positions during 2005-07 in addition to ten other positions for an evidence technician program designed to free up the equivalent of roughly eight troopers who had managed the evidence programs across the state. The Governor's 2007-09 budget further adds to the Division's capacity to provide trooper coverage across the state as well as for other enhancements. Major new funding in the Patrol Division includes:

- An additional 139 trooper positions (68.64 FTE) are added to restore minimal 24/7 coverage at a cost of $17.6 million. The result of these additional trooper positions will mean that roughly the same number of troopers will be patrolling the state highways as in the late 1990s. Trooper positions are phased in during the biennium based in part on the ability of the Department of Public Safety Standards and Training (DPSST) to provide the required basic recruit training. The source of funding of these 139 new positions is a proposed surcharge on premiums paid for certain auto insurance coverage. In addition, funding for 46 existing trooper positions are shifted from the General Fund to revenues from the new surcharge for a cost of $6.3 million. Total spending funded by the surcharge is $23.8 million. The 2007 Legislature should review the distribution of these new positions, if they are approved, to determine if the new resources are spread across the state in the most effective manner.
- A total of ten positions (8.92 FTE) are added to provide essential infrastructure for the Division at a cost of $1.2 million General Fund. Currently, sworn personnel perform functions relating to evidence management, vehicle maintenance, and administrative work. By adding non-sworn staff for these functions, the agency hopes to free up further "trooper time" to spend patrolling the state highways. Four more evidence technicians, five field maintenance (vehicle) coordinators, and an administrative support position for Bend are added by the Governor. Additional resources for rent and further resources for fuel costs over and above the standard inflation rate are part of this package.
- Another eight non-sworn positions (4.38 FTE) are added to reflect the impact on the Division's infrastructure of the 139 new trooper positions at a cost of $1.4 million General Fund and $11,679 Other Funds. Two evidence technician positions, four maintenance coordinators, and two administrative support positions are added. Also included is $555,000 for the purchase of 160 new mobile radios and additional rent resources for the Division for the new Bend and McMinnville offices.
- Funding ($1.7 million total funds) is added to purchase 260 digital cameras to replace aging camera equipment. Other Fund resources ($1.4 million) are certificates of participation (COP) proceeds and related issuance costs which are used to purchase the equipment, and the General Fund ($347,887), which is for 2007-09 debt service on the COPs.

The use of an auto insurance premium surcharge raises a number of policy issues that will have to be explored in detail during the 2007 legislative session. In the past, it has been assumed the surcharge would be only on that part of the premium for coverage over and above the state minimum coverage and it is assumed the Governor's proposal applies the surcharge to the increased coverage. Other issues include the impact on the collection of retaliatory taxes, the rate of the surcharge to provide sufficient cash flow over a number of biennia as well as to account for revenue loss from the retaliatory taxes, and the impact on the number of uninsured drivers.

OSP – Criminal Investigation

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	18,807,608	25,677,742	24,414,926	30,228,557
Other Funds	6,528,672	4,965,651	5,106,721	5,226,519
Federal Funds	6,282,713	5,904,644	5,984,367	6,068,456
Total Funds	**$31,618,993**	**$36,548,037**	**$35,506,014**	**$41,523,532**
Positions	160	141	141	155
FTE	157.89	141.00	141.00	152.11

Program Description

The Criminal Investigation Division augments and supports local law enforcement through investigation of major crimes, the pursuit and apprehension of criminal offenders, and the gathering of evidence. Many of the crimes investigated by OSP are intrastate and multi-jurisdictional. Specialized areas or units include arson/explosives, drug investigations, intelligence, missing children clearinghouse, sex offender registration, sexually exploited children, tobacco tax compliance, polygraph examinations, computer crimes, homicide incident tracking system (HITS), and crimes in state correctional institutions. Before the budget reductions made in 2001-03, detectives were participating in 36 county child abuse multi-disciplinary teams; 29 interagency major crime teams; and many other groups including drug investigative teams, arson task forces, and district attorney investigative support teams. Their participation now is much more limited.

Revenue Sources and Relationships

The Division is expected to receive $10.9 million in Other Funds or Federal Funds revenue. Major sources of this revenue include:

- Resources for the Tobacco Tax Compliance Task Force of $1.2 million from the Department of Revenue.
- Sex offender registration fees ($418,577 Other Funds).
- Arson/bomb investigation funding ($2.4 million Other Funds) from the State Fire Marshal.
- Funding for High Intensity Drug Trafficking Areas, or HIDTA ($5.7 million Federal Funds).
- Drug enforcement funding from the U.S. Drug Enforcement Agency ($121,152 Federal Funds) and federal drug seizures ($196,168 Federal Funds).
- Resources transferred from the Department of Human Services ($228,000 Other Funds) to prevent tobacco use by minors.

Budget Environment

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

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. 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 Governor's 2007-09 budget assumes the extension of the sunset currently scheduled for the end of 2007, and continues funding for the Task Force at 2005-07 levels for the entire biennium.

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%. This has led the agency to reduce or eliminate resources supporting local or regional drug teams. As a result, these teams are less effective. During 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. The 2005-07 budget included the addition of 8 further sworn positions specifically dedicated to addressing methamphetamine-related crime. These positions have been focused on chemical diversion, methamphetamine labs, and mid-to-upper level methamphetamine-related investigations. The agency states that these positions accounted for a 22% increase in methamphetamine-related investigations.

Governor's Budget

The Governor's 2007-09 recommended budget of $41.5 million total funds for the Criminal Investigations Division represents a $6 million, or almost 17%, increase over the 2005-07 legislatively approved budget. The General Fund resources grow by $5.8 million, or 23.8%, for the same period. Major new initiatives in this Division's budget are:

- Four detectives (troopers) and two computer forensics analysts are added who will focus on fraud and identity theft crimes ($1 million General Fund and 5.68 FTE). Oregon ranked 8th in the nation for identity theft and fraud-related crimes. Many of these crimes are related to methamphetamine as individuals commit the crime to finance their addiction. This proposed staff will support the work of local agencies.
- The number of drug-related detectives (troopers) is added specifically to assist local law enforcement agencies in methamphetamine-related investigations. Attention and training will be provided for activities related to clandestine labs and investigations involving drug-endangered children. Also included is funding for one position for the growing Sex Offender Registry workload. Total cost of the additional nine positions (6.43 FTE) is $1.3 million General Fund.

In addition, the five positions (3.75 FTE) related to the Tobacco Compliance Task Force are continued for the entire biennium. Currently, the Task Force is schedule to sunset at the end of 2007 and this provides funding for the remaining 18 months of 2007-09. Funding is from the Department of Revenue. Three current limited duration positions (3.00 FTE) are continued for another 24 months for the High Density Drug Trafficking Area program. HIDTA funding (almost $6 million in 2007-09) is distributed to local law enforcement agencies and the Department of Justice. The Governor's proposed budget also includes resources for this Division's share of the rent for the net increase in rent for the proposed Bend and McMinnville field offices and for fuel costs over and above standard inflation.

OSP – Forensic Services and Medical Examiners

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	21,571,633	27,825,583	27,352,571	0
Other Funds	3,945,627	1,898,735	931,531	35,091,669
Federal Funds	506,331	1,788,523	1,795,320	1,860,918
Total Funds	**$26,023,591**	**$31,512,841**	**$30,079,422**	**$36,952,587**
Positions	113	116	116	136
FTE	113.00	115.50	115.50	131.70

Program Description

The Forensics Services Division provides scientific, technical, and investigative support to all criminal justice agencies across the state through forensic analysis. Forensic labs are located in Bend, Central Point, Ontario, Pendleton, Clackamas, and Springfield. A DNA Unit is also located in the Clackamas lab. This system is the only "full service" crime lab in the state, and at least 90% of the work is done for law enforcement agencies other than OSP including local police, sheriffs, and district attorneys. The Implied Consent Unit is responsible for approval, certification, and servicing of portable breath testing instruments, and also trains and certifies over 5,000 law enforcement officers in the use of breath testing instruments. This unit also provides expert testimony regarding the use of these devices.

The *Medical Examiner's Office* is located in Clackamas and provides technical assistance and supervision to 36 county offices, directs investigations, provides direct professional services (autopsies, court testimony, case review, and consultation), and certifies the cause and manner of all investigated deaths. The State Medical Examiner appoints all 36 county examiners. The Office maintains records and provides training on death investigations to medical school physicians and students, law students, police officers, and emergency medical technicians.

2007-09 Governor's Recommended Budget

Program Area	General Fund	Other Funds	Federal Funds	Total	Positions	FTE
Forensic Services	$0	$30,193,130	$1,860,918	$32,054,048	126	122.70
Medical Examiner's Office	$0	$4,898,539	$0	$4,898,539	10	9.00

Revenue Sources and Relationships

Generally, the forensics labs do not charge for services and have been funded with General Fund resources. The Other Funds revenues are from miscellaneous sales of equipment, photographic requests, witness fees, and donations from citizens to support the Convicted Offender Program. During 2003-05, the larger Other Funds amount was COP proceeds used to purchase furnishings and equipment for the new Clackamas lab. For 2005-07, $1.6 million Other Funds revenues represented COP proceeds to purchase new intoxilizers to replace an aging and out-of-date existing stock. Federal Funds are grants from the National Institute of Justice, generally for the purchase of equipment, supplies, and DNA test kits. Beginning in the Governor's 2007-09 budget, the General Fund has been replaced with $34.8 million of CFAA revenues in these two divisions for current and expanded programs.

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 and continues at a similar rate for 2006. 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. During the past few years, there has been a hiring and retention problem in the Forensics Division including a loss of trained staff to other labs in surrounding states.

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. In November 2006, there were 690 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 3,400 in July 2005. The backlog would be larger but many have been cancelled.

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 contracted with Oregon Health and Science University for toxicology testing and the costs for this contract have increased over the last several biennia. The 2007-09 Governor's budget transfers this toxicology testing to the Forensics Division.

Governor's Budget

The Governor's 2007-09 recommended budget of $37 million total funds for these two divisions increases by $6.9 million, or 22.8%, over the 2005-07 legislatively approved budget. For 2007-09, $34.8 million for the Forensics Division and $4.7 million for the Office of the Medical Examiner in CFAA resources replace all of the

General Fund that would have funded the current and expanded programs in this biennium. The major features of these two budgets include:

- The addition of 15 positions (11.94 FTE) in the Forensic Lab system to meet workload and backlog issues funded with $3.1 million of CFAA funds. This increase is estimated to represent half of what the agency projects the lab system requires to be at full strength. The Governor's budget assumes another 15 positions will be added in 2009-11. Because of hiring constraints and a limited pool of available candidates, only 15 staff is proposed to be added in this biennium. The package also includes $1.1 million in resources for contracting out for testing roughly 34,000 DNA samples currently backlogged.
- Two new deputy State Medical Examiners are established to provide direct services in the Mid-Willamette Valley (Lane, Linn, Benton) and Central Oregon. The package also includes a support position specifically to provide transcription services. The Central Oregon position is phased-in later in the biennium when the proposed Bend facility is scheduled to be completed. The total cost of the three positions (2.00 FTE) is $175,921 Other Funds (CFAA revenues) and reflects the net effect of new positions and reduced contract resources currently used for the Valley.
- The funding for the toxicology lab work done for the Medical Examiner is transferred from OHSU / Kaiser to the Forensics Division. Two forensic scientist positions are added (1.76 FTE) as part of the proposal. There is no cost since the resources for contracting out the services in the Medical Examiner's budget is replaced with funding in the Forensics Division.

The Governor's 2007-09 budget also includes $758,576 Other Funds (CFAA revenue) for these two divisions' share of the net increase in costs of the proposed new Bend facility. The cost is higher for these two divisions since the Medical Examiner had little or no space in the current Bend office.

OSP – Fish and Wildlife

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	3,449,256	4,710,290	4,878,207	5,171,638
Lottery Funds	5,537,710	6,357,583	6,567,977	6,836,155
Other Funds	14,173,941	15,820,323	16,044,296	17,401,412
Federal Funds	377,362	1,222,257	1,237,677	1,449,822
Total Funds	**$23,538,269**	**$28,110,453**	**$28,728,157**	**$30,859,027**
Positions	127	120	120	122
FTE	124.07	120.00	120.00	122.00

Program Description

The primary mission of Fish and Wildlife Division is to assure compliance with laws that protect and enhance the long-term health and equitable utilization of fish and wildlife resources. The officers assigned to this Division also routinely enforce traffic, criminal, boating, livestock, and environmental laws. OSP staff work closely with the Department of Fish and Wildlife (ODFW), the Water Resources Department, and the Marine Board in the enforcement of their rules. This Division also plays a crucial role in enforcing the requirements under the Oregon Plan in protecting fish habitat and stream bed enhancement. Lottery Funds (Measure 66) are specifically dedicated for this purpose.

Revenue Sources and Relationships

This Division receives its primary funding from the Oregon Department of Fish and Wildlife ($14.8 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 18.53% for 2007-09. Other major funding includes:

- Ballot Measure 66 Lottery Funds for enforcement of the Oregon Plan ($6.9 million Lottery Funds).
- Marine Board resources ($1.6 million Other Funds) for enforcement of boating laws.
- Parks and Recreation Department funds for activities on the Deschutes River ($185,000 Other Funds).
- Department of Environmental Quality payments ($209,000 Other Funds) for environmental investigations.
- Revenue from a fee for shellfish-related enforcement ($350,136 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 48% in 2007-09. In the meantime, the amount of biennial ODFW license and tag revenue has increased by roughly 100%. This decreased share has been offset by other funding sources such as Lottery Funds, but this has also changed the focus of enforcement. In 2005-07, revenues from ODFW have not kept pace with the costs related to the positions and activities that are to be funded with the revenues. OSP has used vacancy savings and General Fund backfill to keep pace with these costs. The Governor's budget for 2007-09 also does not keep pace with estimated cost increases. 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.

Governor's Budget

The Governor's 2007-09 recommended budget of $30.9 million total funds for the Fish and Wildlife Division represents an increase of $2.1 million, or 7.4%. General Fund and Lottery Funds increases are generally limited to the standard increases common to all state agencies for employee compensation and inflation. The exception to this is $127,615 General Fund to provide a "catch-up" to past budget decisions where increases for fuel costs did not keep pace with actual cost increases. General Fund resources are used to also fund the Lottery Fund share of these increases. The Governor's budget does not include additional resources for the share of the fuel increases for the ODFW funded portion of the budget which is estimated at $357,960 Other Funds. The Division will have to use vacancy savings or other savings to fill this funding gap.

New enhancements are limited for this Division in the Governor's budget. One enhancement is $140,000 for the purchase of a larger boat or resources for leasing a boat for enforcement activities around the allowable number of crab pots placed by commercial fishers. This is a one-time expenditure and funded with resources from ODFW. Also included in the Governor's budget is $174,202 Federal Funds for two positions to collect and compile data for field officers under a federal joint enforcement agreement for federal grant programs in this Division.

OSP – Administrative Services

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	33,521,721	24,378,920	25,461,657	27,970,749
Other Funds	2,958,377	3,369,126	3,411,090	4,717,323
Federal Funds	107,717	139,180	145,369	7,625,845
Total Funds	**$36,587,815**	**$27,887,226**	**$29,018,116**	**$40,313,917**
Positions	154	122	122	150
FTE	152.83	122.00	122.00	147.08

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 field regions, but the 2005-07 legislatively adopted budget transferred these resources to the Patrol Division. The Training unit of this Division recruits, selects, and retains the sworn workforce. The budget for this Division also includes the debt service for the entire agency for 2005-07 ($2.3 million legislatively approved) and prior biennia. For 2007-09, Administrative Services includes all agency debt service except for COPs proposed to be issued for equipment replacement in the Patrol Division during 2007-09, and the 2009-07 debt service for OWIN.

Revenue Sources and Relationships

General Fund supports the majority of the Administrative Services Division costs. Resources for training are funded from the allocation of CFAA resources ($2.3 million Other Funds). Other Funds revenues also include COP proceeds that cover issuance costs, and revenues from limited charges for services. Almost all of the

Federal Funds for 2007-09 is the result of the transfer of the criminal justice grant programs that were previously administered in the Criminal Justice Services Division.

Budget Environment

Training resources were substantially reduced during 2001-03 and 2003-05. The training budget at the beginning of the 2001-03 biennium was $4.4 million total funds and 17 positions. The 2005-07 budget had four positions funded for training so it has to 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 has had to use other staff to assist in the training, but this takes resources away from direct law enforcement activities. The Governor's budget for 2007-09 does propose additional training and recruiting resources. Starting in 2007, OSP will use the 16-week DPSST basic law enforcement training instead of its current recruit school. It will augment the 16-week course with eight further weeks of additional training unique to OSP. The agency will contribute resources to assist with DPSST curriculum development.

Over the past few biennia, OSP has faced significant reductions beyond troopers on the road and criminal detectives. The support functions of the agency have also been reduced, often at a rate greater than the core functions of the agency. These support functions include the financial services, payroll, personnel-related functions, fleet management, support staff in the field, training, and dispatch in this Division. They also include the communications support staff, information management system-related staff, and others in the Information Management Division. The 2005 Legislature did add back nine positions to fill some of this gap, but not to the levels of pre-2001-03. The Governor's 2007-09 budget proposes adding further support infrastructure for the agency.

Governor's Budget

The Governor's 2007-09 recommended budget of $40.3 million total funds for Administrative Services is 38.9%, or $11.3 million, more than the 2005-07 legislatively approved budget. The major reason for the growth is the transfer of the criminal justice grant programs and five positions that were previously administered in the Criminal Justice Services Division accounting for $7.6 million of the total growth ($7.5 million Federal Funds). Without this transfer, the total funds budget would have grown by $3.7 million, or almost 13%. General Fund resources grow by $2.5 million, or 9.9%, over the same period. Increases in this budget include:

- Restoration of staff lost in past biennia that support agency functions. Ten positions (9.16 FTE) are added back at a cost of $1.2 million General Fund. The new positions include a budget manager (currently double-filled), a fiscal analyst 2, a trades maintenance position for central fleet management, three dispatch staff, and three dispatch managers.
- Six positions (4.92 FTE) are added to the training unit for recruiting and training new and existing employees at a cost of $335,365 General Fund and $497,976 Other Funds generated from CFAA revenues. A sergeant and support staff is proposed to be added to support recruitment for sworn candidates, and a sergeant and three trooper positions are added for on-going training of staff. This new staff will mean that the agency will not have to pull existing staff off their usual assigned core functions of the agency, such as Patrol and Criminal Division work, to provide training.
- Four additional positions (3.00 FTE) are added in part to support increases in Governor's budget including the addition of 139 troopers in the Patrol Division. Positions include an internal auditor position, health and safety training position, and two dispatch positions.

The Governor's budget also adds a fiscal position for the accounting and other financial activities related to the OWIN project. Funding is also shifted for one training position from General Fund to Other Funds (CFAA).

OSP – Information Management

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	13,483,424	16,166,310	15,057,339	12,961,751
Other Funds	6,718,467	8,325,880	8,675,884	15,611,122
Federal Funds	0	311,882	1,246,296	321,550
Total Funds	**$20,201,891**	**$24,804,072**	**$24,979,519**	**$28,894,423**
Positions	107	114	115	128
FTE	106.78	113.65	113.98	125.51

Program Description

The Information Management Division 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 comprised of the Criminal History, Regulatory Compliance, Automated Fingerprint Identification System, and Firearms programs.

Revenue Sources and Relationships

This Office has been mainly supported by General Fund in the past, but the Governor's 2007-09 recommended budget assumes $5.4 million of CFAA resources will replace the General Fund for the LEDS and related programs. The LEDS program also receives Other Funds from charges to user agencies through terminal and other fees charged to agencies using the system ($958,976). Other major sources of Other Funds revenue is from fees for Identification Services including: open records checks of criminal histories and firearms checks ($4 million); employment and licensing background checks ($3.2 million); and concealed gun license checks ($212,209).

Budget Environment

As with other support services areas of the agency, this Division has had reductions in staff in recent biennia. For example, the one-time resources used to offset the budget reductions in the LEDS program are no longer available and the federal government has notified the LEDS program of their concern of whether the program is meeting the standards required for access to the National Crime Information Center (NCIC). Specific areas of concern are in the areas of training, auditing, and security. The federal government has begun the process of sanctioning the state and potential outcomes include the loss of access to NCIC (a valuable tool for law enforcement) and loss of federal grant funds. Another example of the effect of the reductions is in the support of the agency's information systems. The combination of the past staff reductions and the transfer of staff to the State Data Center has resulted in fewer staff to provide desktop and other support across the entire Department.

Dating back to the reductions during 2001-03, the Identification Services unit faced revenue shortfalls. Action by the Emergency Board addressed the shortfall in 2003-05 and the 2005 Legislature authorized increases in certain fees and invested more General Fund into the program so funding should have been 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.

Governor's Budget

The Governor's 2007-09 recommended budget of $28.9 million total funds for the Information Management Division is a $3.9 million, or 15.7%, increase over the 2005-07 legislatively approved budget. The General Fund in the Governor's budget is reduced by $2.1 million driven by the backfill of $5.4 million General Fund resources with Other Funds generated by CFAA revenues for the LEDS program. Net changes in service fees by the Department of Administrative Services also contribute to the decrease in General Fund. Increases in other units in the Division's General Fund needs grow because of increases common to all state agencies for inflation and employee compensation, and for the following enhancements:

- Six positions (6.10 FTE) are proposed for a cost of $1 million General Fund and $671,967 Other Funds (CFAA revenues) The positions include three positions to meet federal audit requirements for the CJIS (LEDS) program (training manager, auditor, and security officer); one technical position to assist in managing the message switch for 24 hours per day for the LEDS program, one position to meet network management and other information systems work in Enterprise Services section, and one new position and increases for two existing part-time positions to full-time in the wireless section. Also included is $551,000 for equipment and maintenance for the wireless section.
- Nine positions (7.13 FTE) are established at a cost of $398,139 General Fund and $584,865 Other Funds (CFAA revenues). These positions in part represent restoration of positions lost in past biennia. They include a Chief Information Officer, four positions for desk top and other computer support department-wide, a training coordinator for CJIS, and three shift managers in the Identification Services section (background checks and criminal records). Also included is funding for the Division's share of rent for the proposed new Bend facility.

The Governor's budget also re-establishes two positions in the Enterprise Services section ($375,098 General Fund) that had been transferred to the State Data Center but found later to not be in the scope of the Center's responsibilities.

OSP – Gaming

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	74,084	0	125,000	0
Other Funds	7,148,677	8,697,922	8,074,220	9,689,266
Total Funds	**$7,222,761**	**$8,697,922**	**$8,199,220**	**$9,689,266**
Positions	42	42	42	43
FTE	42.00	42.00	42.00	42.88

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 ($5.5 million) and the Native American Tribes fully fund Indian Gaming Enforcement activities ($4 million). License fees fund the Boxing and Wrestling Commission regulatory activities ($273,527). 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 3,400 Lottery retailers and over 11,350 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 2005 there were 1,653 checks performed.

Currently, there are nine tribal casinos operating 7,260 slot machines. This is an increase from only 2,600 machines in 1995. Some of the existing casinos are also considering expansions in their gaming centers. Another tribal government is in the process of getting approval to move their current casino in Central Oregon to a site closer to the Portland metro area in the Columbia Gorge. The agency reported to the Emergency Board in 2006, as required in a budget note, how their staffing was changing from relying on as many on sworn troopers to increasing the number of financial auditors.

Governor's Budget

The Governor's 2007-09 recommended budget of $9.7 million total funds for the Gaming Enforcement Division increases by $1.5 million, or 18.2%, from the 2005-07 legislatively approved budget. Most of the increase is due to items common to all state agencies for employee compensation and inflation. One support position (0.88 FTE) and $83,176 Other Funds is proposed for the Boxing and Wrestling Commission to keep pace with workload which has increased partially because of the licensing of promoters of Mixed Martial Arts (started in 2004). Increased Boxing and Wrestling fee revenue will pay for this increase. Other Funds limitation is also increased by $254,363 to account for higher fees for background checks for gaming employees and key vendor employees passed by the 2005 Legislature, and for computer and vehicle replacement. Tribal Governments will pay for these items.

OSP – Emergency Management

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	1,608,743	1,881,611	2,505,666	0
Other Funds	63,886,176	68,835,141	71,817,105	0
Federal Funds	6,804,245	5,849,602	8,437,048	0
Other Funds (NL)	0	4,623,210	4,623,210	0
Federal Funds (NL)	33,071,970	45,186,647	45,186,647	0
Total Funds	**$105,371,134**	**$126,376,211**	**$132,569,676**	**$0**
Positions	38	34	37	0
FTE	37.25	33.96	36.09	0.00

Budget and program description for the Office of Emergency Management is found under the Military Department.

Governor's Budget

The programs, staff, and budget for the Office of Emergency Management are transferred to the Military Department under the Governor's 2007-09 recommended budget as part of the centralization of emergency preparedness and homeland security related functions in the Military Department. The transfer includes the Oregon Emergency Response System; Chemical Stockpile Emergency Preparedness Program (CSEPP); 9-1-1 program; disaster planning, training, mitigation and response; and domestic preparedness. One area the Legislature should review in this transfer is the administration of the 9-1-1 system. While it would a critical component of any disaster response, it is relied on every day by law enforcement, public safety agencies and the public. In this way, it is similar to OWIN; which is presently part of OEM, but remains in the State Police under the proposed transfer of OEM functions to the Military Department.

OSP – Criminal Justice Services

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	812,462	94,610	794,610	0
Other Funds	5,163	512	2,198	0
Federal Funds	85,691,239	131,912,132	131,989,814	0
Total Funds	**$86,508,864**	**$132,007,254**	**$132,007,254**	**$0**
Positions	12	12	12	0
FTE	12.00	12.00	12.00	0.00

Budget and program description for the Criminal Justice Services Division is found under the Military Department, Administrative Service Division of State Police, or the Department of Justice due to the transfer of this Division's programs.

Governor's Budget

The Governor's 2007-09 recommended budget assumes the elimination of this Division and the transfer of its programs and staff to three locations. A legislative concept is being prepared to implement the transfer. Under the proposal, the Military Department assumes responsibility for the Homeland Security related grants and $45.1 million total funds; 5 positions are transferred to the Military Department. Domestic criminal justice related grant programs ($7.6 million total funds and five positions) are transferred to the Administrative

Services Division of the State Police. Finally, the Violence Against Women grant program is transferred to the Department of Justice's Crime Victims' Programs unit ($1.7 million total funds and one position).

OSP – State Fire Marshal

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	645,259	0	0	0
Other Funds	16,320,112	17,994,724	20,013,270	19,792,139
Federal Funds	372,750	463,336	463,336	477,783
Total Funds	**$17,338,121**	**$18,458,060**	**$20,476,606**	**$20,269,922**
Positions	77	81	81	81
FTE	76.00	79.96	79.96	79.88

Program Description

The State Fire Marshal is charged with protecting life and property from fire and hazardous materials. It has the following three major program areas:

- *Fire and Prevention Services* which is responsible for fire prevention and investigation, emergency response including the Conflagration Act, administration of the Uniform Fire Code, a clearing house for fire prevention information, and collection of fire incident data. There are 18 Deputy Fire Marshals who serve Oregon communities who choose to not provide their own full-service fire prevention programs.
- *Licensing and Permit Services* which, in coordination with Fire Prevention Services, regulates the storage and use of explosives, fireworks, and liquid petroleum. This unit also administers regulations governing non-retail fuel dispensing.
- *Hazardous Materials Services* which administers the Community Right to Know law, collects and maintains data on hazardous substances, and insures state and local jurisdictions are prepared to respond to incidents. This unit is also responsible for equipping, training, and assisting the 15 Regional Hazmat Response Teams to ensure 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. Before 2003, the level of revenue from the FIPT was falling, so the 2003 Legislature made statutory changes to continue a more consistent flow of FIPT revenues. The current 2007-09 forecast shows available revenues from the FIPT at $16.9 million Other Funds including a $6 million beginning balance. A portion of these FIPT funds are transferred to the Department of Public Safety Standards and Training (approximately $4 million) and to the OSP Criminal Investigation Division ($2.4 million), while the remainder is used as the major funding source for State Fire Marshal programs. The FIPT ending balance at the end of 2007-09 is presently estimated at over $6.7 million, far more than what is generally required for cash-flow and revenue stability needs.

Other Funds revenue supporting the State Fire Marshal programs include non-retail fuel dispensing fees ($568,000) for card lock enforcement, hazardous substance user fees ($3.1 million) for the Community Right to Know program, and petroleum load fees ($1.8 million) for the Hazardous Response Teams. The remaining revenue is generated from licenses and permits (relating to liquefied petroleum gas, explosives, and fireworks) totaling $804,000, and from an interagency agreement with the Department of Human Services for fire and life safety inspections of Medicare and Medicaid funded facilities ($410,000). Federal Fund revenue is from Hazardous Materials Emergency Preparedness grants.

Budget Environment

Based on information from 41 of the 50 states and the District of Columbia, 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 population data, 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 28 in 2005. The number does vary from one year to another; for example, the number for 2004 is 41, but the long-term trend continues down.

Costs incurred by local fire agencies after the Governor has invoked the Conflagration Act have been first reimbursed by OSP, who has then requested funds from the Emergency Board. Local fire agencies are reimbursed for their actual costs, including fuel, wages, and damages that occur during the "call-up." Generally, the federal government pays 75% of the costs of fires on federal lands, which represents the majority of wildfires, and the state pays the remaining 25%. In the past, the Emergency Board has allocated sufficient funding from the general purpose Emergency Fund for the state share, but in 2006 the Emergency Board considered using a portion of the excess FIPT revenues (see discussion above in the Revenue Source section) for these costs. The decision on the state share of funding for the 2005-07 costs was delayed until the 2007 legislative session. Funds to reimburse local fire agencies for 2007-09 are not included in the State Fire Marshal's proposed budget.

Governor's Budget

The Governor's 2007-09 recommended budget of $20.3 million total funds for the Office of the State Fire Marshal represents a decrease of 1%, or $206,000, from the 2005-07 legislatively approved budget. The primary reason for the decrease is that the 2005-07 budget amount includes $2.3 million in Other Funds expenditure limitation for the payments made during 2005-07 to local fire agencies under the Conflagration Act (the funding for the state share of these costs still must be determined as noted above), while the 2007-09 amount does not include any amount for this purpose. There is also a phase-out of almost $450,000 in one-time purchases made in 2005-07.

The proposed budget does enhance the current level of services for the Office including:

- Providing resources for the cost of testing random samples of cigarette brands sold in the state to determine if they are self-extinguishing ($25,000 Other Funds).
- Establishing a web-based incident reporting system to collect data for fire departments ($151,040 Other Funds). The work would be contracted out and was requested by fire departments.
- Adding a database administrator position (0.88 FTE) to develop and maintain a single database for the Fire Marshal office's and make that information available from one site on the internet ($134,904 Other Funds).
- Increasing resources for staff training in fire alarm / fire sprinkler inspection, testing, and maintenance; and in fire investigations ($25,000 Other Funds).
- Providing funding for training and equipment to increase the staffing available for the 15 regional HazMat teams ($253,785 Other Funds).

OSP – Oregon Wireless Interoperability Network

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	0	0	0	20,126,260
Other Funds	0	0	0	42,360,000
Federal Funds	0	0	0	1
Total Funds	**$0**	**$0**	**$0**	**$62,486,261**
Positions	0	0	0	8
FTE	0.00	0.00	0.00	8.00

Program Description

The Oregon Wireless Interoperability Network is a new budget unit for OSP for 2007-09 to track the construction, staff, and other project costs for a major project to replace and enhance the wireless communications systems of four state agencies and the public safety communications infrastructure statewide. OWIN is the response to HB 2101 (2005) and federal requirements that set out three general mandates that drive this project:

- The Federal Communications Commission (FCC) is requiring all public safety related agencies that have wireless communications systems to migrate to narrowband frequencies by 2013.
- HB 2101 requires the Office of Emergency Management to develop a Public Safety Wireless Infrastructure Replacement Plan for delivery to the Governor and the Legislature by January 12, 2007, along with a plan for financing the system. The Plan is to guide consolidation of the existing aging state wireless systems, provide for future management of the state infrastructure, detail the technical specifications for a consolidated system, and provide a description of the costs and benefits of a consolidated system.
- HB 2101 also requires the development of an Oregon Interoperable Communication Plan to work toward achieving statewide interoperability by 2012. Interoperability is the ability of different wireless communications systems to "talk" to each other, specifically during emergencies that span multiple jurisdictions.

The State Interoperability Executive Council (SIEC) and the State Wireless Interagency Group (SWIG) are to assist the Office of Emergency Management in meeting the requirements outlined above. The SIEC's membership includes representatives of state agencies, local public safety agencies, local government, Tribal governments and nonprofit organizations. The SWIG's membership consists of representatives of state agencies with wireless communication systems. An interagency agreement between OSP and the Military Department transfers control of the Office of Emergency Management from OSP to Military with the exception of the OWIN project. This agreement is in effect until the end of June 2007 unless the Legislature passes legislation permanently transferring OEM (without OWIN).

Revenue Sources and Relationships

The current "working" cost estimate of OWIN is $665 million total funds. It is anticipated that a combination of state, local and federal funds will pay for the costs of OWIN. At this time, it is unknown what the final sources of funding will be, but it will very likely involve the use of debt financing (e.g., COPs). The Governor has proposed a combination of General Fund, COPs, and highway revenue bonds for the 2007-09 costs.

Budget Environment

OWIN's work to date has centered on developing a conceptual plan to meet the federal and state requirements outlined above. The OWIN project contracted with Federal Engineering (consulting firm) to develop a conceptual design, cost estimates, and a business case for the overall project. This work is meant to be the starting point for the overall project including initial cost projections to be used by the 2007 Legislature. The conceptual design is not necessarily the design that will be used, but it will be used for the standards that are developed for any future Request for Proposals (RFPs) for the development of the system.

As of December 2006, most of the work is completed and will be presented to the 2007 Legislature. Federal Engineering was instructed in their contract to design the *optimal* system which meets the overall needs of the public safety system. Their design of the system involved a number of factors including an assessment of the current state of repair of the present state operated tower sites, required number of frequencies, availability of frequencies, desired coverage of a new system, and present cost estimates of construction of the new system. The result of this work led to a mixed system conceptual design which will utilize both VHF and 700MHz frequencies. Federal Engineering found that there would not be a sufficient number of VHF frequencies to provide interference-free coverage across the entire state. The concept design assumes the use of 700 MHz in the Willamette Valley and other areas of western and central Oregon, and VHF frequencies in all other areas of the state. One consequence of this mixed design is an increase in the number of required tower sites from 183 to 257 since a 700 MHZ system tower does not provide as much coverage as a VHF tower.

The original cost estimate for the "optimal" system was $906 million which assumed that all 257 sites will be state operated, there will be no partnerships with local, federal, and other entities, and the system will have a high level of both capacity and redundancy. The executive branch determined the price of this system was unaffordable so OWIN staff and Federal Engineering engaged in a "value engineering" process to identify ways to reduce the proposed costs without jeopardizing the critical needs of the system. The result was a system costing an estimated $665 million on which the Governor's budget is based.

A number of major issues have yet to be resolved before the Legislature takes further action on any proposals:

- *Scope management*. The project's scope must be continually reviewed to insure that it does not grow beyond the ability of the project to be successfully completed. One reason large information management projects run into problems is that they often "bite off more than they can chew."
- *Technology changes*. Whatever approach is taken, it must remain flexible enough to respond to changes in technology.
- *Project roll-out*. The current timeline is to complete the entire project by 2013 to meet the FCC mandate relating to narrowband radios. Only meeting this requirement would take a smaller investment, but would not meet other HB 2101 requirements of the project relating to the aging state wireless system and interoperability. The Legislature will need to decide whether the entire project needs to be done in the current time frame, or whether any acceptable alternatives exist that would spread out the project costs over a longer time period and still meet the FCC mandate.
- *Local system use*. While it is anticipated that no local jurisdictions will be forced to use the system, it should be designed to encourage local jurisdictions' participation to avoid duplicate investments and to have a more extensive revenue base to assist with ongoing costs.
- *Federal participation*. Partnerships with federal agencies are a key for keeping state costs as low as possible. The state already has taken advantage of the federal resources to enhance the existing system along the I-5 corridor, and joint development in the Columbia Gorge with an inter-tribal fisheries enforcement entity. Given the extent of federal land in Eastern Oregon, the U.S. Forest Service and the Bureau of Land Management (BLM) are candidates for partnerships.
- *Governance and ownership*. The governance and ownership models must be developed with consideration to local and federal participation, meeting state agency needs, and financing alternatives. Alternatives include outright state ownership, a public utility model, private ownership, and a governing board consisting of state, local, and federal users / partners.

The current schedule for the OWIN project is aggressive and will likely change as the Legislature becomes involved on a more formal basis. The schedule generally assumes the conceptual model will be accepted and that work on the entire project be completed prior to the 2013 FCC deadline. For this to occur, the OWIN schedule assumes the series of RFPs for the project will be ready for release in the summer of 2007, responses due back in November 2007, and initial contracts awarded in January 2008. This is a very aggressive schedule given the timing of the legislative session and project funding approval, uncertainty over federal funding possibilities, lack of certainty on the degree that local and federal agencies will participate on sharing of sites and facilities, and the unknown source of ongoing funding for the debt service on the COPs or other debt financing.

Governor's Budget

The Governor's 2007-09 recommended budget for OWIN includes $20.1 million General Fund and $42.4 million Other Funds. Debt service costs for COPs represents $16.3 million of the total General Fund amount, with the remaining $3.8 million used to fund eight positions and related costs for project management and design activities. Additional staff will be hired with COP proceeds on a limited duration basis. An accountant position for the OWIN project is part of the Administrative Services budget. Radio and equipment purchases account for $38.1 million of the Other Funds limitation in this budget, with the remaining $4.3 million representing the amount for the issuance costs of the COPs that are to be issued in 2007-09.

The table below represents the total costs for OWIN as assumed in the Governor's recommended budget over three biennia. Total project costs are estimated at $665 million with $617.8 million of this amount being financed with COPs or other debt financing. The Governor's budget assumes the Department of Transportation will issue $75 million in highway revenue bonds which will offset the need for $75 million in COPs in the table below. The $195.4 million debt service and $10.7 million in issuance costs for the three biennia does not include the amounts related to the ODOT highway revenue bonds. Debt service for 2007-09 for the ODOT bonds is budgeted for $5.6 million and issuance costs at $450,000.

OWIN Costs: 2007-09 to 2011-13

	2007-09	2009-11	2011-13	Three Biennia Total
Project Costs				
COP Financed				
Capital Construction				
System Costs	258,178,000	98,900,000	94,200,000	451,278,000
Project Management/Staff Costs	3,721,567	10,400,000	12,200,000	26,321,567
Maintenance/Setup Costs	4,200,000	-	-	4,200,000
Total Capital Construction	***266,099,567***	***109,300,000***	***106,400,000***	***481,799,567***
Equipment (e.g. radios)	38,100,000	38,100,000	59,800,000	136,000,000
Total COP Financed	**304,199,567**	**147,400,000**	**166,200,000**	**617,799,567**
Non-COP Staff Costs	3,800,433	-	-	3,800,433
Non COP Maintenance Costs	-	18,600,000	24,800,000	43,400,000
Total Project Costs	**308,000,000**	**166,000,000**	**191,000,000**	**665,000,000**
Debt Service				
For COPs Sold in 2007-09	16,296,281	56,984,786	63,589,002	136,870,069
For COPs Sold in 2009-11	-	8,607,573	33,598,774	42,206,347
For COPs Sold in 2011-13	-	-	16,361,552	16,361,552
Total Debt Service	**16,296,281**	**65,592,359**	**113,549,328**	**195,437,968**
Issuance Costs	**4,260,000**	**3,188,503**	**3,225,403**	**10,673,906**

The Governor's budget is based on the conceptual design noted above. Other alternatives exist which would cost less but also substantially reduce the services available to users. The only mandate that the Legislature and Governor cannot change is the FCC narrowband requirement, but the condition of parts of the current state agency systems are very outdated and require significant maintenance. The number of unknown factors in this project including governance model, local participation, source of funding for ongoing costs and future debt service, and federal funding levels all challenge the Legislature's decision on OWIN. It is likely that information on all of these and other unknown factors will not be available by the summer of 2007, so the Legislature will have to weigh the uncertainty with the need to move ahead with the project.

OSP – Capital Construction

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	0	0	0	485,710,834
Total Funds	**$0**	**$0**	**$0**	**$485,710,834**

Program Description

This $485.7 million Other Funds is the capital construction limitation for OWIN described above. This six year capital construction limitation represents 73% of the total OWIN project costs as proposed in the Governor's budget.

Department of Public Safety Standards and Training – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	0	8,515,784	8,515,784	11,342,003
Other Funds	20,679,937	31,239,585	32,221,806	39,375,334
Federal Funds	81,005	52,992	52,992	54,635
Total Funds	**$20,760,942**	**$39,808,361**	**$40,790,582**	**$50,771,972**
Positions	97	157	157	182
FTE	93.84	134.84	134.84	180.25

Agency Overview

The Department of Public Safety Standards and Training (DPSST) is responsible for developing and maintaining standards for employment and providing training to over 35,000 public safety professionals and volunteers in Oregon through five programs:

- The *Criminal Justice Training and Certification Program* provides training and certification for 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 16 weeks for the basic police course (as of the beginning of 2007), five weeks for corrections officers, four weeks for parole and probation officers, 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 13,000 licensed private security providers statewide. The functions of the Board of Investigators were absorbed by this program beginning in 2006. There are approximately 700 active Private Investigator licensees.
- The *Administration and Support Services Program* includes the director's office, business and human resource functions, and information systems. In addition, this area includes the costs of operating the 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.

DPSST opened the new primary training facility in Salem during the summer of 2006 replacing the former site in Monmouth. The agency also has regional offices in five locations – Medford, Bend, Hillsboro, Baker City, and Pendleton. The agency has professional trainers on staff but also relies on part-time trainers who are practicing professionals in their fields 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 Actual	11,595,761	1,379,562	933,915	6,683,646	168,058
2005-07 Legislatively Approved	15,865,359	2,820,397	1,288,140	20,260,598	556,088
2007-09 Governor's Recommended	19,892,011	3,954,841	1,484,773	24,867,021	573,326

** Debt service is included in the Administration and Support Services program and totals $8.5 million General Fund for the 2005-07 legislative biennium.*

Revenue Sources and Relationships

The primary revenue source for the *Criminal Justice Training and Certification Program* is the Criminal Fine and Assessment (CFAA) Account funded by a variety of fines and assessments, including the unitary assessment, paid by offenders. Over $33.2 million of new CFAA resources are allocated to this agency with the majority used in this program. There is also $1 million of projected CFAA revenue carried forward from 2005-07 in the 2007-09 budget. This program is also funded with polygraph examiner licensing fees and miscellaneous revenues ($13,900), a grant from the Oregon Department of Transportation (ODOT) ($333,078), and revenue from the 9-1-1 telephone tax ($427,202) 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) ($4.3 million). This program also receives funding from a Federal Emergency Management Agency (FEMA) grant for training developed by the U.S. Fire Academy ($54,635). The *Private Security Program* is funded primarily with licensing and certification fees ($1.6 million). The *Administration and Support Services Program* is supported with General Fund for debt service costs; CFAA funds for operation of the facility including a projected $0.8 million carried forward from 2005-07, 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 $573,326 of CFAA funds and $212,275 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 35,000 "constituents" (Employment Department data for 2004) including over 8,600 law enforcement personnel, over 1,500 parole and probation officers, over 3,700 correctional officers and jailers, over 13,300 fire-related personnel, almost 900 emergency tele-communicators, and over 13,000 private security and private investigator 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. Oregon's number has not likely increased significantly since 2000.
- The growth in prison and jail populations, in part because of Ballot Measure 11, 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 580, or 4.2%, during the 2007-09 biennium.
- The number of private security staff licensed by DPSST could continue to increase as more commercial and other interests look at private security agencies as alternatives to depending on local law enforcement.
- Regional training continues to be an important component in DPSST's overall curriculum. Between the fire training and law enforcement training programs, over 6,700 "students" participated in some form of regionally provided training during 2005, a decrease from 2003 levels.
- 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.

Even with the increase in the basic law enforcement training to 16 weeks starting in January 2007, Oregon still lags behind other states. 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. The 1997 Legislature instructed the agency to increase the course from eight weeks to 16 weeks. The increase in length was delayed until a new facility was built and fully staffed. The composition of the new 16-week course has been updated for content (e.g., new court decisions and law changes), as well as how the training is delivered. The expanded curriculum will include greater use of scenarios in the training and will also include the topics specifically noted in budget notes in 2003 and 2005, 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 past 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. Over time, the new facility should allow for expansion for other professions. Training not provided by DPSST must, in part, be provided by the public safety agencies with their own resources.

Governor's Budget

The 2007-09 Governor's recommended budget is $50.8 million total funds, an increase of 24.5% over the 2005-07 legislatively approved budget of $40.8 million. General Fund resources are proposed to grow by 33.2% over the same period to $11.3 million entirely due to the roll-up of debt service costs. Roughly half of the over all growth in this budget is due to the net change of roll-up costs for increases made during 2005-07 and other growth to reach the essential budget level; the remaining half of the total growth is due to enhancements in the Governor's budget over and above the essential budget level These enhancements include:

- **Academy Training Increases** (16 positions / 16.25 FTE; $2.5 million Other Funds – CFAA): Additional staff is proposed to meet the demands of the new 16-week basic law enforcement course. While the 2005-07 budget included staff for the new 16-week course, the agency says it had not fully designed the 16-week course at that time and further staff is now required. Proposed staff increases include: (a) two positions to deliver basic police coordination including mentoring, tracking recruit progress, and working with local agencies; (b) four positions to strengthen the scenario-based training which is a focus of the new course to deliver skills, tactical and role-play training; (c) three positions to assist recruits who fail to meet basic requirements and need remedial assistance to graduate as well as to provide maintenance training for instructors; (d) two further range master positions to operate and maintain the three ranges at the facility; (e) two positions for providing health and fitness training; (f) one training development coordinator position; (g) two positions for pursuit immobilization technique training; and (h) an increase in FTE for a support position in the skills and tactical section. This package also includes $316,175 in equipment purchases.
- **Standards and Certification Increases** (2 positions / 2.00 FTE, $255,820 Other Funds – CFAA): To keep pace with workload increases in the program certifying and investigating licensed public safety staff two positions are proposed – one compliance specialist position and one support staff for reception and data entry duties are added.
- **Oregon Liquor Control Commission (OLCC) Enforcement Agent Training** (1 position / 0.50 FTE; $125,879 Other Funds): A part-time position to provide training to OLCC agents on defensive tactics, use of force, and survival skills is proposed. The source of revenue is funding from the OLCC. It is not clear whether this training could require less than a half-time position.
- **Fire Program Increases**: (3 positions / 2.50 FTE; $1.2 million Other Funds) A training coordinator for the fire program is requested to develop and enhance the overall training available to fire fighters. In addition, two trainers for the "Code Three" driving program are proposed. This package also includes equipment including tactical training tower equipment, an air compressor, and trailers for field training. The source of funding is the Fire Insurance Premium Tax (FIPT).
- **Facilities Maintenance Increases** (7 positions / 7.00 FTE; $813,100 Other Funds – CFAA): Seven positions and other resources are requested to maintain buildings and grounds at the new facility. New positions include: (a) one position to maintain electronic control systems; (b) five student worker positions for grounds and other maintenance; and (c) one grounds maintenance worker whose duties will include maintaining the wetlands on the property to stay within government wetland regulations. Funding is also included for the purchase of a computerized maintenance management system, inmate labor for grounds maintenance, and $141,000 for a systems development charge payment to the city of Salem which dates back to the 1980s.
- **Support Services Increases** (1 position / 1.29 FTE; $190,433 Other Funds – CFAA): A position is requested to perform support and maintenance on the agency's computer network, and an increase in FTE for an existing position is proposed to meet the growing workload for background checks. Also included are resources for staff training and Department of Justice legal costs.

The Governor's budget makes substantial investments in the training resources at the academy in Salem, but little investment in regional training which is also a priority for the agency as well as its constituent groups. The agency request budget included resources to restore reductions made to the regional program in the past, but this investment was not included in the Governor's budget. This budget places higher priority on insuring the on-site academy training meets the goals of the agency and the re-formatted 16-week basic training course.

Oregon Youth Authority (OYA) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	194,086,074	206,903,481	213,625,158	261,273,205
Other Funds	12,709,101	12,582,327	12,597,516	22,552,795
Federal Funds	20,842,983	25,788,647	25,969,651	32,841,168
Total Funds	**$227,638,158**	**$245,274,455**	**$252,192,325**	**$316,667,168**
Positions	1,085	1,087	1,090	1,281
FTE	1,023.91	1,045.21	1,047.22	1,149.33

Agency Overview

The Oregon Youth Authority (OYA) is a key player in the state's juvenile justice system. Its statutory purpose is to protect the public, hold youth offenders accountable for their actions, and provide adjudicated youth with opportunities for reform. It works closely with county juvenile departments, the judicial system, and district attorneys. Local public safety coordinating councils and commissions on children and families also have responsibility for policy advice and program funding decisions.

OYA provides a balanced continuum of services through a statewide network of facilities, state employees, and contracted community providers. OYA manages out-of-home placement of delinquent youth in foster homes and residential treatment programs, provides parole and probation services; provides funding to counties for juvenile crime prevention, diversion and transition programs; and operates the state juvenile corrections institutions. In 2005-07, it is operating 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 such as murder; and mentally ill and developmentally disabled offenders.

OYA's jurisdiction includes youth committed from both the juvenile and adult courts. Youth can be committed to OYA from juvenile court from as young as age 12. There are no mandatory sentences for juveniles whose cases are heard in juvenile court. Youth committed to OYA through adult court are in the legal custody of the Department of Corrections (DOC), but the physical custody of OYA. OYA may keep youth until their 25th birthday, but may transfer offenders committed through adult court back to DOC earlier if they are dangerous or do not apply themselves. Ballot Measure 11 (1994) set mandatory sentences through adult court for juveniles age 15-17 who are convicted of certain offenses. About two-thirds of the youth in close custody are adjudicated in juvenile court, and about one-third are 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 7% from Other Funds.

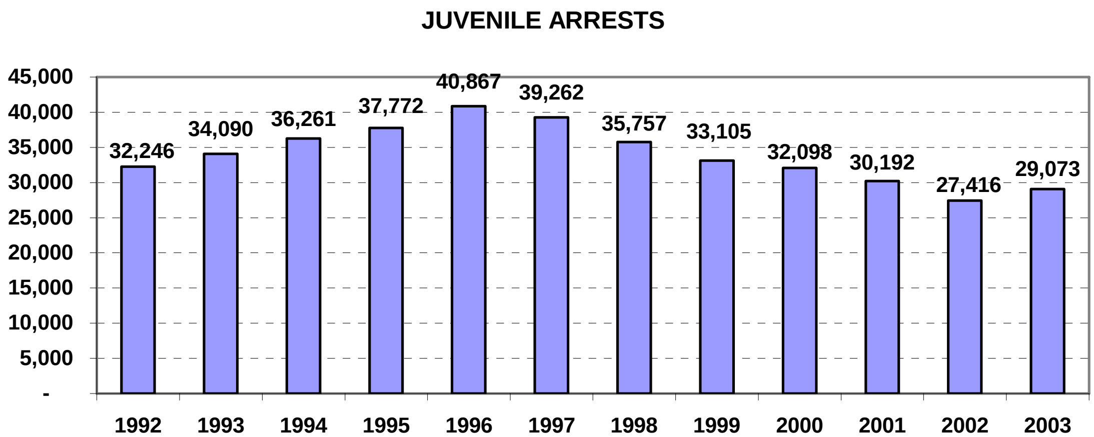
Federal Title XIX Medicaid reimbursements pay for part of the cost of out-of-home placements and treatment services, case management services, and services for paroled youth. Title XIX reimburses 50% of eligible administrative costs and about 60% of eligible case management expenditures. Title XIX Behavioral 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. The budget anticipates continuing revenue from these sources. However, there are significant risks to these revenues from proposed federal legislation, pending regulatory changes by the Centers for Medicare and Medicaid Services (CMS), and federal budget actions.

Federal funds for institution operations are very limited. OYA receives $2.8 million in federal nutrition program funds, and $0.1 million for Hillcrest's alcohol and drug treatment program. These are recorded as Other Funds.

The Governor's budget includes $8.6 million of Other Funds revenue from certificates of participation to fund Capital Construction projects. Other large Other Funds sources are county contracts and youth trust fund reimbursements. The budget includes $3.2 million Other Funds revenue from counties to operate detention beds in the Albany and Warrenton facilities, and $5.5 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 (the most recent data available) were actually lower than in 1992, and are down almost 30% from the 1996 peak. Person and property crimes have declined overall since 1992, but behavioral crimes such as alcohol or drug law violations make up a greater share of juvenile arrests. The 29,073 juvenile arrests in 2003 were up about 6% from 2002. Person and property crimes in 2003 both grew notably from 2002, an overall 11% increase, while behavioral crimes grew only 1.5% over the same period.



The Department of Administrative Services' Office of Economic Analysis (OEA) prepares a semi-annual forecast of demand for close custody and community placements. The forecast projects demand based on the number and characteristics of offenders committed to OYA and those with similar delinquency characteristics who remain in the community, but who could be expected to be committed to OYA, if OYA had available capacity. The close custody forecast includes three major groups: juveniles convicted in adult court under Measure 11 or waived under ORS 419C.340; Public Safety Reserve youth committed for certain violent crimes, but too young for Measure 11 to apply; and youth committed for new crimes and parole violations as part of the county Discretionary Bed Allocation. The community placement forecast covers youth committed to OYA and placed in residential treatment or foster care while on probation or parole.

The demand forecast is not constrained by budgeted capacity, but it serves as a reasonable context for comparison. For example, on July 1, 2006, OYA's budgeted close custody capacity was 850 youth, but the OEA forecast demand was at 1,127 youth. The budgeted level was about 75% of the forecast demand. The forecast indicates close custody demand will decline by about 3% over the 2007-09 biennium, from 1,120 youth in July 2007 to 1,085 youth in July 2009, and then remain relatively stable for the next few years. On July 1, 2006, OYA's community placement population was 549; OEA forecast demand was 733. The community population was about 63% of the forecast demand. OEA forecasts community placement demand will decline 3.8% over the 2007-09 biennium, from 720 placements at July 2007 to 593 placements at July 2009. If OYA phased-in close custody beds and community placements to meet the forecast demand for 2007-09, the estimated cost would be $41.7 million General Fund and $47.6 million total funds above the 2005-07 budget level.

Statewide revenue limitations during the past two biennia 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 ended in June 2003. In 2003, OYA vacated the Ochoco youth correctional facility in Prineville. The facility was transferred to the Military Department for use as an armory. OYA also closed the Albany youth correctional facility in 2003; it is now used only for county detention beds.

With only 850 funded close custody beds, OYA has had to manage the increase in the adult and Public Safety Reserve populations by reducing the number of beds available to counties through the Discretionary Bed Allocation. Funding for community placements and local prevention resources have not seen any offsetting increase, and have in fact also been reduced. The limited beds for lower-level offenders, along with the community program reductions, have made it more difficult for counties to manage youth offenders.

SB 267 (2003) requires state-funded crime prevention programs and services to reflect scientifically based research and demonstrate cost-effectiveness. The bill applied to certain programs of the OYA, the Department of Corrections, the Commission on Children and Families, 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 funds they receive for these programs on evidence-based programs; this increases to 50% in 2007-09, and 75% beginning in 2009. OYA operates treatment, and intervention programs such as sex offender or drug and alcohol treatment, family based treatment and transition services, which meet the SB 267 criteria.

During the 2005-07 biennium, the Oregon Youth Authority requested and received additional resources from the Emergency Board to address recommendations of the Youth Safety and Abuse Prevention Review Committee. This external committee was charged with reviewing OYA's policies and procedures after a former juvenile parole and probation officer abused youth in OYA's custody while he was an employee of the agency. The agency has implemented most of the committee's recommendations to improve its hiring, training, policy and procedures, and has established an internal investigative office. The Department of Justice recently completed a review of the personnel issues related to the case, and the agency is reviewing that report.

Governor's Budget

The 2007-09 Governor's recommended budget for the Oregon Youth Authority is $261.3 million General Fund and $316.7 million total funds. This is 22.3% General Fund and 25.6% total funds higher than the 2005-07 legislatively approved budget. Notable changes from the 2005-07 budget include:

- $11.4 million General Fund to phase-in an additional 145 close custody beds for youth offenders (up from 850 beds in 2005-07). The 995 funded beds at February 2009 will meet about 90% of the forecast demand.
- $3.8 million General Fund to meet facility staffing needs for safety and security, fund expected medical and pharmacy costs for youth, and improve programs and services for young women in OYA's facilities.
- $3.5 million General Fund to support caseload growth in community parole and probation supervision, foster care, and treatment services.
- $6.3 million General Fund to restore funding for juvenile crime prevention and county diversion grants, and youth gang funding, to the original 2001-03 budgeted level plus inflation.
- $6.6 million General Fund to enhance reimbursement for residential treatment providers. An additional $0.3 million General Fund will add staff to provide technical assistance and monitor use of federal Medicaid funding.
- $8.6 million in Capital Construction Other Funds (from certificates of participation to be issued in 2007-09 and 2009-11) to begin replacement of Whiteaker Hall at MacLaren, remodel the Corvallis House, and address deferred maintenance needs statewide.

OYA – Facility Programs

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	97,979,913	108,434,487	112,745,237	135,553,453
Other Funds	8,425,994	8,931,061	8,941,187	9,971,293
Federal Funds	41,687	35,566	36,851	25,332
Total Funds	**$106,447,594**	**$117,401,114**	**$121,723,275**	**$145,550,078**
Positions	837	839	839	1,009
FTE	783.85	801.50	801.50	890.34

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 facilities 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. MacLaren is the largest facility, at 295 beds, and serves a variety of populations; Hillcrest has 180 beds, and serves both males and females. Other facilities range in size from 25 to 100 beds, and serve targeted populations such as male sex offenders, male offenders receiving substance abuse services, and female offenders.

The focus in the facilities is on reformation and rehabilitation in the context of public safety and restitution to victims and the community. The facilities provide treatment services, educational programs, and work experience for youth. Treatment, health, and mental health services are provided by OYA employees and by contract with community professionals. Local school districts or education service districts provide education and vocational programs 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

As described above, the Office of Economic Analysis prepares a semi-annual forecast for close custody and community placements. The October 2006 forecast for close custody projects demand for close custody beds will drop slightly over the 2007-09 biennium, from 1,120 youth in July 2007 to 1,085 youth in July 2009, assuming no change in current law and practice. As noted earlier, the forecast is not directly tied to the budget. In fact, over the past few biennia, the gap between forecast demand and budgeted capacity has widened, due to statewide funding constraints. The April 2001 forecast projected an average population of 1,143; the original 2001-03 budget funded an average 1,113 beds – 30 beds, or 2.6%, below the forecast 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 budgeted to operate 850 beds in the 2005-07 biennium; at July 1, 2006, this was 277 beds, or 25%, short of the projected demand.

OYA currently has physical capacity for 1,031 close custody beds. This counts all beds at the permanently constructed facilities, including 75 vacant beds at the Albany regional facility. An additional 50 beds in OYA facilities are used for county detention beds. The temporary structures built at MacLaren during the 1995-97 biennium – designed to hold 100 beds – were at the end of their useful life, and have been closed.

In addition to providing “bed and board” for youth offenders, the facilities provide a wide range of services as needed for physical and dental health, mental health, substance abuse, recreation, education, vocational, and other support needs. OYA uses a standard risk / needs assessment tool to develop individual correctional case plans. OYA reports that 61% of offenders in its close custody facilities have been assessed as substance-abusive or dependent; about 64% of the males and 77% of the females met the psychiatric requirements for a mental health disorder (excluding conduct disorder). Females represent only about 8% of the close custody population, but are more likely to have substance abuse or mental health issues than are their male counterparts. During the 2005-07 biennium, OYA convened a Young Women’s Work Group to look at these issues. The committee’s recommendations include more gender-specific and evidence-based services, and providing services for female offenders in “single-gender” facilities. The prevalence and severity of specialized needs requires more intensive treatment intervention and resources, and puts pressure on the facilities’ budget.

Governor’s Budget

The Governor’s Facility Programs recommended budget is 20.2% General Fund and 19.6% total funds higher than the 2005-07 legislatively approved budget. This reflects the addition of close custody beds, staffing improvements at MacLaren and Hillcrest, gender-specific programming for young women, and added funding for medical and pharmaceutical costs.

The budget phases in an additional 145 close custody beds, bringing the close custody bed total to 995 in early 2009. This is about 90% of the projected demand for close custody beds. OYA plans to reopen 75 close custody beds at the Oak Creek Youth Correctional Facility in Albany in December 2007 and January 2008; all of these beds will be for young women. In February 2009, OYA will add 25 beds at the North Coast Youth Correctional Facility in Warrenton, 25 beds at Camp Hillgard in LaGrande, and 20 beds at Hillcrest Youth Correctional Facility in Salem. Since the budget phases in the new beds for 2007-09, there will be a roll-up cost, about $11 million General Fund, to fund these beds for a full 24 months in the 2009-11 biennium.

To address staffing shortfalls that affect safety, security, health, and mental health services, the budget adds eight group life coordinator positions to bring staffing at MacLaren and Hillcrest up to the level of coverage in OYA’s newer facilities; adds two new psychiatric social worker positions; and expands four existing part time nursing positions to full time. Funding is included to finance holiday pay differentials, which OYA previously covered by reducing shift staffing on holidays. The total budget impact for these actions is $2.8 million General Fund, 10 positions, and 12.50 FTE.

The budget also adds $765,327 General Fund to cover recent unfunded increases in medical and pharmaceutical costs, and $241,662 General Fund and one position (1.00 FTE) to implement the recommendations of the Young Women's Work Group to improve OYA's services for young women offenders. The latter package includes a full-time Qualified Mental Health Professional position at the Corvallis House transition program; gender-specific programs and services at Hillcrest Youth Correctional Facility; gender-specific staff training; and some renovation of existing housing units to increase privacy, decrease suicide risks, and better accommodate gender-specific programming.

OYA – Community Programs

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	61,887,613	68,410,102	69,863,582	90,003,655
Other Funds	3,560,388	2,677,778	2,682,841	2,909,717
Federal Funds	19,595,333	24,534,148	24,672,367	31,446,416
Total Funds	**$85,043,334**	**$95,622,028**	**$97,218,790**	**$124,359,788**
Positions	152	154	154	167
FTE	144.58	149.75	149.75	155.48

Program Description

Community Programs provide community-based supervision and services to youth offenders committed to OYA by the juvenile courts. OYA staff design and carry out an individual reformation plan for each youth in OYA's custody. The Community Programs budget includes community placement services, such as residential services and foster care; parole and probation services; individualized community services; and grants to county juvenile departments for diverting high risk youth offenders from OYA placement, juvenile crime prevention, and youth gang services.

Budget Environment

During the 2001-03 and 2003-05 biennia, statewide funding constraints reduced 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 2005 Legislature continued the reduced budget level in most of these programs for the 2005-07 biennium. The reductions in community resources, combined with limited capacity at regional youth correctional facilities, have continued to challenge OYA and local communities to manage at-risk youth and offenders effectively.

As of July 2006, OYA had 652 youth in the community on probation, and 470 youth in the community on parole. OYA staff provide case management services to youth on probation and parole, but contract for a range of other treatment services and residential placements with foster care or Behavioral Rehabilitation Services (BRS) providers. OYA has expressed concern with rates paid to its residential BRS providers. The rates were established in 1997 and have been updated only for small inflationary increases since that time. Providers have faced a number of operating costs, such as liability insurance and utility costs, that outstrip inflation. At the same time, community capacity reductions have caused providers to see more youth with greater service needs.

In the 2005-07 biennium, OYA will distribute $15.3 million for county diversion and juvenile crime prevention basic services grants for 36 counties. The funding covers local services for youth. County diversion funding has been provided since the 1980s. 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.

The 2005-07 adopted budget targeted $3.3 million for gang enforcement and intervention in Multnomah County. The county uses these funds with other state, county, and federal resources for specialized case management and services, residential alcohol and drug treatment, supervised shelter care, intensive therapeutic intervention and other family-based services. Multnomah County has received the gang funds for more than ten years. The 2005 Legislature directed $750,000 of the total to gang issues in east Multnomah County. OYA is to report to the 2007 Legislature during its budget hearings on the distribution and outcomes of this funding.

In December 2006, the Emergency Board approved an additional, one-time allocation of $600,000 General Fund to be distributed to other areas of the state that have recorded gang activity. These funds do not carry forward into 2007-09. The Emergency Board made a similar $1.25 million General Fund allocation in January 2005.

Governor's Budget

The proposed Community Programs budget is 28.8% General Fund and 27.9% total funds above the 2005-07 legislatively approved budget level. The budget does not fully fund the Office of Economic Analysis' forecast of community placements, but includes $3.5 million General Fund, $5.4 million total funds, and 14 positions (6.06 FTE) for community caseload growth above the 2005-07 budget level.

The budget increases funding for BRS residential treatment providers effective July 1, 2007, with $6.6 million General Fund and $4.4 million Federal Funds. This will allow OYA to update the rates to reflect 2005 wage information, and more adequately compensate providers for costs. The rates are expected to increase from 18% to 26%, depending on the level of BRS services provided.

Funding for county diversion, juvenile crime prevention basic services, and Multnomah County youth gang services is increased by $6 million General Fund, to restore prior biennium cuts in these grants. The total $25.1 million is more than 30% higher than the $19 million allocated in 2005-07. Two new full-time positions (1.75 FTE) will help counties develop programs using evidence-based practices and measurable outcomes.

OYA – Program Support

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	22,591,554	22,860,484	23,817,931	27,854,043
Other Funds	565,358	911,903	911,903	1,066,785
Federal Funds	1,205,963	1,218,933	1,260,433	1,369,420
Total Funds	**$24,362,875**	**$24,991,320**	**$25,990,267**	**$30,290,248**
Positions	96	94	97	105
FTE	95.48	93.96	95.97	103.51

Program Description

The Program Support unit includes the director's office and OYA's business services, such as accounting, employee services, budget and contracts, and information systems staff and expenditures. An internal audits office, and the new internal investigations function, named the Office of Professional Standards, are housed here. The operational costs of the statewide Juvenile Justice Information System (JJIS) are part of this budget. Agency-wide costs that are not allocated to other programs, such as insurance premiums and Attorney General costs, are also incorporated in this budget.

Budget Environment

The major cost driver in this budget is intergovernmental service charges, such as insurance and workers' compensation charges. These costs grew from $2.1 million total funds in 2001-03 to $6.6 million total funds for 2007-09. They now make up more than 20% of the Program Support budget.

During the 2005-07 biennium, OYA received additional resources from the Emergency Board to implement the recommendations of the Youth Safety and Abuse Prevention Review Committee. This committee reviewed OYA's policies and procedures after a former juvenile parole and probation officer abused youth in OYA's custody while he was an employee of the agency. The Emergency Board approved a total of $548,673 General Fund, $27,563 Federal Funds, and three positions (2.01 FTE) to improve hiring practices, add training, complete a review and re-write of the agency's written policies and procedures, and establish an internal complaint investigation office with a toll-free telephone line and office staff. The agency reported to the interim Senate and House Judiciary Committees in December 2006 on its implementation of these improvements. The Department of Justice also recently completed a report on personnel issues related to the case, which OYA is reviewing.

Governor's Budget

The Program Support recommended budget is 16.9% General Fund and 16.5% total funds higher than the 2005-07 legislatively approved budget. Growth in intergovernmental service charges and position roll-up costs from 2005-07 are the major elements of that increase.

The Governor's budget adds $281,408 General Fund, $11,965 Federal Funds, and three positions (1.63 FTE) for Program Support staffing based on funded caseload growth in the facility and community programs. To assure OYA complies with provider and client eligibility criteria for federal Medicaid reimbursement for Behavioral Rehabilitation Services in residential treatment placements, two new full-time positions are added ($290,315 General Fund, $60,645 Other Funds).

The Program Support budget includes $99,999 Other Funds to pay the capitalized costs of issuance for $4.3 million in certificates of participation for the agency's 2007-09 capital projects. The related debt service and project construction costs are included in the Debt Service and Capital Construction budgets.

OYA – Debt Service

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	10,579,564	6,567,593	6,567,593	7,211,684
Other Funds	0	61,585	61,585	0
Total Funds	**$10,579,564**	**$6,629,178**	**$6,629,178**	**$7,211,684**

Program Description

OYA pays debt service on certificates of participation (COPs) issued through the Department of Administrative Services. COPs have been issued for construction of OYA's regional facilities, fencing, and property transactions. OYA has also paid for Juvenile Justice Information System COPs issued in 1998 and for Hillcrest remodeling COPs related to suicide prevention issues.

Budget Environment

OYA's debt service payments have been declining as its shorter-term financing is repaid. At the current time, only obligations for regional facility construction remain. All existing debt obligations will be paid in April 2012. For the 2005-07 biennium, OYA used $61,585 Other Funds as a one-time offset to General Fund for the debt service payments. The Other Funds came from the closeout of accounts related to prior COP issuances.

Governor's Budget

The $7.2 million General Fund budget covers OYA's existing debt service obligations for 2007-09. It also includes $580,476 General Fund for debt service on $4.3 million in COPs proposed to be issued in 2007-09 for capital expenditures at OYA's facilities (see below for details). Debt service on these COPs will increase to $1.1 million in 2009-11. If the additional COPs anticipated by the $8.6 million Capital Construction budget are issued in 2009-11, the 2009-11 budget will need to include debt service for those obligations as well.

OYA – Capital Improvements

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	1,047,430	630,815	630,815	650,370
Other Funds	157,361	0	0	0
Total Funds	**$1,204,791**	**$630,815**	**$630,815**	**$650,370**

OYA – Capital Construction

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	0	0	0	8,605,000
Total Funds	**$0**	**$0**	**$0**	**$8,605,000**

Program Description

The capital budgets reflect spending on OYA's 79 buildings, which have a $126.6 million replacement value. Capital Improvement covers land and building improvements, including major repair or replacement, which cost more than $5,000 but less than $500,000. Capital Construction projects include land acquisition and new construction or major renovation projects costing $500,000 or more.

Budget Environment

OYA currently has a physical capacity of 1,031 close custody beds, down from the capacity at the start of the 2005-07 biennium. In 2006, OYA permanently closed the soft-sided structures that were put up at MacLaren in 1994 as temporary housing due to leakage and other deterioration problems.

The regional youth correctional facilities completed in 1997 are in good shape, although maintenance costs are increasing. Most of OYA's other facilities are much older, in generally good repair for their age, but need improvements in safety, security, and functionality. The Hillcrest and MacLaren facilities have significant problems with heating and electrical systems. OYA has also repeatedly identified a need to replace Whiteaker Hall, the aging and deteriorating administration building at MacLaren, but the project has not been funded. The oldest building OYA uses is the Corvallis House, which was constructed in 1913. The building has high maintenance costs and a long list of deferred maintenance projects. Funding for capital expenditures has been limited in recent biennia, with OYA able to address only the most critical or emergent facility needs.

Governor's Budget

The Capital Improvement budget continues funding at the 2005-07 budget level adjusted for inflation.

The budget adds $8.6 million in Capital Construction expenditure limitation, to be funded by revenues from certificates of participation issued in 2007-09 and 2009-11. OYA expects to spend about $4.2 million during the 2007-09 biennium to begin replacement of the Whiteaker Building at MacLaren, remodel the Corvallis House, and address various deferred maintenance needs in OYA's facilities. This work is expected to continue through the 2009-11 budget. The balance of the Capital Construction expenditure limitation will be available through the 2011-13 biennium. Details of the planned expenditures will need to be reviewed by the 2007 Legislature.

New close custody beds are not being added for 2007-09 because existing physical capacity is adequate to house the 995 beds funded in the Governor's budget.

ECONOMIC AND COMMUNITY DEVELOPMENT

County Fairs – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Lottery Funds	2,350,174	3,344,827	3,444,827	3,347,494
Total Funds	**$2,530,174**	**$3,344,827**	**$3,344,827**	**$3,347,494**

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 deposited into the County Fair Account. That account is administered by the County Fair Commission. ORS 565.445 requires the Commission to distribute the monies each January in equal shares to county fair boards.

Revenue Sources and Relationships

ORS 565.447 allocates 1% of the net proceeds of the lottery to the County Fair Account, but not to exceed $1.55 million per year, adjusted biennially by the change in the Consumer Price Index.

Budget Environment

The 2003 Legislature transferred the funding to the Department of Administrative Services (DAS) for pass-through to the County Fair Account. 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.

Governor's Budget

The Governor's recommended budget includes $3,347,494 Lottery Funds for county fairs in the DAS budget. That amount will have to be increased by the Legislature to adjust for changes in the Consumer Price Index.

Economic and Community Development Department (OECDD) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	1,175,089	1,268,049	1,797,951	4,220,781
Lottery Funds	68,126,282	94,359,479	95,494,512	162,336,890
Lottery Funds Carryover	7,317,000	* 8,958,780	* 8,958,780	6,861,705
Other Funds	31,173,025	39,971,027	38,506,442	41,017,546
Federal Funds	29,096,098	36,037,984	36,067,401	36,340,253
Other Funds (NL)	223,068,617	** 287,806,566	** 292,763,338	300,812,712
Total Funds	**$359,956,111**	**$468,401,885**	**$473,588,424**	**$551,589,887**
Positions	127	116	121	128
FTE	115.91	115.00	118.58	127.92

** This number includes $3.35 million in excess limitation from an error in the budget bill. The Department of Administrative Services has unscheduled this excess limitation.*
*** 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.*

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 the 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 five budgetary divisions:
- The *Operations* 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.
- 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.
- *Lottery Funds Debt Service* is used exclusively for debt service on lottery bonds.

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 the 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 the business community to create new jobs and retain existing jobs. The agency was directed by budget note to report to the Emergency Board on the use of the Strategic Reserve fund, including planned and actual outcomes. The 2005 Legislature added $7 million in Lottery Funds for an Innovation Economy initiative and added staff to support this initiative.

The 2003-05 budget reflected actions taken by OECDD to streamline its operations and refocus its efforts towards the primary goal of assisting businesses to create new jobs and retain existing jobs. The total reduction resulting from this effort was $27 million and 10.62 FTE. The 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. The Emergency Board approved a reorganization plan that added 5 positions (3.58 FTE) and approved the conversion of Lottery Funds debt service (that otherwise would have reverted to the Department of Administrative Services Economic Development Fund) to support the additional staff needed to address agency workload.

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 with a net Strategic Reserve Fund allocation 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 to the Strategic Reserve Fund contingent on Lottery Funds revenue exceeding the end of session forecast. These funds were allocated in Fiscal Year 2006, which provided the Strategic Reserve with total funding of $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 to be achieved based on the funding level provided in the line item allocation. The Commission will report to the 2007 Legislature on the outcomes.

- Established dedicated line item funding of $1.5 million for business development services for minority, women and small businesses. 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 to be achieved based on the funding level provided in the line item allocation. The Commission will report to the 2007 Legislature on the outcomes.

- Reduced the corpus of the Community 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 required reductions to industry sector outreach and business recruitment and retention services.

Governor's Budget

The Governor's recommended budget provides $551.6 million total funds and 127.92 FTE. This represents an increase of $173.6 million (46%) above the 2007-09 essential budget level. Most of this increase ($102 million) is in Nonlimited Other Funds, from a policy package to capitalize infrastructure development through the sale of lottery-backed bonds. The Governor's budget does not include any debt service in the 2007-09 biennium for this bond sale. Debt service in the 2007-09 biennium is estimated at $58 million, and will increase to $80.1 million in 2009-11 with the $22.1 million roll-up cost for the infrastructure debt. In addition, the Governor's budget includes $67.9 million in Lottery Funds policy packages, $2.9 million in General Fund policy packages, and an increase of 7.92 FTE for a variety of initiatives that will be described in detail in the program units.

OECDD – Operations

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Lottery Funds	14,418,766	15,560,783	16,372,325	18,549,541
Lottery Funds Carryover	167,000	464,534	464,534	
Other Funds	6,409,561	8,465,100	8,936,998	10,390,550
Federal Funds	893,676	1,435,304	1,464,721	1,685,117
Total Funds	**$21,889,003**	**$25,925,721**	**$27,238,578**	**$30,625,208**
Positions	109	107	112	119
FTE	106.97	107.00	110.58	119.00

Program Description

The Director of OECDD is appointed by the Governor and confirmed by the Senate. Operations include the Office of the Director; Program Support, which includes fiscal services, employee services, and information services; and Program Delivery, which 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 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 2007-09 include $18.5 million in Lottery Funds, $1.7 million in Federal Funds for administration of federal programs and the Community Development Block Grant program, and $10.4 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 were 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 also added 1 position to support the Innovation Economy program. The Emergency Board approved an increase of $626,480 total funds and 5 positions (3.58 FTE) to address workload needs.

Governor's Budget

The Governor's recommended budget is $30.6 million total funds and 119.00 FTE for Operations, which is an increase of $2.3 million (14%) above the 2005-07 legislatively approved budget. The Governor's budget includes 8 policy packages, at a total cost of $1.1 million and 6 positions, including:

- *Innovation and Economic Strategy Public Affairs position*: $200,000 Lottery Funds and 1 position (1.00 FTE).
- *Telecommunications Specialist Fund Shift*: Shifts $179,071 from Other Funds initially from the SB 622 Qwest Telecommunication funds, which have been fully expended, to Lottery Funds.
- *Workforce Investment staffing*: $200,000 Lottery Funds and 1 position (1.00 FTE) to support the Workforce Investment package described in the Community Development program.
- *Technology Investment*: $396,000 Lottery Funds and $264,000 Other Funds to develop a project tracking system that will provide timely information on projects, including performance outcomes.
- *Community Development Block Grant Fiscal Analyst*: $80,000 Other Funds and $80,000 Federal Funds and 1 position (1.00 FTE) to centralize all fiscal tasks related to the program.
- *Business Finance Officer*: $150,000 Other Funds and 1 position (1.00 FTE) to handle an increase in business finance loans, collections, and portfolio management workload.
- *Contracts Specialist*: $31,231 Lottery Funds and $135,000 Other Funds and 1 position (1.00 FTE) to handle an increase in contract workload and to reduce contract processing time.
- *Transportation Liaison Position*: $200,000 Other Funds and 1 position (1.00 FTE) to enhance coordination between economic development and transportation initiatives. This position is currently filled with limited duration staff.

OECDD – Community Development Fund

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Lottery Funds	13,411,499	29,534,473	29,534,473	84,507,118
Lottery Funds Carryover	7,150,000	* 7,850,143	* 7,850,143	6,861,705
Other Funds	23,265,786	23,951,166	23,951,166	24,692,722
Federal Funds	26,955,184	32,910,538	32,910,538	32,910,538
Other Funds (NL)	186,263,236	287,806,566	290,806,566	300,812,712
Total Funds	**$257,045,705**	**$382,052,886**	**$385,052,886**	**$449,784,795**

** This number includes $3.35 million in excess limitation from an error in the budget bill. The Department of Administrative Services has unscheduled 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 includes federal resources used to finance local programs and projects. It also includes Other Funds resources used to finance local programs and projects, through loans and grants, and includes Other Funds resources for business finance. Each federal and Other Funds resource retains its identity for purposes of eligibility and reporting, but is considered part of the Community Development Fund for statewide resource prioritization and allocation.

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 agency will report to the 2007 Legislature on these outcomes.

Revenue Sources and Relationships

Community 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 $52.1 million in interest income and $71.2 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 $22.5 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 (IDRB). The Governor will recommend that the IDRB bonding authority for 2007-09 be increased to $400 million. 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. The 2005-07 legislatively adopted budget included $90.5 million in Nonlimited Other Funds, reflecting increased bonding and loan repayments in the various revolving loan programs. The increase included $45 million in lottery-backed bond proceeds for brownfields redevelopment and industrial land infrastructure development. The budget also included $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.

Governor's Budget

The Governor's recommended budget is $449.8 million total funds, which is an increase of $6437 million (17%) above the 2005-07 legislatively approved budget. The Governor's budget includes 8 policy packages, at a total cost of $168.4 million, including:

- *Oregon InC "Innovation Plan"*: $38,172,000 Lottery Funds to continue funding for the Oregon Nanoscience and Microtechnologies Institute (ONAMI); potentially create an additional Signature Research Center in a key emerging technology, such as advanced energy or open technology; and for potential state partnership / investment in industry lead initiatives.
- *Workforce Investment*: $14,800,000 Lottery Funds to support the Workforce Investment package, including targeted training programs in industry clusters. The funds would also be used to leverage current funding from the Federal Employer Workforce Training Fund that currently does not meet the needs of Oregon's industries.
- *Small Business Services*: $5,600,000 Lottery Funds to restore small business services to minority, women, and emergency business and support Small Business Development Centers. By creating a line item appropriation for these programs, the 2007 Legislature created a one-time grant program that will expire at the end of the 2005-07 biennium. This package restores base budget status for these programs.
- *Infrastructure Capitalization*: $102,030,079 Nonlimited Other Funds from the sale of Lottery backed bonds for infrastructure development, such as water / wastewater projects, industrial park infrastructure, and transportation enhancements for economic development projects. Note that the Governor chose not to fund any debt service for this package, which will require the sale to occur late in the 2007-09 biennium and will result in a 2009-11 roll-up cost of $22.1 million.
- *Marketing/Branding Investment*: $2,050,000 Lottery Funds to create Brand Oregon campaigns and promotions that apply to Oregon's key industries.

- *Business Retention Services*: $350,000 Lottery Funds to increase funding for targeted services to troubled businesses from $150,000 to $500,000.
- *Lean and High Performance Manufacturing*: $1,000,000 Lottery Funds to increase funding for targeted assistance to Oregon companies to support lean or high performance manufacturing technologies.
- *Restore Regional and Rural Investment Funding*: $4,405,527 Lottery Funds to increase funding for local economic development capacity and restore funding to the pre-2001-03 biennial level.

OECDD – Film and Video Office

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Lottery Funds	821,880	841,605	841,605	1,281,695
Total Funds	**$821,880**	**$841,605**	**$841,605**	**$1,281,695**

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. OECDD 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 $985.7 million in economic output and 11,179 jobs in 2005.

Revenue Sources and Relationships

The state-funded portion of the Office budget is from Lottery Funds.

Governor's Budget

The Governor's recommended budget is $1,281,695, which is an increase of $440,000 (52%) above the 2005-07 legislatively approved budget. The budget includes two policy packages at a total cost of $414,000, including:
- *Marketing*: $330,000 Lottery Funds to increase marketing efforts.
- *Operations*: $84,000 Lottery Funds to add a part time position for maintenance, recruiting, and weekly communication with over 75 local liaisons throughout the state to attract film and video productions.

OECDD – Arts Commission

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	1,175,089	1,268,049	1,797,951	4,220,781
Other Funds	1,497,678	5,597,989	5,618,278	5,934,274
Federal Funds	1,247,238	1,692,142	1,692,142	1,744,598
Total Funds	**$3,920,005**	**$8,558,180**	**$9,108,371**	**$11,899,653**
Positions	8	9	9	9
FTE	6.84	8.00	8.00	8.92

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, to the Arts Commission. The mission of the Oregon Cultural Trust is to build a new public-private fund to support arts, humanities, and heritage sectors.

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 would result in improved efficiencies and that funds raised for the Trust would help to support the Commission. However, program revenue was not sufficient to support the staffing approved in the transfer.

The 2005-07 legislatively adopted budget provided $8.6 million total funds and 8.00 FTE. This represented an increase of $4.9 million (134.3%) above the 2003-05 legislatively approved budget. Most of this increase was $4.6 million in Other Funds limitation from revised estimates of the funds available for grants and administration out of the Cultural Trust Account.

Governor's Budget

The Governor's recommended budget is $11,899,653, which is an increase of $2.8 million (31%) above the 2005-07 legislatively approved budget. The budget includes two policy packages at a total cost of $3.1 million and 1 position (1.92 FTE), including:

- *Cultural Trust Affairs Position*: $192,000 Other Funds and 1 position (1.00 FTE) to convert a limited duration position, funded with a Murdock Charitable Trust grant, to permanent, with funding from the Cultural Trust to maintain public and private support for culture.
- *Creative Oregon Initiative*: $2,891,676 General Fund, $8,324 Other Funds, and 0.92 FTE to stimulate increased activity in the creative sector, to enhance Oregon's economic development competitiveness. This package converts (increases) two part-time FTE into two full-time FTE.

OECDD – Lottery Debt Service

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Lottery Funds	38,212,931	48,422,618	48,746,109	57,998,536
Lottery Funds Carryover	0	644,103	644,103	0
Other Funds	0	1,956,772	1,956,772	0
Other Funds (NL)	36,805,381	0	0	0
Total Funds	*** $75,018,312**	**$51,023,493**	**$51,346,984**	**$57,998,536**

** 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. The 2005-07 legislatively adopted budget provided $51 million total funds, an increase of $11.8 million (30%) above the 2003-05 legislatively approved budget from rollup costs for debt service on previously authorized infrastructure bonds. The 2005 Legislature authorized the use of $1.9 million in Other Funds from interest earnings on lottery-bond reserves and proceeds for the debt service on the $45 million in bonding authority for industrial lands infrastructure. The 2007-09 debt service cost is forecast to increase by $7 million. This does not include any debt service for the Governor's proposed infrastructure bond sales of $102 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.

Governor's Budget

The Governor's recommended budget funds this program at the essential budget level of $57,998,536.

Employment Department (OED) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	3,458,184	3,584,245	3,714,007	3,891,934
Other Funds	90,207,885	103,567,621	109,362,948	118,467,776
Federal Funds	255,651,773	250,290,816	250,528,265	243,709,505
Other Funds (NL)	1,707,672,581	1,328,108,136	1,328,108,136	1,436,098,557
Total Funds	**$2,056,990,423**	**$1,685,550,818**	**$1,691,713,356**	**$1,802,167,772**
Positions	1,452	1,431	1,431	1,288
FTE	1,414.02	1,368.12	1,368.12	1,273.35

Agency Overview

The Employment Department (OED) offers services in five program areas:

- Unemployment Insurance (UI) provides wage replacement income to workers who are unemployed through no fault of their own.
- Business and Employment Services offers job listing and referrals services and career development resources.
- Child Care promotes and regulates the child care industry.
- Workforce and Economic Research coordinates the collection and dissemination of occupational and economic climate data for the state, workforce regions, and counties.
- Office of Administrative Hearings conducts contested cases for approximately 70 state agencies.

Revenue Sources and Relationships

Sources of Other Funds revenues include:

- The *Oregon UI Trust Fund*, with a projected balance of $1.5 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 by July 2008 and 0.09% of taxable wages will be collected from employers to support SEDAF beginning in 2007.
- *Reed Act* funds, in the amount of $98 million, were distributed to OED as Other Funds from the federal Employment Security Administration Account in 2002. Future distributions are not anticipated. These funds can be spent over multiple biennia, but only for expenditures relating to UI and Employment Services administration. The Governor's recommended budget assumes spending $16.9 million in 2007-09. The remainder of these funds, approximately $25 million, will be expended through 2011-13, allowing the agency to downsize gradually to operate within limited or discontinued Federal Funds.
- The *Special Administrative Fund* receives revenues from penalties and interest on delinquent payment of employer taxes. These funds are designated for administrative expenses or other needs as determined by the Director of the Department. The Governor's recommended budget expends $6 million, leaving an estimated ending balance of $5 million.
- 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 Governor's recommended budget expends $4 million, leaving an estimated ending balance of $1 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 program was discontinued at the end of the 2003-05 biennium. Proposed legislation to divert additional funding and extend the operations of the program failed to pass. Approximately $293,000 remains in the fund to pay future potential claims against this program.
- The *Child Care Fund* consists of donations received through the *Child Care Contribution Tax Credit* program. Donors receive tax credits of $0.75 for each dollar contributed to the Child Care Division, up to $500,000 total credits each year. All available tax credits are anticipated to be purchased for 2007 and 2008 resulting in $1.33 million in revenue, which is used to fund demonstration projects pursuant to statute. The

demonstration projects selected by the Department are designed to show the effects of simultaneously increasing quality of care affordability and provider compensation. The tax credit is scheduled to sunset on December 31, 2008. This fund also includes the licensing fees from child care providers, which are assumed to be $743,000 for the 2007-09 biennium.

OED also receives Other Funds revenues from other state agencies for providing job placement services and conducting contested case hearings. The Governor's recommended budget continues 25 limited duration positions for this purpose, as described in the Business and Employment Services section below.

Sources of Federal Funds revenue include:

- *Employer payroll taxes* collected by the Internal Revenue Service under authority of the Federal Unemployment Tax Act (FUTA). During the 2007-09 biennium, an estimated $92.4 million will be distributed by the U.S. Department of Labor for administration of the Unemployment Insurance Program, and an additional $22.8 million is expected for employment services provided under the Wagner-Peyser Act, the Trade Adjustment Act, and for veterans placement services.
- *Child Care and Development Fund (CCDF)*, authorized under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, to assist low-income families, families receiving temporary public assistance, and those transitioning from public assistance in obtaining child care so they can work or attend education / training, is allocated by the U.S. Department of Health and Human Services. An estimated $122.5 million will be received during the 2007-09 biennium. Approximately 82% of these funds are reallocated to child care related programs at other state and local agencies.

Budget Environment

Economic conditions and trends directly affect OED's policy decisions and workload. During times of economic recession, high unemployment rates increase the number of clients served through Unemployment Insurance payments and job search services in field offices.

The economic improvement experienced in Oregon since 2005 is expected to continue through the 2007-09 biennium. Fewer Oregonians are unemployed, resulting in a decrease in workload for the Unemployment Insurance Division; as a result, the 2007-09 essential budget level reduces 20.00 FTE in this Division.

Federal funding makes up 66.6% of OED's Nonlimited budget. Most of that revenue is flat or declining in the 2007-09 biennium and for the foreseeable future. By contrast, the agency's expenses (particularly in the area of personal services) are rising faster than the historically assumed annual inflation factor of 3.5%. To ensure a balanced budget in 2007-09, OED unveiled a downsizing plan in the spring of 2006. The plan called for achieving reductions of FTE through attrition, reducing services and supplies costs, consolidating field offices from 48 to 37 locations, and shifting some positions from Federal Funds to sustainable Other Funds sources where possible. The Governor's recommended budget incorporates the downsizing plan by including a revenue reduction package that affects all divisions of the agency with the exception of the Child Care Division, and includes essential budget packages to shift funding for some positions from Federal Funds to Other Funds. The agency expects to have to make further reductions in the 2009-11 biennia, which may entail additional reductions in staff and locations served absent an increase in Other Fund revenues to offset federal revenue declines.

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). It is assumed that savings from the consolidation will mitigate some of the revenue shortfalls the agency will have to absorb in future biennia, although return on the initial investment of $5.8 million is taking longer than initially expected.

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. The Joint Legislative Audit Committee did not acknowledge receipt of the report, and OED and its partner agencies will present information to the 2007 Legislature.

OED – Unemployment Insurance

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	7,920,328	14,080,956	15,545,716	17,904,827
Federal Funds	104,137,814	98,803,949	98,803,949	92,440,451
Total Funds	**$112,058,142**	**$112,884,905**	**$114,349,665**	**$110,345,278**
Positions	677	623	623	545
FTE	652.96	597.93	597.93	537.80

Program Description

The Unemployment Insurance program determines eligibility for benefits, processes benefit payments, enforces UI laws, collects employer payroll taxes, and provides support to the Employment Appeals Board (EAB). EAB, made up of three Governor-appointed members, is a separate and federally funded entity located within OED for administrative purposes and is responsible for reviewing decisions of the Office of Administrative Hearings on benefit cases.

Governor's Budget

The Governor's recommended budget reflects a 2.25% decrease from the 2005-07 legislatively approved budget. Due to revenue constraints, the UI Division will be reducing staff by 15.00 FTE from the essential budget level and 60.13 FTE from the legislatively approved level due to the phase out of season positions (26.12 FTE) and a reduction in UI caseload (19.01 FTE) resulting from a stronger economy and fewer claimants. The impact of the reductions will be realized in longer wait times (15 to 30 minutes) when claimants call for service, longer waits for eligibility determinations, and a reduction in the number of audited employer accounts.

OED – Business and Employment Services

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	0	54,000	54,000	0
Other Funds	56,025,780	59,711,616	62,366,504	67,362,552
Federal Funds	28,833,893	26,714,989	26,714,989	22,850,122
Total Funds	**$84,859,673**	**$86,480,605**	**86,480,605**	**$90,212,674**
Positions	505	539	539	481
FTE	496.06	506.19	506.19	478.05

Program Description

This program's mission supports businesses and promotes employment. Services are provided through field offices which recruit and refer qualified applicants to employers by matching the skills of the job seeker with employer job openings. Job seekers and employers can access employment information through interactive job services on OED's website. OED coordinates services with other Workforce partners to help customers access training, skills assessment counseling, and employability planning.

Governor's Budget

Overall, the Governor's recommended budget reflects an increase of 4.3% from the 2005-07 legislatively approved budget. However, $54,000 of General Fund revenue that was approved in 2005-07 for veterans transportation was discontinued, and several sources of Federal Funds have been reduced (the Wagner-Peyser grant for reemployment services, and the Local Veterans Employment Representative Program), or discontinued (Claimant Reemployment grant). To accommodate these changes, the Governor's budget reduces the number of FTE by 28.14 from the legislatively approved budget, and shifts the funding for 17 positions from Federal Funds to the Other Funds (SEDAF) to avoid further reductions. HB 2127 (2005) dedicated a portion of UI taxes (0.09% of taxable wages) collected from employers to SEDAF, making this a sustainable funding source for these positions.

The personnel reductions are in both the administrative sections of OED and the field offices. The field reductions will be accomplished by consolidating offices from 48 to 38, reducing services and supplies, and eliminating 148 kiosks from public locations throughout the state, from which employers and job seekers are able to access employment information.

The Governor's budget also includes position authority and expenditure limitation for 25 limited duration positions to provide job placement services under contract to partner and state agencies. OED utilizes the positions to respond to state and local agencies that contract with OED to place individuals from training programs (such as vocational rehabilitation, the JOBS program at DHS, and various workforce training programs at community colleges). A similar package has been approved for the last seven biennia with greater or lesser numbers of positions depending on the workload estimates of partner agencies. Not all authorized positions have been fully utilized in the past (in 2003-05 and 2005-07, approximately 21 of the 25 authorized limited duration positions were filled); the positions are only filled when there is sufficient workload and funding availability, on a fee-for-service basis.

OED – Child Care

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	3,458,184	3,530,245	3,660,007	3,891,934
Other Funds	526,811	2,279,439	2,312,066	2,524,446
Federal Funds	116,239,125	118,106,847	118,344,296	122,488,174
Total Funds	**$120,224,120**	**$123,916,531**	**124,316,369**	**$128,904,554**
Positions	74	74	74	74
FTE	69.50	69.50	69.50	70.00

Program Description

The Child Care Division ensures that families have access to child care information and services; establishes basic standards for child care services; licenses and inspects child care centers, family homes, and regulated providers; enforces mandatory registration of family child care providers; and staffs the Child Care Commission (CCC). CCC advocates and advises the Governor and Legislature on affordable, quality child care in Oregon.

Governor's Budget

The Governor's recommended budget represents a 3.69% increase over the 2005-07 legislatively approved budget primarily due to inflation and state agency price list adjustments. The Governor's budget shifts 0.50 FTE and associated services and supplies from Federal Funds to Other Funds related to administration of the Child Care Contribution tax credit program.

OED – Workforce and Economic Research

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	4,759,021	5,855,728	6,292,673	7,373,514
Federal Funds	6,440,941	6,665,031	6,665,031	5,930,758
Total Funds	**$11,199,962**	**$12,520,759**	**12,957,704**	**$13,304,272**
Positions	72	71	71	69
FTE	71.50	70.50	70.50	68.50

Program Description

This program coordinates the collection and dissemination of occupational and economic climate data for the state, workforce regions, and counties, and is Oregon's designated employment statistics agency under the federal Workforce Investment Act. Businesses and individuals can access data through monthly and annual publications such as *Labor Trends*, which outlines payroll, unemployment, and other economic-related issues by workforce region, or through 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.

Governor's Budget

As in other divisions, the Governor's recommended budget for the Workforce and Economic Research Division reflects budget reduction measures to adjust for reductions in Federal Funds. The Governor's recommended budget eliminates 2.00 FTE and shifts funding for 8 positions and associated services and supplies from Federal Funds to Other Funds. The shifted positions will be funded from SEDAF, and additional fees and charges expected to be generated by applying a more consistent policy of charging fees for specially requested research and publications. Overall, the Governor's budget reflects a 2.67% increase over the 2005-007 legislatively approved budget.

OED – Office of Administrative Hearings

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	20,975,945	21,639,882	22,476,074	23,302,437
Total Funds	**$20,975,945**	**$21,639,882**	**22,476,074**	**$23,302,437**
Positions	124	124	124	119
FTE	124.00	124.00	124.00	119.00

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.

Governor's Budget

The Governor's recommended budget reflects a 3.7% increase over the 2005-07 legislatively approved budget. However, due to Federal Funds reductions incurred by the Unemployment Insurance Division, there are insufficient Federal Funds to support UI administrative hearing services at the essential budget level. As a result, OAH is eliminating 5 positions (5.00 FTE and $523,417) and associated services and supplies ($195,755) from the legislatively approved budget level.

OED – Nonlimited

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds (NL)	$1,707,672,581	$1,328,108,136	$1,328,108,136	$1,436,098,557
Total Funds	**$1,707,672,581**	**$1,328,108,136**	**$1,328,108,136**	**$1,436,098,557**

Program Description

Payments of unemployment benefits to qualified applicants (associated with the Unemployment Insurance Division of OED) and federal Trade Adjustment Act payments (associated with the Business and Employment Services Division of OED) are budgeted as Nonlimited.

Governor's Budget

UI payments are estimated to be $1.42 billion in 2007-09, or 6.9% higher than the legislatively approved level because of assumed wage inflation. Trade Act payments are assumed to be $18 million in 2007-09, a 2.7% reduction from the 2005-07 legislatively approved level.

Oregon Historical Society – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Lottery Funds	0	0	0	2,818,000
Total Funds	**0**	**0**	**0**	**$2,818,000**

Agency Overview

The Oregon Historical Society (OHS) was chartered by the state in 1898 to collect, preserve, exhibit, and publish materials of a historic character. It serves Oregonians through six broad program categories. The Collections program preserves artifacts, books, photographs, films, manuscripts, recordings, and oral histories. The Support program provides support of local historical societies, museums, and heritage efforts statewide. The Facilities program includes the Oregon History Center's regional research library and museum and other sites. Education programs include the Society's mobile museum, school services (traveling artifact kits, museum programs, films, and slide shows), group tours, Folklife and public events, and teacher workshops. The Publications program produces the *Oregon Historical Quarterly* and books from its press. Heritage Services include coordination of the Century Farms and Ranch Program, the Oregon Geographic Names Board, liaison with more than 120 heritage organizations statewide, a speaker's bureau, and staff service on numerous councils, committees, and commissions.

Revenue Sources and Relationships

OHS is a nonprofit organization that is financed largely by membership fees, contributions, and publication sales. The state used to provide a supplemental grant through the Department of Administrative Services. However, that support stopped after the 2001-03 biennium. In the past, the state grant amounted to slightly more than 10% of Society's operating budget. The balance of the Society's budget has come from restricted gifts and grants, memberships and unrestricted grants, grants from local governments, operations, and investment income and bequests.

Budget Environment

OHS has sought to reestablish the grant in the past. However, budgetary constraints caused the Legislature to provide substantially reduced funding during the recession in the 2001-03 biennium, and no funding in following biennia.

Governor's Budget

The Governor's recommended budget provides OHS with $2,818,000 Lottery Funds through the Department of Parks and Recreation Heritage Programs. The funding is provided for an initiative to preserve historical downtown business districts through the new Main Street Program.

Housing and Community Services Department (HCSD) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	9,795,633	10,868,769	10,872,777	22,922,600
Lottery Funds	4,462,310	4,460,538	4,460,538	6,085,943
Other Funds	72,881,359	79,494,188	80,262,873	106,515,665
Federal Funds	109,240,932	103,372,888	114,126,588	116,576,772
Other Funds (NL)	1,698,370,295	2,194,299,456	2,194,299,456	1,807,419,156
Federal Funds (NL)	100,481,632	101,600,000	101,600,000	104,750,000
Total Funds	**$1,995,232,161**	**$2,494,095,839**	**$2,505,622,232**	**$2,164,270,136**
Positions	153	150	150	146
FTE	148.46	147.08	147.08	142.92

Note: Prior to the 2005-07 biennium, the budget for the Housing and Community Services Department has been reviewed and approved as one program. From 2005-07 forward, five programs will now be displayed to assist interested parties in better understanding the budget. While the totals for the 2003-05 Actual 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 for the 2003-05 biennium.

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.

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 November 2006, $20 million had been issued. The Governor's recommended budget does not anticipate issuing additional LRBs for Community Incentive Fund projects through HCSD during the 2007-09 biennium.

Federal Funds are received from a variety of federal agencies including the HOME Investment Partnership Program, Section 8 rent subsidies, Community Development Block Grant, 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 the end of fiscal year 2005, HFF held $ 21.1 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.

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. The transfers from HFF to backfill General Fund reductions to the agency, along with market conditions and the low interest rate environment of the past several years have had negative impact on agency loan portfolios and cash flow. For example, the lower interest rate environment of 2001-2004 resulted in customers having more options regarding low cost housing loans, low interest rates during that time affected investment earnings, and more customers paid off or prepaid loans. As interest rates have risen, HCSD has begun to see some improvement in its cash flow, but not enough to offset rising costs related to personnel, state assessments, and debt issuance. Therefore, HCSD proposed reduction options to balance its budget, and some of these were incorporated into the Governor's recommended budget. The reductions consist primarily of personnel 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. In 2005-07, $1.6 million is expected to be transferred 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 made its transition to the consolidated data center in April 2006. Position authority for two positions was transferred to the State Data Center as a result of this migration.

Governor's Budget

The Governor's recommended budget of $2.16 billion total funds is a decrease of $341.4 million, or 13.6%, from the 2005-07 legislatively approved budget. Most of the decrease is attributable to savings of debt service costs due to changes in the way HCSD issues short-term debt obligations that are budgeted as Nonlimited Other Funds. The Governor's budget includes a $2 million capital infusion to the HCSD Housing Finance Fund, $1.5 million for hunger relief efforts, and more than $24 million for housing preservation and development of housing with wraparound services for the homeless population. Specific proposals will be outlined in the program areas.

HCSD – Energy/Weatherization

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	32,167,786	37,345,600	37,372,097	38,669,125
Federal Funds	54,104,777	56,182,313	58,501,297	60,498,718
Total Funds	**$86,272,563**	**$93,527,913**	**$95,873,394**	**$99,167,843**
Positions	7	7	7	7
FTE	7.00	7.00	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.

Governor's Budget

The Governor's recommended budget of $99.2 million increases expenditure limitation by $3.3 million to reflect updates in Federal Funds projections and disbursements due to federal program restoration.

HCSD – Self-Sufficiency/Emergency Assistance

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	9,008,049	9,866,811	9,870,819	12,023,079
Lottery Funds	0	0	0	436,021
Other Funds	9,033,580	9,240,795	9,346,784	13,966,045
Federal Funds	15,059,578	12,403,345	15,938,431	16,345,453
Federal Funds (NL)	100,481,632	101,600,000	101,600,000	104,750,000
Total Funds	**$133,582,839**	**$133,110,951**	**$136,756,034**	**$147,520,598**
Positions	30	24	24	28
FTE	25.96	23.50	23.50	25.92

Program Description

Self-Sufficiency / Emergency Assistance services are provided to very low-income Oregonians to help meet short-term, daily needs for food and shelter.

- *Rental Assistance* includes subsidizing housing costs and, in some cases, developing a self-sufficiency plan to assist individuals with other support, counseling, and training to avoid on-going reliance on assistance. Resources for this purpose include federal Section 8 rental assistance payments and HOME-Tenant-Based Assistance Program payments which subsidizes rental payments for low-income families and individuals from HUD, as well as transfers from the state Judicial Department's Low Income Rental Housing Fund which consists of fees associated with eviction notice filings and interest on security deposits.
- *Homeless Assistance* targets homeless or those at risk of becoming homeless to provide for the costs of emergency shelter, transitional housing, and prevention activities such as training and employment assistance and counseling services. HCSD receives both General Fund and Federal Funds for homeless programs. HUD funds the Emergency Shelter Grant Program and the Continuum of Care program which facilitates housing, mental health, and other services to holistically address homelessness in rural counties.
- *Food Programs* partner with the Oregon Food Bank to coordinate the distribution of donated foods through regional coordinating agencies and direct service agencies. HCSD also delivers food grants through the Community Action Program of Eastern Oregon (CAPECO) and the Salvation Army. Funding comes from the General Fund, the federal Department of Health and Human Services, and the United States Department of Agriculture.

Governor's Budget

The Governor's recommended budget of $147.5 million is a $10.8 million increase over the 2005-07 legislatively approved budget; $3.2 million of additional Federal Funds Nonlimited is included as a base budget inflationary adjustment related to project-based Section 8 housing payments.

The Governor's budget provides funding over the essential budget level for the following initiatives:

- $4 million in Other Funds from lottery bond proceeds to fund social services to the homeless and two positions at 0.50 FTE each for project coordination and office support services. The majority of the funds ($3.8 million) would be available as grants to community action agencies, and HCSD would directly monitor the project plans and services provided through the community action partners.
- $1.5 million General Fund to increase the capacity of the Oregon Food Bank Network, and establish 2.50 FTE to establish the Oregon Food Policy Council and support and staff the Hunger Relief Task Force (which advocates for hunger relief and seeks methods to improve the distribution of food to the needy) and the Ending Homelessness Advisory Council (established by Executive Order and charged with developing a strategic plan to end chronic homelessness). The goal of the Food Policy Council is to integrate public and private stakeholders that are involved in food production and distribution "from seed to table," finding better ways to get food to those who need it. Council members will include farmers, food processors, retailers, anti-hunger advocates, institutional food buyers, planners, and consumers. Funding for the agency's Food Program Coordinator position is shifted to General Fund (it is currently subsidized by other non-food programs).
- $436,021 Lottery Funds for debt service related to $12 million in lottery bond proceeds for the development and subsidy of 150 affordable housing units; additional debt service is included in the Homeownership / Affordable Rental Housing Development program.

Overall, the Governor's recommendation increases staff by 4 positions and 2.42 FTE for this program unit.

HCSD – Community Capacity Building

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Lottery Funds	4,462,310	4,460,538	4,460,538	4,456,646
Other Funds	6,559,446	7,124,255	7,188,475	7,278,936
Federal Funds	16,122,168	17,131,130	17,256,995	17,464,291
Total Funds	**$27,143,924**	**$28,715,923**	**$28,906,008**	**$29,199,873**
Positions	14	14	14	10
FTE	14.00	14.00	14.00	10.00

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 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.

Governor's Budget

The Governor's recommended budget of $29.2 million is a 1% increase over the legislatively approved budget. The Governor's budget reflects a decrease of 4 positions (4.00 FTE) from the Community Capacity Building program unit. The reductions are implemented to balance the agency's budget, offsetting revenue shortfalls created by transfers and economic conditions that impacted the Housing Finance Fund, the primary source of operating dollars for HCSD.

HCSD – Homeownership/Affordable Rental Housing Development

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	776,250	794,880	794,880	8,899,521
Lottery Funds	0	0	0	1,193,276
Other Funds	15,350,329	14,449,908	14,738,562	36,663,004
Federal Funds	22,035,580	15,360,736	20,055,729	20,192,004
Other Funds (NL)	1,698,370,295	2,194,299,456	2,194,299,456	1,807,419,156
Total Funds	**$1,736,532,454**	**$2,224,904,980**	**$2,229,888,627**	**$1,874,366,961**
Positions	49	52	52	54
FTE	49.00	51.50	51.50	53.00

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.

Governor's Budget

The Governor's recommended budget of $1.87 billion is a total funds decrease of 15.9% from the legislatively approved level, primarily due to a $386.9 million reduction in an Other Funds Nonlimited adjustment to the agency's essential budget level due to changes in the way HCSD issues short-term debt obligations. However, the Governor's budget includes funding for development, preservation, and project-based subsidies of 150 units of affordable housing ($8.1 General Fund and $1.2 million in Lottery Funds for debt service related to $12 million in lottery bond proceeds budgeted as Other Funds).

HCSD – Program Outreach and Accountability

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	11,334	207,078	207,078	2,000,000
Other Funds	9,770,218	11,333,630	11,616,955	9,938,555
Federal Funds	1,918,829	2,295,364	2,374,136	2,076,306
Total Funds	**$11,700,381**	**$13,836,072**	**$14,198,169**	**$14,014,861**
Positions	53	53	53	47
FTE	52.50	51.08	51.08	47.00

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 as training and technical support to community action agencies and other service partners who have access to OPUS, a web-based client service system. This Division also includes the Policy, Planning, and Research section, which gathers and analyzes data on housing market dynamics, and the Communications section.

Governor's Budget

The Governor's recommended budget of $14 million includes a $1.8 million increase in General Fund to provide an infusion of capital into the Housing Finance Fund, the primary source of operating funds for HCSD. The funds mitigate the FTE reductions undertaken to balance the budget, and are intended to be used as corpus to strengthen HCSD's financial position in the eyes of the bond rating agencies. In addition, the funds will generate additional interest that can be used for agency operating expenses.

Oregon Public Broadcasting – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	0	0	0	3,750,000
Lottery Funds	1,618,965	1,622,118	1,622,118	1,619,313
Total Funds	**$1,618,965**	**$1,622,118**	**$1,622,118**	**$5,369,313**

Agency Overview

The Oregon Public Broadcasting (OPB) is an educational and public broadcasting network serving Oregon through noncommercial public television and radio stations. Its network consists of five television and four radio stations, plus 48 translator/repeaters throughout Oregon. The television stations reach an estimated 90% of Oregonians and the radio stations reach between 80% and 90% of Oregonians. Educational programming (formal and informal) is a significant portion of television, while news and information is the main thrust of radio. OPB also is part of the state's Emergency Alert System.

Revenue Sources and Relationships

The 1993 Legislative Assembly privatized OPB and provided for a supplemental grant through the Department of Administrative Services. The original grant represented about 10% of OPB's estimated revenue. Most of OPB's revenue comes from private contributions. The federal government provides some funding, and OPB also receives sales and service revenue. The operating grant to OPB was dramatically reduced during the 2001-03 biennium and no grant funds were provided in the following biennia.

In 2001, the Legislature provided OPB with a $7 million one-time grant of Lottery bond proceeds for infrastructure development. Lottery Funds used to pay debt service on the bonds has been included in the budget of the Department of Administrative Services in the Governor's recommended budget.

Budget Environment

OPB has sought reinstatement of the grant. Budget constraints precluded the Legislature from providing any grants since the 2001-03 biennium.

Governor's Budget

The Governor's recommended budget provides a General Fund grant to OPB and debt service on the Lottery Bonds as pass through payments within the budget of the Department of Administrative Services.

Department of Veterans' Affairs (ODVA) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	2,358,941	6,230,178	6,295,313	5,907,138
Other Funds	29,216,354	37,781,330	37,883,318	40,003,968
Other Funds (NL)	534,792,460	594,662,095	594,662,095	608,469,525
Total Funds	**$566,367,755**	**$638,673,603**	**$638,840,726**	**$654,380,631**
Positions	139	113	113	111
FTE	137.48	112.50	112.50	110.53

Agency Overview

The Oregon Department of Veterans' Affairs (ODVA) has three program areas: the Veterans' Loan Program, the Veterans' Services Program, and the Veterans' Home Program. The Veterans' Loan Program, funded entirely through Other Funds, provides loan servicing and Department administration. It is responsible for repayment of approximately 18% ($758 million) of the State of Oregon's general obligation debt. The Veterans' Services Program provides counseling, claims assistance, conservator services, and partnerships with counties and organizations to support local veterans' programs. The Veterans' Services Program is funded with General Fund and Other Funds which includes conservatorship fees. The Veterans' Home Program operates a skilled nursing care and Alzheimer's disease facility in The Dalles, Wasco County.

ODVA – Loan Program

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	14,231,678	16,511,818	16,511,818	16,857,199
Other Funds (NL)	534,773,582	594,662,095	594,662,095	608,469,525
Total Funds	**$549,005,260**	**$611,173,913**	**$611,173,913**	**$625,326,724**
Positions	119	82	82	78
FTE	117.58	81.60	81.60	77.63

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 $7.5 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.).

Previous federal and state statutory restrictions on the use of tax-exempt bonds to provide low-cost mortgage loans only to veterans of the Viet Nam and prior eras is reflected in the dramatic reductions in program and staff size. The federal government just removed the restriction and the program expects to make new loans the rest of this biennium and next biennium as a result. The Department closely monitors its cash flow needs to ensure that it has sufficient reserves to retire outstanding debt and maintain operations of the program.

Revenue Sources and Relationships

The largest sources of ODVA Other Funds revenues for the 2007-09 biennium are veteran loan and contract-related repayments ($240 million), interest earnings ($175 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 $79 million from existing cash reserves for this program during the 2007-09 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. Federal law now allows post-1976 veterans to access tax exempt bond proceeds for a home loan through ODVA. Authorization to states to issue such bonds, however, expires in 2011. Veterans now have 25 years from the date of their discharge to apply for these loans. An aging veterans' population, the overall reduction in armed forces, and a competitive mortgage market have impacted the demand for loans. The recent increase in market rates for home mortgages has made the Veterans' Loan Program more attractive. ODVA now expects to fund about 470 loans aggregating $50 - $60 million this biennium. It expects similar loan demand in the 2007-09 biennium. Even with the new demand for loans, the aggregate loan portfolio is not expected to exceed $800 million as older loans will be paid off.

Mortgage interest rates recently were 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 6,600 loans as compared to 10,000 in 2005 and 16,500 in 2003. 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 rates than the Department is earning on its investments, the program is suffering losses that can only be resolved with higher interest rates on investments and continued demand for loans.

Governor's Budget

The Governor's recommended budget recognizes the reduced level of loan activity. It reflects the elimination of two positions. Funding for these positions was used to reclassify other positions within the Program. It also transfers two positions from the Loan Program to the Veterans' Services Program. Funding for the positions will continue to be provided from the Loan Program through cash transfers.

ODVA – Veterans' Services

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	2,358,941	6,230,178	6,295,313	5,907,138
Other Funds	461,900	1,582,721	1,664,721	2,071,012
Total Funds	**$2,820,841**	**$7,812,899**	**$7,960,034**	**$7,978,150**
Positions	17	28	28	30
FTE	16.90	27.90	27.90	29.90

Program Description

The Veterans' Services program includes:

- Counseling and claims ($2.4 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 ($1.3 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, emergency assistance, and service delivery partnerships, which includes the Aid Program, Aid to Counties, and Aid to Veterans' Organizations ($4.1 million in the Governor's recommended budget). Educational assistance provides financial help to offset some of the educational expenses of honorably discharged Oregon veterans whose GI educational benefits have been exhausted. The program also assists displaced and disabled veteran workers who return to school to change careers or upgrade skills. An emergency assistance program was established by the Legislature in 2005 and funded with a one-time $500,000 General Fund appropriation. It is designed to provide emergency financial assistance to Oregon veterans and their immediate families. Aid to Counties, which began in 1947, is a network of trained

individuals operating in 34 Oregon counties to help them provide services to veterans on a local level. Up to 75% of the cost of administering each of the county offices is reimbursed, with a limit of $12,500 per year. In 2005, the Legislature added statutory authority and $2.6 million General Fund to expand the services provided by county veterans' services offices. Aid to Veterans' Organizations was established in 1949 and consists of partnerships with other veterans' service organizations in Oregon, such as the American Legion, Disabled American Veterans, and Veterans of Foreign Wars.

Revenue Sources and Relationships

The revenue source for the Claims and Counseling section, educational assistance, and service delivery partnership programs is the General Fund. The revenue sources for the conservatorship program are General Fund and Other Funds through fees. The 2007-09 estimated conservator fees are $600,000. The balance of Other Funds comes from existing cash balances in the Veterans' Loan program. The Constitution allows that those revenues can be used for Veterans' Services.

Budget Environment

Oregon has approximately 362,000 veterans. The aging veteran population is increasing the demand for veterans' benefits, assistance, and conservatorship services. Additional needs have been created by veterans of current and recent conflicts with claims resulting from the environment in which they served, including claims related to Agent Orange and Post Traumatic Stress Disorder. The need for services is increasing at a time when the services available remain constant or may decline, especially at the county level. 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.

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.

Governor's Budget

The Governor's recommended budget maintains essential services and continues funding for the programs added or enhanced by one-time funding provided by the Legislature in 2005. Specifically, the Governor's recommended budget includes $2,680,600 General Fund for County Veterans' Services Offices, $500,000 General Fund for emergency assistance, and $54,000 General Fund for educational assistance that anticipates a change in the existing statute. Educational assistance of $150 per month is available to eligible veterans who do not receive any federal educational assistance and attend school full time. Legislation will be introduced to allow for educational assistance to veterans attending school part-time. Additionally, $29,600 General Fund is provided for support to the National Veterans Service Organization. The budget also includes the two additional Other Funded positions transferred from the Loan Program.

ODVA – Oregon Veterans' Home Program

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	14,522,776	19,686,791	19,706,779	21,075,757
Other Funds (NL)	18,878	0	0	0
Total Funds	**$14,541,654**	**$19,686,791**	**$19,706,779**	**$21,075,757**
Positions	3	3	3	3
FTE	3.00	3.00	3.00	3.00

Program Description

The Oregon Veterans' Home in The Dalles provides skilled nursing and Alzheimer's disease care to Oregon veterans. The Home opened in November 1997 and has a bed capacity of 151 residents. Funding for construction and equipping of the facility was from a 65% federal grant matched to a 35% state obligation contributed by Wasco County. The Home is operated with a philosophy of maximum resident independence and encouragement for the residents to function at their highest possible level.

Revenue Sources and Relationships

The Veterans' Home Program consists solely of Other Funds. Revenues are primarily moneys received from the residents of the Home, Medicare and Medicaid payments, and a per diem amount received directly from the federal Veterans Administration. Veterans who reside in the Home receive benefits not available to them if they reside elsewhere. Many veterans receive aid and attendance along with disability compensation or income-based VA pensions, which, combined with their social security benefits, provides the revenue with which to pay for their care in the Home. The total amount of revenue is based in part on the occupancy projections obtained from the Home's contractor.

Budget Environment

Expenditures for the Home relate to the cost of providing residential care. Operation of the Home was contracted out to a health care service provider. Obtaining and maintaining a high occupancy rate at the Home is important to its financial condition. As of late 2006, the Home had an occupancy rate of 92%, which is higher than the 85% 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 2007-09 biennium without significant maintenance expenditures.

Governor's Budget

The Governor's recommended budget contains no program enhancements. It provides for the continuation of the existing program level of the Veterans' Home. It does, however, provide $1 Other Funds placeholder funding for two separate projects at the home. Construction of a guest house and a multipurpose meeting area would be undertaken if sufficient donations (cash and in-kind) can be obtained. No state support is provided for either addition.

NATURAL RESOURCES

Department of Agriculture (ODA) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	11,204,657	14,082,794	14,838,124	18,820,314
Lottery Funds	7,467,285	11,240,762	11,508,206	12,790,339
Other Funds	39,840,385	46,762,046	48,752,017	48,770,535
Federal Funds	5,936,307	5,148,005	7,439,425	4,527,315
Total Funds	**$64,448,634**	**$77,233,607**	**$82,537,772**	**$84,908,503**
Positions	604	520	521	531
FTE	376.67	368.93	369.44	379.05

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 $4.3 billion per year. Another $1.5 to $2 billion per year can be counted as value-added through food processing activities.

The Department consists of permanent staff and 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.

ODA – Administration and Support Services

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	1,221,865	1,520,431	1,593,585	1,693,689
Other Funds	5,541,628	6,064,445	6,255,094	6,587,619
Total Funds	**$6,763,493**	**$7,584,876**	**$7,848,679**	**$8,281,308**
Positions	40	41	41	41
FTE	39.35	41.98	41.98	41.00

Program Description

Administration and Support Services provides policy direction and support functions for the agency, including financial management, development and maintenance of information systems, public information, personnel, purchasing, budget development, grants administration, license processing, facilities management, and fleet operations. The Office of the Director is also included within the Administration and Support Services program area. The program also provides accounting services for the Beef Council and auditing services for other commodity commissions.

Revenue Sources and Relationships

Approximately 20% of the program's expenditures are financed by the General Fund. Other Funds revenues include service charges, cost reimbursements, management assessments for central administrative services, and transfers from other and federally funded program areas. The method used to assess central administrative costs varies depending on the program's funding source. General Fund programs do not contribute to central services since Administrative and Support Services receives a separate General Fund appropriation. Other Funds programs contribute using the Federal Funds indirect rate as a base that is adjusted downward to recover costs and maintain a prudent operating reserve. Programs dealing primarily with pass-through funds are not usually assessed. Federal Fund programs are assessed at a federally approved indirect rate, which is in turn expended in the Administration and Support Services Division as Other Funds, not as Federal Funds, to ensure that state federal expenditures are counted only once.

Budget Environment

The need for administrative and support service functions within the agency rises or falls as external demands on agency programs change and programs are either added or removed.

Governor's Budget

The Governor's recommended budget for Administration and Support Services is 5.5% above the 2005-07 legislatively approved budget. This increase is caused by the normal increases in the cost of providing the same level of service as the previous biennium, including an inflation allowance for goods and services, inclusion of future merit increases for those employees eligible, and higher costs for employee benefits like health care.

ODA – Food Safety

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	3,949,053	6,260,762	6,474,732	7,034,381
Other Funds	15,690,746	17,353,984	18,078,821	18,550,269
Federal Funds	682,968	583,894	1,264,922	343,761
Total Funds	**$20,322,767**	**$24,198,640**	**$25,818,476**	**$25,928,411**
Positions	194	189	191	188
FTE	129.21	124.71	125.47	123.71

Program Description

The Food Safety Policy Area consists of the Food Safety, Measurement Standards, Animal Health and Identification, and Laboratory Services Divisions. These divisions are primarily responsible for addressing public concerns over the safety of the food supply, the regulation of livestock diseases, and the accurate labeling and packaging of food products and other goods.

- The *Food Safety* Division's mission is to ensure a safe, wholesome, and properly labeled food supply. The program is implemented by a combination of central support staff and field inspectors to license and inspect all food establishments except food service providers. The Division uses 33 field inspectors located throughout the state to sample food and inspect over 8,100 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 53,000 such measuring devices.
- The *Animal Health and Identification* Division protects Oregon's human and animal communities from infectious animal diseases and deters livestock theft through the registration and inspection of livestock brands. The Division also regulates and permits exotic animals, regulates commercial feeds, and operates animal damage control programs in partnership with local governments and the U.S. Department of Agriculture. The Division includes 67 brand inspectors who inspect all cattle sold in Oregon and all cattle and horses leaving the state to ensure legal ownership. The Division also has responsibility to deal with issues concerning stray livestock. Veterinary products and commercial feeds are registered and monitored for compliance with state and federal laws.
- The *Laboratory Services* Division provides analytical services for the Department's food safety, pesticide, natural resource, feed, and fertilizer regulatory programs. The lab program uses physical, chemical, microbiological, immunological, molecular, and chromatographic methods to test food and feed supplies. The Division also provides an export certification program through the Export Service Center (ESC) to assist domestic companies in meeting the food safety import requirements of foreign countries. The ESC is a certified customs laboratory for Japan, Taiwan, and Korea, which eases entry of Oregon agricultural products into these markets. 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. 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 rely on state inspections as it continues to divert resources toward Homeland Security activities.

Changes in commercial weighing, measuring, and packaging technologies have made monitoring measures and labels more difficult. The Measurement Standards Division is responding to additional federal standards and increased demand for technical assistance from businesses. The Animal Health and Identification Division faces the challenge of maintaining program effectiveness with reduced General Fund support. These factors, along with the fact program fees have not been raised to keep up with the increased cost of providing program services, have caused the Department to request a fee increase. Fees in the Weights and Measures program were last increased in 1992 and fees in the Livestock Identification program were last increased statutorily in 2003. Through the administrative rule-making process, the Livestock Identification program increased the time and mileage fee to $15, effective July 1, 2006.

Governor's Budget

The Governor's recommended budget total is nearly identical to the 2005-07 legislatively approved levels, but 7% higher than the budget as adopted by the 2005 Legislature. This is because during the interim the program received additional Federal Funds for the Animal Health program for disease control and monitoring activities that were not carried forward into the Governor's budget. Instead, the Governor proposes other revenue and program enhancements detailed below.

The Governor's budget for the Food Safety program area includes the following changes:

- Adds $1.5 million Other Funds for a proposed fee increase for commercially used weighing and measuring equipment inspections. This funding would be used to restore Other Funds revenue and 11 positions (10.45 FTE) that would otherwise be eliminated due to a projected lack of revenue. This funding would restore the program to essential budget levels.
- $1.2 million Other Funds is added from a proposed increase in livestock brand inspection fees to restore revenue and 23 positions (11.80 FTE) that would otherwise be eliminated due to an anticipated revenue shortfall. This funding would allow the program to continue providing the same level of service it provided in the last biennium. Some of these fees were increased administratively during the 2005-07 biennium. This package would also provide the expenditure limitation necessary to expend these higher fees.
- Adds $190,669 General Fund and 1 permanent compliance specialist position (1.00 FTE) to establish a permanent program to test retail package weights to ensure that prepackaged goods are sold at the correct weight and consumers are not being overcharged. A Department survey conducted from February to August 2006 found that in 47% of the store locations surveyed, 10% or more of the in-house packed goods being sold to the public were short weight.

ODA – Natural Resource

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	3,861,626	4,061,946	4,220,514	6,108,451
Lottery Funds	7,437,573	11,206,762	11,473,806	12,755,149
Other Funds	11,574,761	14,787,356	15,084,345	13,860,990
Federal Funds	4,509,316	4,499,237	6,016,822	4,020,984
Total Funds	**$27,383,276**	**$34,555,301**	**$36,795,486**	**$36,745,574**
Positions	173	171	171	175
FTE	131.71	133.14	133.14	139.02

Program Description

The Natural Resource Policy Area includes the Natural Resources, Pesticides, and Plant Divisions. These three divisions are responsible for protecting the state's agricultural natural resource base.

- The *Natural Resources* Division's mission is to conserve, protect, and develop agricultural natural resources on public and private land to ensure agriculture will continue to be productive and economically viable. The Division administers programs to: provide administrative oversight and financial assistance to Soil and Water Conservation Districts; regulate confined animal feeding operations (CAFOs); conduct field burning smoke management and research; implement agricultural water quality management plans (SB 1010); and conduct groundwater research and development. The Division consists of 28 Salem-based staff and 9 field staff positions.
- The *Pesticides* Division administers state laws regulating the availability of fertilizer and pesticide products, and the uses of these products. Fertilizer regulation involves the content of plant nutrients contained in fertilizers used for consumer, agricultural, and forest purposes. Naturally occurring materials, such as manure and compost, are not regulated. Pesticide regulation includes product registration, distribution and use recording, user licensing, and use of the products.
- The *Plant* Division uses permanent staff and seasonal employees to detect and eradicate exotic insect pests, 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. This Division also protects threatened and endangered plants. The State Weed Board helps set priorities for the control of nuisance invasive plant species and funds local and regional weed control projects.

Revenue Sources and Relationships

The Natural Resource Policy Area is funded by a variety of revenue sources. General Fund and Lottery Fund revenues provide over 50% of the policy area revenue, but are provided primarily to the Natural Resources and Plant Divisions. Lottery Funds have been provided to the Plant Division beginning in the 1999-2001 biennium for weed control activities from Measure 66 Lottery Funds dedicated to salmon and habitat restoration. Lottery Funds have also been provided to the Natural Resources Division for pass through to support Soil and Water Conservation Districts, support the Agricultural Water Quality program, and some of the Confined Animal Feeding Operations work. Other Funds include revenue from licenses and fees, such as oyster fees, CAFO registrations, field burning fees, nursery and Christmas tree licenses, and pesticide applicator fees. Other Funds also include revenue from reimbursable work and charges for services. Federal Funds are received for plant conservation and water quality programs through cooperative agreements with the U.S. Environmental Protection Agency, the U.S. Department of Agriculture, the Bureau of Land Management, and the Bonneville Power Administration.

Budget Environment

Population growth in Oregon has led to increased competition for available natural resources, including water and land. The Department's level of involvement with coordination and development of water use, land use, and conservation plans with other agencies and affected parties has been steadily increasing. Conservation issues are becoming more complex, requiring more planning and inter-agency cooperation. Nonpoint source pollution control, threatened and endangered plant species, confined animal feeding operations, and field burning alternative programs will continue to call for agency attention. The Plant Division has also continued to develop model conservation plans for the 58 species on the state list of threatened and endangered plants. This list was reduced from 61 species during 2001-03.

The Department's Natural Resources Division has a prominent role in the state's Oregon Plan for the restoration of salmon and watersheds. The Division is charged with implementing aspects of the plan dealing with water quality standards in agricultural areas. Under the provisions of SB 1010 (1993) and the Oregon Plan, staff worked with landowners to develop agricultural water quality management plans to meet state water quality standards in basins where agricultural nonpoint source pollution is a major factor. All plans are now complete and the Department has begun implementation efforts. In conjunction with this effort, the Division also has positions dedicated to 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 a long tradition of working 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. Funding for completion and implementation of the system was removed during the 2001-03 biennium and no funding was provided for the 2003-05 biennium either. Funding to restart the program was finally included in the 2005-07 legislatively adopted budget and the system will begin operation in January 2007. Funding for the base regulatory pesticides program that comes from fees will not be sufficient to operate the program through the 2007-09 biennium. To address this shortfall the Department is proposing a fee increase of about 56%. Fees were last increased in 2000 to a flat fee of $130 and have been raised and lowered since solely to fund the portion of the Pesticide Use Reporting System that is paid from fees. The current registered product fee is $160.

Governor's Budget

The Governor's recommended budget total is nearly identical to the 2005-07 legislatively approved levels, but 6.3% higher than the budget as adopted by the 2005 Legislature. This is because, during the interim, the Plant Division received additional Federal Funds for a sensitive habitat acquisition grant as well as plant disease control and monitoring activities that were not carried forward into the Governor's budget. Instead the Governor proposes other revenue and program changes detailed below.

The Governor's budget for the Natural Resource Policy area includes the following changes:

- Replaces $2 million Other Funds from the Pacific Coastal Salmon Recovery Fund (PCSRF) with General Fund due to significant reductions in the amount of PCSRF monies the state expects to receive during 2007-09. Projected PCSRF revenue is insufficient to maintain previous fund shifts that used PCSRF monies to replace General Fund support for payments to Soil and Water Conservation Districts.
- Adds $1.2 million Measure 66 capital Lottery Funds and 1 monitoring position (1.00 FTE) to increase support for the Noxious Weed Control program; $1 million would be used for grants to be made by the Oregon State Weed Board that would fund an estimated 40 additional noxious weeds control projects. The position would monitor funded projects to ensure they are complying with the terms of the grant, document project successes, and develop best practices to help guide future treatment projects.
- Restores $412,000 Other Funds from a proposed fee increase on pesticide registrations and licenses to restore Other Funds revenue for services and supplies expenditures that would otherwise be eliminated due to lack of revenue. This funding would allow the program to continue providing the same level of service it provided in the last biennium.
- Reduces $1.1 million Other Funds in services and supplies, capital outlay, and special payment expenditures to match revenue available under current law in the pesticides and fertilizer programs. The pesticides reductions are partially restored through a proposed fee increase. There will be no statutory fee increase for the fertilizer program which means program expenditures will be reduced to match revenue.
- Adds $783,007 Other Funds, 4 part-time seasonal positions (3.00 FTE), and months to existing positions (2.21 FTE) for increased industry support of Sudden Oak Death certifications. Since 2005, the USDA has required all nurseries exporting plants from Oregon to have the plants inspected, tested, and certified as free from Sudden Oak Death disease (P. remorum). This program is supported by a fee for service. In the past,

Federal Funds have been provided for this work, but the Department expects this funding for be reduced next biennium resulting in a $374,786 Federal Funds expenditure limitation reduction.

- Reduces Special Payments using Measure 66 operations Lottery Funds to Soil and Water Conservation Districts (SWCD) for program support by $247,041 to match base funding for SWCDs with that of Watershed Councils which are funded by the Oregon Watershed Enhancement Board at $4.1 million total funds.
- $171,147 General Fund is added to support an entomologist position in eastern Oregon that was budgeted with Federal Funds during the last biennium. This position was previously supported with General Fund, but was eliminated during the 2003-05 biennium because it had been vacant. The need for an entomologist in the eastern part of the state remained, so the Department used a position budgeted on Federal Funds to continue to meet program needs. There is no federal revenue for this position, so the Governor has proposed to shift support for the position back to General Fund.
- Adds $70,873 General Fund, $69,530 Other Funds, and $69,529 Federal Funds to support the Oregon Invasive Species Council. The money would be used to contract for a person to serve as the Council's administrator and spokesperson. The Council was created in 2001, but no staffing support was ever added. The administrator would support Council meetings and implement the council's identified need for public education about invasive species.

ODA – Agricultural Development

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	2,172,113	2,239,655	2,549,293	3,983,793
Lottery Funds	29,712	34,000	34,000	35,190
Other Funds	7,033,250	8,556,261	9,333,757	9,771,657
Federal Funds	744,023	64,874	157,681	162,570
Total Funds	**$9,979,098**	**$10,894,790**	**$12,075,131**	**$13,953,210**
Positions	197	119	119	127
FTE	76.40	69.10	69.10	75.32

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 3.2 billion pounds of produce for processing (primarily potatoes) and 1.3 billion pounds of fresh fruit, vegetables, and nuts each year. The program has undergone significant restructuring recently as the program moves away from relying on part-time agency employed inspectors, to using full-time employees to oversee and audit inspections conducted by employees of the processors. This has lead to a reduction in the number of positions in the Shipping Point Inspection program. The 2005-07 legislatively adopted budget also transferred 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 was discontinued with the transfer.

Revenue Sources and Relationships

The Agricultural Development and Marketing Division is funded primarily with General Fund. The Division receives a small amount of Other Funds from outside marketing projects. Federal Funds are received for special commodity marketing projects. The Commodity Inspection Division is entirely funded by Other Funds revenues from inspection, certification fees, and establishment licenses. The Shipping Point Inspection program increased fees administratively during the 2005-2007 biennium.

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.

Governor's Budget

The Governor's recommended budget represents a 15.5% increase from 2005-07 legislatively adopted levels. The budget supports 127 positions and 75.32 FTE. During the 2005 interim, the Emergency Board added $500,000 Other Funds to support relief payments for fishers affected by the closure of the commercial salmon fishery along most of the Oregon coast. The Emergency Board also added $235,000 General Fund to study the ramifications of allowing canola to be grown in the Willamette Valley for use as a renewable energy source. Neither of these additions is continued in the Governor's budget.

The Governor's budget for the Agricultural Development policy area includes the following changes:

- Adds $1.1 million General Fund and 5 new permanent positions (5.00 FTE) for sustainable agriculture activities. Three of the positions would be used to establish the Oregon Sustainable Agriculture Resource Center (OSARC) to be housed in the Department's Food Innovation Center, which is located in Portland. As envisioned, the OSARC would serve as a clearing house for information and technical assistance with sustainable agriculture practices. The other 2 positions would serve as sustainability certification specialists monitoring the numerous certification requirements around the globe and providing technical expertise to producers.
- Adds $1,153,093 Other Funds from a proposed increase in shipping point inspection fees to add 13 positions (6.13 FTE) to continue program activities. Fees for commodity inspections and audits are on a cost recovery basis. Of the total increase, $658,136 is added on a one-time basis for reclassifications to implement staffing changes related to the migration of the program away from ODA doing the commodity inspections to an oversight and audit role monitoring producer employee inspections.
- $470,000 General Fund is added for professional services contracts to address interest in developing renewable energy sources such as biodiesel in the state. The Department states that nearly all renewable energy technologies have a link to agriculture or rural areas because that is where the renewable resources are. These funds would be used for contracted services focused on continuing the Department's role in renewable energy development.

Columbia River Gorge Commission (CRGC) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	615,706	864,694	864,694	902,863
Total Funds	**$615,706**	**$864,694**	**$864,694**	**$902,863**

Agency Overview

The Columbia River Gorge Commission (CRGC) was authorized by the 1986 Columbia River Gorge National Scenic Area Act and created as a regional agency through an interstate compact between Oregon and Washington. The Commission was established to implement the National Scenic Area Act's purposes of protecting and enhancing the scenic, cultural, recreational, and natural resources of the Gorge while encouraging compatible growth within existing urban areas of the Gorge region.

The Commission functions as the permanent regional land use policy body for the Scenic Area, a 292,000-acre region stretching along both shores of the Columbia River for 80 miles, just east of the Portland OR-Vancouver WA metropolitan area. The Columbia River Gorge encompasses three counties in Oregon (Hood River, Multnomah, and Wasco) and three in Washington (Clark, Skamania, and Klickitat) and includes 13 designated Urban Areas. The Commission consists of 13 members, one appointed by each of the six counties within the Scenic Area, six appointed by the two states (three by each Governor), and one ex officio, non-voting member appointed by the U.S. Secretary of Agriculture. The Commission's office is in White Salmon, Washington, and functions with employees of the State of Washington.

Commission responsibilities include the adoption and maintenance of a management plan, review and approval of local land use ordinances for the Scenic Area, appellate review of decisions made under the ordinances, and coordination of Gorge resource development efforts envisioned by the Scenic Act. The Commission adopted the initial management plan in 1991. Under the management plan, the Commission sets policy for land use and resource protection on non-federal lands in the Gorge, monitors implementation of the plan, ensures that Scenic Area ordinances are effective, and facilitates enhancements of the economic and natural resource elements of the Scenic Area. Five of the 6 counties are implementing the management plan through locally adopted land use ordinances. Klickitat County, Washington, has not adopted land use ordinances, leaving review of proposed developments to the Gorge Commission.

Revenue Sources and Relationships

The Columbia River Interstate Compact requires each state to pay its Commission members' expenses and to contribute equally to operating costs. Because of this requirement, the budget is, in effect, set by the state appropriating the lesser amount for operational expenses. The Commission has also received grant funding for monitoring program activities and other special project work from the federal government. These grant funds are generally not factored into the development of the Commission's operating budget. The Commission collects no revenue from fees, licenses, or assessments.

Budget Environment

The Commission completed review of the Management Plan adopting a revised Management Plan in April 2004. The review included a public process framed by comment on a set of six monitoring reports developed by commission staff in conjunction with Scenic Area partners. Concurrence with the plan by the U.S. Secretary of Agriculture through the U.S. Forest Service was received in September 2004. Each of the counties in the Gorge area needs to adopt the new plan for full implementation.

The proximity of the entire Gorge area to the Portland / Vancouver population base affects planning efforts by pressures for new development, changing composition of urban areas, availability of affordable housing, uses of resource lands, and increased visitation to tourism and recreation sites. As the regional planning agency, the Commission must work with stakeholders to ensure these pressures are dealt with in a manner consistent with the requirements of the National Scenic Area Act. The broad mission of the Commission results in many interpretations by the various individuals and groups that recreate and live in the Columbia River Gorge. This has led to controversy regardless of which side of an issue the Commission chooses.

According to the Commission, base funding levels for Commission activities represent the most limiting factor affecting fulfillment of key strategies. Oregon and Washington frequently fund at a different level. This significantly impacts the Commission because any reduction in one state's funding of the joint expenses program will reduce the other state's contribution by the same amount. While Washington budgets biennially, they allot annually. Unspent funds do not carry over from one fiscal year to another. The public increasingly expects to obtain rapid and efficient responses for information. Due to funding shortfalls in 2004, the agency was unable to fill a vacant Public Outreach Coordinator position limiting the Commission's ability to meet performance objectives. In the latter part 2005, the Commission was able to fill a vacant planning position and half-time Geographic Information Services Coordinator and a land use planner position. The effectiveness of these positions has yet to be fully realized as staff has just completed their probation and training periods. In addition, a new Director was hired by the Commission starting work in September 2006.

CRGC – Joint Expenses

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	599,304	804,009	804,009	880,093
Total Funds	**$599,304**	**$804,009**	**$804,009**	**$880,093**

Program Description

The Commission's Joint Expenses program represents all operational activities of the Commission except for the expenses of each state's appointed commissioners. Expenditures for Joint program activities are required by law to be equally shared by Oregon and Washington. The Joint program services are provided by 8.25 FTE, all of which are considered to be employees of the State of Washington. The staff positions include an Executive Director, three planners, an outreach coordinator, two administrative support positions, legal counsel (0.75 FTE), and a GIS coordinator (0.50 FTE). The provision of support to counties within the National Scenic Area for activities related to the Act's implementation are not included in the Joint program budget.

Governor's Budget

The Governor's recommended budget for the Commission's Joint program activities of $880,993 represents an increase of 9.5% over the 2005-07 legislatively approved expenditure level. The budget includes an increase of $58,643 General Fund for inflation and personnel costs and an increase of $17,441 General Fund for state government service charges and assessments.

CRGC – Oregon Commissioner Expenses

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	16,402	60,685	60,685	22,770
Total Funds	**$16,402**	**$60,685**	**$60,685**	**$22,770**

Program Description

Under the Compact, each state is required to pay for its own appointed commissioner expenses. The commissioner expense budgets of Oregon and Washington are not required to match due to differences in compensation practices between the states. The commissioner expense budget includes expenditures for personal services, per diem, and travel expenses related to attendance at meetings of the Columbia River Gorge Commission. The agency was directed to establish the Oregon Commissioner Expenses program unit for the 2001-03 biennial budget to avoid confusion with the Joint program expenses that require an equal match with the funding level decided by the State of Washington.

Governor's Budget

The Governor's recommended budget funds Commissioner Expenses at $37,915 less than the 2003-05 legislatively approved level. The reduction from the 2003-05 legislatively approved expenditure level is the result of an adjustment of $38,123 in the base budget for the Department of Administrative Services' Risk Management assessment. The budget includes an increase of $208 for inflation.

Department of Energy (DOE) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	0	0	0	8,900,000
Other Funds	15,210,637	17,846,378	18,365,467	20,531,525
Federal Funds	3,893,848	5,425,892	5,507,683	5,533,258
Other Funds (NL)	88,282,607	139,717,257	139,717,257	158,006,507
Total Funds	**$107,387,092**	**$162,989,527**	**$163,590,407**	**$192,971,290**
Positions	87	86	86	99
FTE	84.71	84.71	84.71	98.38

Agency Overview

The mission of the Oregon Department of Energy (DOE) is to ensure Oregon has an adequate supply of reliable and affordable energy and is safe from nuclear contamination, by helping Oregonians save energy, develop clean energy resources, promote renewable energy, and clean up nuclear waste. DOE encourages energy conservation through public information and incentive programs which provide loans or tax credits for implementing energy efficient technologies in residences, public sector buildings, and private sector businesses. DOE staffs two boards:

- The Energy Facility Siting Council, a seven-member citizen board appointed by the Governor, that decides whether large energy facilities may be built in Oregon; regulates the construction, operation, and decommissioning of energy facilities; and oversees the disposal of low-level radioactive wastes.
- The Hanford Cleanup Board, a 20-member board, that addresses clean-up issues at the nuclear site and represents Oregon's interest in issues involving Hanford, with a focus on protecting the Columbia River and ensuring safe transportation routes for shipments of radioactive waste.

DOE also provides staff support for the following work groups and task forces, through its Renewable Energy Division:

- The Governor's Renewable Energy Working Group, which was formed to implement the Governor's Renewable Energy Action Plan that contains numerous renewable energy policy goals for the state. The 35-member group prioritizes and monitors 57 tasks, and advises on renewable energy production policy.
- The Governor's Climate Change Integration Workgroup, charged with tracking the state's progress on greenhouse gas emission reductions and looking at future implications of climate change and global warming.
- The Governor's Carbon Allocation Task Force, which examines the feasibility and development of a carbon allowance standard for Oregon that would reduce total amounts of carbon dioxide and other greenhouse gas emissions.
- The Oregon Wind Working Group, which promotes the development of wind energy in Oregon with an emphasis on small and medium sized projects in rural Oregon.
- The Geothermal Working Group, which promotes the use of Oregon's geothermal resources for power generation and direct use.
- The Forest Biomass Coordinating Group, an interagency group formed to coordinate biomass market development and energy generation, and the Forest Biomass Working Group, a subcommittee which is looking at barriers and opportunities for forest biomass development.
- People of Oregon for Wave Energy Resources (POWER) Group, working on wave energy development.

Oregon DOE anticipates the formation of a hydrogen working group in 2007 due to the Governor's direction to the agency to develop strategies for moving toward a "hydrogen economy." Similarly, a solar working group is expected to be formed in 2007, which DOE will likely be directed to staff.

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 in 2005-07), loan repayments, and interest income. Other sources include energy supplier assessments, settlement funds, application fees related to the Business Energy Tax Credit, energy siting fees, and fees for services related to the program for schools and self-directed efficiency projects stemming from electric marketing restructuring (SB 1149).

Federal Funds received from the U.S. Department of Energy support various activities including oversight at the Hanford Nuclear site, deployment of technologies and energy sources that improve energy efficiencies in new building construction, promotion and utilization of alternative fuels, infrastructure development, and renewable resource projects. Federal Funds are also received for work related to tracking, monitoring, emergency planning for shipment of low-level radioactive waste materials, and monitoring and testing for contamination related to the Lakeview uranium mediation site. Additionally, the U.S. Department of Agriculture and the Environmental Protection Agency provide funds that support both conservation and renewable energy programs. Federal revenues are expected to total $5.5 million in 2007-09.

Budget Environment

Oregon's population will continue to grow, causing greater energy use. For electricity, greater demand will require the efficient siting of new energy resources. Greater demand for gasoline will increase costs which may drive additional demand for development of ethanol and biodiesel production facilities. Changes at the federal level, including the Energy Policy Act of 2005, have increased the interest in, and incentives for developing, renewable energy conservation. DOE is heavily engaged in the identification and development of renewable resources and built-in energy efficiency. Additionally, the radioactive wastes at Hanford and the possibility of more waste being imported to the site will continue to threaten the health of the Columbia River until the clean up effort currently underway is completed.

DOE may assume a higher profile in 2007-09 than in past biennia due to the Governor's emphasis on renewable energy initiatives as well as the myriad workgroups and taskforces noted above.

Finally, from 1997 through 2003, DOE received General Fund appropriations 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 related to a new building. Since 1996, repayment of the 30-year loan has been problematic. OMSI has been unable to make its full loan payments, necessitating the execution of a forbearance agreement with the Department of Energy. SELP reserves have been used to cover the balance of the bond debt service payment. If other loans were to have difficulty, reserves may be insufficient to meet the needs of the program. The Governor's recommended budget includes a General Fund appropriation for purposes of assisting with this loan, detailed below.

DOE – Operations

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	0	0	0	8,900,000
Other Funds	15,210,637	17,846,378	18,365,467	20,531,525
Federal Funds	3,893,848	5,425,892	5,507,683	5,533,258
Total Funds	**$19,104,485**	**$23,272,270**	**$23,873,150**	**$34,964,783**
Positions	87	86	86	99
FTE	84.71	84.71	84.71	98.38

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.
- Ensuring emergency preparedness and public safety in the event of an accident involving radioactive materials, severe petroleum disruptions, and electricity emergencies.

Governor's Budget

For General Fund, Other Funds and Federal Funds, the Governor's recommended budget reflects a $11.1 million increase over the 2005-07 legislatively approved budget and adds 13.67 FTE.

With Other Funds, the Governor's budget adds 10.98 FTE and reclassifies two positions to address existing workload in various programs, including the Business Energy Tax Credit program, energy efficiency design, and energy efficiency for schools. Six of the positions replace limited duration positions, created between 2002 and 2005; three part-time positions had additional months added to make them each 1.00 FTE; and four new positions were added for duties related to renewable energy initiatives and the Business Energy Tax Credit program. These actions amount to $1.4 million Other Funds, which are assumed to be realized from increases in the total amount of assessments received from energy suppliers and from fees related to additional applications for the Business Energy Tax Credit.

The Governor's recommended budget reflects a new initiative which adds $2.3 million General Fund and 8.00 FTE to establish an audit function within the Department of Energy to assess energy use by state agencies and install energy saving measures with the help of the Department's financial incentive programs. The package is intended to support the Governor's conservation goals of capturing energy savings of 20% and meeting 100% of state government's energy needs through renewable energy sources by the year 2010. These positions and activities are assumed to continue into the 2009-2011 biennium.

Additionally, $2 million of General Fund and one limited duration position (1.00 FTE) have been included for solar projects and energy efficiency projects in rural schools. The Department would make grants available to schools to install small-scale solar systems and fund energy efficient improvements in rural public school facilities.

Lastly, the Governor's recommended budget assumes $4.6 million in one-time General Fund support to forgive a portion of the $15.77 million owed by the Oregon Museum of Science and Industry (OMSI) on a $15.5 million loan from the State Energy Loan Program made in 1992. OMSI has been making minimal payments under a forbearance agreement negotiated with DOE since 2002, with DOE operating funds and SELP program reserves (nearly $3 million to date) making the balance of the $940,000 annual bond payment. If approved by the Legislature, this appropriation would mark the fourth time the state has provided direct financial assistance to OMSI regarding this obligation. The General Fund dollars are intended to be matched by a $3.1 million contribution from OMSI (OMSI paid $1.5 million in May 2006 toward principle) and the remaining debt would be refinanced to lower annual payments for OMSI and extend the remaining obligation until approximately the year 2038.

DOE – Energy Loan Program Nonlimited

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds (NL)	88,282,607	139,717,257	139,717,257	158,006,507
Total Funds	**$88,282,607**	**$139,717,257**	**$139,717,257**	**$158,006,507**

Note: The Governor's budget included Nonlimited funds in the Operations program of DOE for 2007-09.

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 makes loans for projects such as renewable energy resources, energy-efficient heating and lighting systems, weatherization measures, and energy-efficient improvements in manufacturing processes. The program also encourages innovative projects that are energy efficient and environmentally sound. Sales of state general obligation bonds fund the loans.

Governor's Budget

The Governor's recommended budget for Other Funds Nonlimited reflects a 13.1% increase over the 2005-07 legislatively adopted budget, and assumes $150 million in bond issuance authority for the SELP program in 2007-09. In addition to DOE's other customers, the Oregon University System is expected to access loans from the program as part of a continuing effort to address deferred maintenance and make its facilities more energy efficient.

Department of Environmental Quality (DEQ) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	22,190,558	22,661,089	23,193,203	39,734,399
Lottery Funds	3,308,381	3,683,380	3,799,400	3,794,870
Other Funds	101,399,775	113,639,930	117,954,486	125,734,265
Federal Funds	47,702,736	37,883,426	38,803,709	30,523,391
Other Funds (NL)	92,567,141	86,740,767	145,740,767	98,513,167
Total Funds	**$267,168,591**	**$264,608,592**	**$329,491,565**	**$298,300,092**
Positions	832	808	808	815
FTE	812.45	776.57	776.57	788.64

Agency Overview

The Department of Environmental Quality (DEQ), with policy direction from the five-member Environmental Quality Commission, administers the state's laws regulating air, water, and land pollution. The Department establishes the standards for clean air, water, and land; determines whether or not these standards are being met; and then takes action to enforce the standards when necessary. The agency attempts to use technical assistance and education whenever possible to enhance compliance. The Department also manages the federally delegated Clean Air, Clean Water, and Resource Conservation and Recovery Act programs. In addition to the federal environmental programs, DEQ administers the state environmental programs in the areas of solid waste management, planning and recycling, groundwater protection, and environmental cleanup. The agency is comprised of four major program units: Air Quality, Water Quality, Land Quality, and Agency Management. A fifth budget unit, Cross Program, was added to manage funding associated with issues that cross the agency's traditional program lines. DEQ headquarters are in Portland with regional administrative offices in Bend, Eugene, and Portland. The agency also maintains field offices in Baker City, Coos Bay, Grants Pass, Hermiston, Klamath Falls, Medford, Pendleton, Roseburg, Salem, The Dalles, Gresham, and the north coast. The Department plans to be completely moved into a new laboratory building in Hillsboro by the end of the 2005-07 biennium.

DEQ – Air Quality Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	4,086,211	3,289,453	3,375,697	12,168,142
Other Funds	30,232,432	35,403,817	36,839,750	35,585,888
Federal Funds	5,813,924	6,418,553	6,638,451	6,314,262
Total Funds	**$40,132,567**	**$45,111,823**	**$46,853,898**	**$54,068,292**
Positions	279	266	266	238
FTE	275.18	248.58	248.58	232.06

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 120 major industrial emission sources.

The Air Quality program includes headquarters, laboratory functions, regional operations, and a local air pollution control agency. Headquarters is responsible for program planning and development, rules and guidance development, data analysis and reporting, technical services, and the Vehicle Inspection Program (VIP). The VIP requires tests of vehicles operating in the Portland and Medford areas as part of the vehicle license renewal process. Air Quality staff in regional offices are responsible for ensuring that industrial sources of air pollution are operating in compliance with rules and permit conditions. Regional staff are also responsible for certification of asbestos removal, regulating open burning, monitoring field burning, and responding to public complaints. The Lane Regional Air Protection Agency operates the air pollution control program in Lane County and receives a share of state funding. Of the Division's 248.58 FTE in the 2005-07 biennium, 32.59 were located in headquarters, 48.33 in regions, 26.25 in the laboratory, and 141.41 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 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 submitted attainment and maintenance plans to the EPA for Medford-Ashland, Lakeview, and La Grande areas in 2004 and 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 stricter air standards for particulate matter (PM 2.5) 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 in Oregon, some by more than 10 times. The agency has developed a state air toxics program that uses monitoring, computer modeling, and 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.

Governor's Budget

The Governor's budget represents a 15% increase from the 2005-07 legislatively approved levels. The General Fund budget of $12.2 million is up over 260% from the 2005-07 legislatively approved budget of $3.4 million due numerous program enhancements described below.

The Governor's recommended budget for the Air Quality Division includes the following additional changes:

- $3 million General Fund and $1.5 million Federal Funds is added to implement a "Clean Diesel Initiative" that would make grants and loans to fleet operators designed to reduce diesel emissions through the purchase of new cleaner diesel engines, rebuilding existing diesel engines, and implementing strategies designed to reduce the idling time of diesel vehicles. The Federal Funds are added under the assumption that DEQ will be successful in competing for federal grants that are available to states for reducing diesel emissions. Diesel engine exhaust is among the most prevalent toxic air pollutants in the state. The Department has introduced a bill to create a clean diesel fund to implement this initiative and grant the Environmental Quality Commission the authority to adopt rules for operation of the grant program. No staffing was added to administer the new program as the FTE were included in another proposal that was not recommended by the Governor.

- Adds $2.4 million General Fund to restore 4 positions (3.10 FTE) reduced due to lack of federal funds revenue and 6 positions (5.00 FTE) that had been cut in previous biennia. This General Fund appropriation would restore air quality monitoring and enforcement capabilities, add back open (backyard) burning positions, and restore wood stove education functions. This proposal would also allow DEQ to develop and implement federally required attainment plans for those areas that violate the most recent federal fine particulate standard (PM 2.5). DEQ anticipates that two cities (Klamath Falls and Oakridge) will not meet the new standard and another 12 are at risk of failing. The package also increases funding ($139,658) to the Lane Regional Air Protection Agency (LRAPA) for fine particulate monitoring and to other local governments ($240,000) for particulate reductions grants previously supported with Federal Funds. It also replaces lost federal funds needed for Oregon's share of the NW AirQuest regional modeling consortium ($200,000).
- Adds $1.8 million General Fund to restore 7 positions eliminated in previous biennia (4.50 FTE) and months on other positions reduced due to lack of Federal Funds revenue (2.50 FTE). This General Fund restoration will provide the staffing necessary to conduct air toxics monitoring and develop inventories for benzene and other toxics, create air toxic reduction strategies, and implement air toxics reduction efforts. The money would also be used to increase payments to LRAPA ($193,472) for air toxics monitoring and reduction activities and contract for metals analysis studies in the Salem / Albany and Medford areas. This would bring the total number of toxics monitoring stations to three, including the existing station in Portland.
- $571,047 General Fund is added to restore 1 position (1.00 FTE) eliminated due to lack of federal funds revenue and 1 visibility monitoring position (1.00 FTE) that had been cut in 2005. Using a special appropriation from Congress, Oregon and Washington have been conducting a technical study of air quality in the Columbia River Gorge National Scenic Area due to concerns over haze and acidity affecting air quality. The restored positions would work with Washington and Oregon residents to evaluate the results of the technical study and recommend strategies to protect the air quality of communities in the Gorge.
- Adds $261,236 General Fund for rent increases associated with using the new laboratory building for a full biennium. During the 2003-05 interim, the Emergency Board approved funding to retrofit a building for use as the new environmental lab for DEQ. The Department will begin to occupy the new lab at the end of the 2005-07 biennium. Because of this, 6 months of increased rent was added for 2005-07. This funding request represents the increased cost of occupying the new lab for a full biennium. The building will also house the Department of Human Services (DHS) public health lab.
- Adds $609,450 Other Funds to restore 2 positions proposed for elimination this biennium and 2 positions eliminated in 2005-07 from the Title V permitting program due to insufficient revenue from fees. This program, named after Title V of the Clean Air Act which requires industrial facilities with the highest emissions to have a permit, issues and monitors air pollution discharge permits that cap the level of pollution a facility may emit. Federal and state law requires that this program be fully supported by fees from permitees. However, the fee schedule established by the Legislature in 1991 has not allowed the Department to raise fees enough to fully fund the program. This led to staffing reductions in 2005-07, which caused a permitting and inspection backlog for the first time in the history of the program. DEQ has introduced legislation that would raise Title V permit fees by about 25%. Funding in this proposal assumes passage of that legislation.
- Restores 2 permanent positions (1.00 FTE) proposed for elimination due to insufficient fee revenue, adds a new position (1.00 FTE), and $454,037 Other Funds to the Asbestos Health Protection program. Fees from asbestos contractor licenses and asbestos abatement notifications support the program. A change in work being done from larger asbestos removal projects to smaller projects, that pay a fee which does not cover the cost of doing the work, coupled with the fact that fees were last increased over 10 years ago while program costs have continued to rise, has created a funding shortfall.
- Adds $358,156 Other Funds and 2 positions (2.00 FTE) that would be eliminated due to a lack of revenue through a fee increase in the Air Contaminant Discharge Permit (ACDP) program. A decline in Federal Funds support, flat General Fund support, and increased program costs have made the program unsustainable at its 2005-07 service level. The ACDP is a state operated permitting program for industrial pollution sources that are not large enough to fall under the Title V program and permits related to new construction projects. The positions issue permits, conduct inspections, and respond to complaints. Fees would be increased by about 20% under this proposal.

- $525,576 Other Funds are added to make permanent 5 limited duration kiosk positions (5.00 FTE) added last biennium and adds one new Scientific Instrumentation position in the Vehicle Inspection Program (VIP). DEQ had planned on continuing 25 of the 47 limited duration positions added to VIP in 2005-07, however the program has phased out the enhanced test which has reduced the number of positions needed to complete vehicle inspections.
- Adds $410,296 Other Funds and 2 new permanent positions (1.50 FTE) to implement Oregon's Low Emissions Vehicle program adopted by rule during the 2005-07 biennium. These rules require that vehicles sold in Oregon beginning with the 2009 model year meet low emissions standards set by California. The positions would keep auto manufacturers, dealers, and repair shops informed of the emission standards. They would also investigate issues of cross-border sales designed to get around the new requirements, track changes in California's standard to ensure Oregon stays current, pursue enforcement actions, and track vehicle registration data to look for violations. Funding comes from a fee on large auto manufacturers, which was adopted by rule in 2006.

DEQ – Water Quality Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	11,547,364	13,280,686	13,674,059	20,443,807
Lottery Funds	3,308,381	3,683,380	3,799,400	3,794,870
Other Funds	15,385,254	15,573,258	16,520,902	19,727,251
Federal Funds	14,218,732	14,025,393	14,353,357	12,371,100
Total Funds	**$44,459,731**	**$46,562,717**	**$48,347,718**	**$56,337,028**
Positions	218	210	210	254
FTE	206.90	201.40	201.40	238.16

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. DEQ also provides ODA assistance in issuing the general and individual permits for Confined Animal Feeding Operations. The Water Quality program also operates the nonpoint source pollution program in Oregon. Nonpoint source pollution is that not attributable to a specific source point. Examples of nonpoint source pollution include stormwater and agricultural runoff. Section 319 of the Clean Water Act requires states to have nonpoint source management programs to address the protection and restoration of surface water and groundwater. The Water Quality program also manages a wastewater financial assistance program for municipalities and conducts Section 401 certifications of dredge and fill work and hydroelectric projects.

In 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. EPA is currently reviewing the Department's latest 303 (d) list which was submitted in May 2006. 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 a court consent order to complete 1,153 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 2005-07 biennium, 60 of the Division's 201.00 FTE were located in headquarters, 104.00 FTE were in regional offices, and 37.00 FTE were assigned to the laboratory.

Revenue Sources and Relationships

The federally delegated and state water pollution permit programs are financed from a combination of sources - the General Fund, industrial and municipal fees, and Federal Clean Water Act funds. Determining the amount of the program's costs that should be paid from fee sources has been an ongoing debate. The Water Quality program has struggled over the past several biennia to achieve fee increases necessary to maintain these programs as General Fund support has diminished, some Federal Fund grant sources have declined, and base Federal Fund grants have failed to keep pace with inflationary increases in program costs. The 2005 Legislature approved an 11% revenue increase from fees as part of a package that included additional General Fund support.

The primary Other Funds sources of revenue include industrial waste discharge permit fees, municipal wastewater permit fees, and subsurface sewage disposal fees. Other Funds sources also finance the administrative costs of the wastewater finance program. Federal Funds are received primarily under the Clean Water Act for operational expenses (Section 106) and for nonpoint source project grants (Section 319) and from other miscellaneous grant sources for a variety of program activities.

Budget Environment

Under the federal Clean Water Act, either the state or federal government must operate programs to protect the quality of rivers, streams, lakes, and estuaries. DEQ must operate programs to carry out the mandatory requirements of the Clean Water Act that are acceptable to the EPA in order to retain program delegation. The alternative would be EPA program assumption. Were EPA to operate the program, funding would possibly be limited to the amount EPA now allocates to the state and might only be sufficient to finance enforcement activities. In addition to the EPA required level of program activity, the Legislature has also required additional water quality programs to be maintained by the Department.

Governor's Budget

The Governor's recommended budget represents a 16.5% increase from the 2005-07 legislatively approved level. The budget supports a total of 254 positions and 238.16 FTE.

The Governor's budget for the Water Quality Division includes the following changes:

- Adds $1.8 million General Fund and 10 new permanent full-time positions (7.26 FTE), 6 of which are phased-in, to establish a new water toxics pollution monitoring and evaluation program on a watershed level. The program would 1) determine which toxic pollutants are of potential concern in the targeted watershed; 2) develop a monitoring plan; 3) conduct toxics monitoring according to the plan; and 4) analyze and interpret collected monitoring data. This proposal also includes the cost of developing a web-based tool that would allow public access to information on industrial and municipal wastewater discharges throughout the state, allowing the public to access maps of watersheds showing locations of discharge pipes, discharge monitoring data from facilities and permits, and mixing zone locations. Four positions would be established at the beginning of the biennium, three would start March 2008, and the remaining three would begin July 2008.
- 16 new permanent positions (15.50 FTE), five new limited duration positions (2.00 FTE), $1.5 million General Fund, and $1.4 million Other Funds are added to the stormwater control program. Stormwater runoff is regulated through federal, state, and local rules. Legal challenges have affected how this program operates and a recent court ruling requires stormwater management plans be put out for public review and comment before a general stormwater permit is issued. This will cause a significant workload increase in

the stormwater program. The new positions will be responsible for providing public notice on 880 applications for coverage under stormwater general permits each year, conducting engineering reviews, providing oversight and technical assistance to local governments that are required to have their own stormwater programs, inspecting all permits at least once during the length of the permit, responding to complaints, reviewing monthly discharge reports, and carrying out enforcement activities. Funding for the new permanent positions would be supported with 60% Other Funds from a fee increase and 40% General Fund. The limited duration positions are added to address the increased workload for public review and comment on 700 existing industrial sources that are up for renewal in 2007.

- Replaces $912,244 Other Funds from the Pacific Coastal Salmon Recovery Fund (PCSRF) with General Fund due to significant reductions in the amount of PCSRF monies the state expects to receive during 2007-09. Projected PCSRF revenue is insufficient to maintain previous fund shifts that used PCSRF monies to replace General Fund support in salmon recovery and watershed improvement programs undertaken previously to make General Fund available for other purposes.
- DEQ will begin to occupy its new lab at the end of the 2005-07 biennium. Because of this, 6 months of increased rent was added for 2005-07. The $503,718 General Fund in this funding request represents the increased cost of occupying the new lab for a full biennium. This package also reverses that portion of a fund shift from General Fund to Measure 66 Lottery Funds in the TMDL program, undertaken in 2005-07, that are the lab costs attributable to the TMDL program that would occur as their share of the new higher lab rent costs ($330,705). General Fund is used to pay these increased TMDL lab costs instead of Measure 66 Lottery Funds. The remainder of the TMDL program continues to be funded using Measure 66 operations Lottery Funds in the Governor's budget.
- Adds $344,772 General Fund to restore two positions (1.74 FTE) eliminated due to the anticipated reduction in federal support for states' water quality programs. One position works in the water quality monitoring program that has already been reduced by about 25% since 2001. The other position works in the TMDL program on implementation of the Rogue River basin TMDL.
- Adds $126,459 General Fund, $162,937 Other Funds, $250,000 Federal Funds, and 3 new positions (1.50 FTE) as the second phase of an initiative begun last biennium that was the product of a workgroup of stakeholders who met to address Oregon's backlog of wastewater permits. The group identified additional resources DEQ needed and agreed that support for the wastewater program should be split 60% fees/40% General Fund. This package adds one part-time environmental law specialist at the beginning of the biennium and two full-time positions (1.00 FTE) in the second year of the biennium. Funding for these positions would follow the 60/40 split which will require a fee increase through rulemaking to generate the necessary Other Funds revenue. The request also includes $250,000 for a federal grant that DEQ will pursue to develop a system capable of receiving discharge monitoring reports electronically instead of through the mail that then need to be entered manually.
- $1 million Other Funds and 6 limited duration positions (5.50 FTE), 4 of which are continued from 2005-07, are added to help communities protect their drinking water and carryout federally mandated source water assessment. DEQ and the Department of Human Services (DHS) are both responsible for drinking water source tracking, assessment, and protection. Assessments include mapping source water areas (completed by DHS) and identifying potential sources of contamination (done by DEQ). The funding for the positions comes from DHS who receives it as Federal Funds, but it is expended by DEQ as Other Funds.
- Adds $862,104 Other Funds and 6 positions (5.69 FTE) to the Underground Injection Control (UIC) program to implement what the Department considers a minimally adequate program necessary to maintain delegated authority. The federal government began the program in 1974 to protect drinking water. In 1984 the EPA delegated authority to operate the program to the state. Underground injection is the moving of water, such as stormwater, that may contain contaminates, into underground storage. Since a major rule revision in 2001 required by federal regulations, the UIC program has not had sufficient funding to operate an appropriate statewide program. The agency has proposed legislation that would create a fee for the UIC program for the first time. This funding would be used to regulate the 48,889 registered and more than 60,000 unregistered underground injection wells.
- Adds 3 permanent positions (3.00 FTE) and $442,504 Other Funds to enhance the Onsite Septic System program. DEQ directly manages the onsite program in 14 counties. The other 22 counties operate their own program under contract with DEQ. The positions would conduct audits of counties operating their own program. The contracts between all these counties and DEQ require a program audit every two years, however, no audits have been completed since 2000. The funding for this proposal would come from raising the DEQ surcharge on applications designed to pay DEQ's administrative costs of the program from $40 currently to $60.

- Adds $207,361 in Other Funds to establish 2 new permanent part-time positions (1.00 FTE) and restore months on an existing position that would otherwise be eliminated due to insufficient revenue in the dredge and fill program. This proposal would be funded through an increase in fees done by administrative rule. Fees would need to be nearly double from existing levels to create the necessary revenue.
- Continues one limited duration position (1.00 FTE) to conduct beach monitoring for harmful bacteria that may pose a danger to users. The $157,541 for the position comes from DHS, who receives it as a federal grant, but it is expended by DEQ as Other Funds.

DEQ – Land Quality Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	1,211,827	1,039,033	1,071,300	1,338,519
Other Funds	36,681,544	41,183,161	42,540,214	46,312,683
Federal Funds	26,900,138	16,698,470	17,058,520	11,011,061
Total Funds	**$64,793,509**	**$58,920,664**	**$60,670,034**	**$58,662,263**
Positions	243	243	243	225
FTE	240.61	239.59	239.59	222.94

Program Description

The Land Quality program's goal is to protect human health and the environment by preventing and reducing waste generation, assuring that waste generated is properly managed, responding to emergency spills, and cleaning up sites contaminated with hazardous substances and uncontrolled releases of toxic chemicals. Activities are organized into the five main subprogram areas of solid waste, hazardous waste, environmental cleanup, underground storage tanks, and emergency management. In each area, the Land Quality program focuses on the hierarchy of waste management, starting with prevention, reduction, reuse, recycling, recovery, and ending with proper disposal.

Land Quality operates the federally approved solid waste landfill compliance program and the federally delegated hazardous waste program. Other federal programs include underground storage tank cleanup and superfund site cleanups. In addition, the Land Quality program operates various state programs, including waste reduction and recycling, hazardous waste generator reporting and technical assistance, oil spill response planning, hazardous materials spill response, voluntary cleanup, toxic materials cleanup, and policy and program development.

Land Quality programs are implemented by regional office staff. Regional staff conduct inspections, issue permits, provide cleanup oversight, and offer technical assistance. Headquarters staff in the Land Quality program provide centralized functions such as hazardous waste facility data collection, Underground Storage Tank (UST) facility registration, rule and policy development, billing and financial operations, and federal grant and contract administration. In the 2005-07 biennium, 65 of the Division's 238.00 FTE were located in headquarters, 165.00 FTE were in regional offices, and approximately 8.00 FTE were in the laboratory.

Revenue Sources and Relationships

Most Land Quality programs are financed almost entirely from dedicated Other and Federal Funds. The Solid Waste program is funded entirely by revenue from solid waste permit and disposal fees. Solid waste disposal fees, also known as "tipping" fees, are collected on waste disposed at municipal solid waste sites. Facilities receiving solid waste for disposal must have a permit and are charged a fee for the permit. The amount of the permit fee varies by the type of facility and the volume of waste disposed.

The state also operates the federally delegated hazardous waste management program. General Fund and fees provide the 25% match required for receipt of federal funds. Maintenance of an EPA approved program is a condition of program delegation. State hazardous waste management and cleanup programs, including that portion of costs not funded through cost recovery, are financed in part through hazardous waste disposal fees. Revenue from the disposal of hazardous waste began declining significantly during the 2001-03 biennium. Lower levels of fee and permit revenue are forecast to continue into the 2007-09 biennium.

Budget Environment

Funding of the Orphan Site program continues to be unresolved. Orphan sites are contaminated sites where the owner is either unknown, 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. General Fund and a loan from the Hazardous Substance Remedial Action Fund were used to pay the petroleum load fee share. In 1995, the Legislature limited collection of the hazardous substance fee to an amount necessary to service debt from previous bond sales only and General Fund and Lottery Fund were used in lieu of petroleum load fees. Due to a lack of funding alternatives outside of additional General Fund commitments, the 1997 Legislature made no change to this funding arrangement. The 1999 Legislature shifted all Lottery funded debt service to the General Fund, but did not directly address the long-term funding strategy for industrial orphan site cleanup. General Fund support of debt service was continued by the 2001 Legislature; however no General Fund was appropriated by the 2003 Legislature or the 2005 Legislature for issuance of new bonds due to General Fund constraints. The Governor's budget resumes the issuance of General Fund supported bonds for cleanup of Orphan Sites.

Governor's Budget

The Governor's recommended budget for the Land Quality Division represents a 3.3% decrease from the 2005-07 legislatively approved level. This decrease is due largely to a $4.1 million decrease in Federal Funds caused by removal of one-time monies approved for cleanup of the McCormick and Baxter Superfund site as well as additional anticipated reductions in federal revenues.

The Governor's budget for the Land Quality Division includes the following changes:

- Adds $4.8 million Other Funds for expenditure of the proceeds of general obligation bonds to cleanup high priority contaminated orphan sites. DEQ plans to issue a total of $7.5 million in general obligation bonds for orphan sites cleanup during 2007-09. The remaining $2.7 million in proceeds would be expended in the 2009-11 biennium, as the Department does not plan a bond sale in 2009-11. Since 1989, the state has provided funds to protect public health and the environment by cleaning up highly contaminated properties where the parties responsible for the pollution are unknown, unable, or unwilling to do the clean up themselves. These properties are known as orphan sites.
- Adds $1.2 million Other Funds to restore 5 positions and adds months on other positions (6.45 FTE) that are proposed for elimination due to insufficient revenue caused by a scheduled sunset of the fees in December 2007 that are used to operate the UST program. This funding proposal assumes the sunset is extended and fees are increased through agency sponsored legislation. The UST program issues permits to use such tanks and inspects existing tanks for compliance with rules governing their operation.
- $349,106 Other Funds are added to restore 1 position and months on another position (1.65 FTE) working on hazardous waste compliance and oversight through a fee increase. The program regulates hazardous waste generation, treatment, storage, and disposal. The fee increase requires passage of authorizing legislation.
- Restores one position (1.00 FTE) scheduled for elimination due to insufficient revenue that works on overseeing marine oil spill prevention efforts with $212,465 Other Funds. The position would conduct inspections of emergency equipment that would be used in case of a spill, review existing oil spill contingency plans, and provide technical assistance in future emergency planning. This funding would be provided by a 35% increase in fees that depend on passage of enabling legislation.
- Adds $131,541 Other Funds for 1 new position (1.00 FTE) to the Heating Oil Tank program. The program oversees work performed by DEQ-licensed contractors who cleanup and remove heating oil tanks for homeowners. The position would conduct audits of service provider work to ensure it was being completed according to Department specifications.
- Adds $100,039 General Fund for rent increases associated with the Land Quality Division's use of the Department's new laboratory building for a full biennium.

DEQ – Cross Program

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	675,484	664,611	684,841	757,178
Other Funds	1,067,845	1,560,534	1,580,034	1,220,711
Federal Funds	769,942	741,010	753,381	826,968
Total Funds	**$2,513,271**	**$2,966,155**	**$3,018,256**	**$2,804,857**
Positions	10	8	8	10
FTE	8.84	7.75	7.75	10.00

Program Description

The Cross Program budget unit was established within the agency's structure in 1999 to manage funding associated with environmental issues that cross the agency's traditional program lines. The budget is managed centrally in Agency Management, while the work is managed through the traditional programs. The Cross Program budget includes the pollution control tax credit program, pollution prevention grants, homeland security grants, electronic reporting grant (Exchange Network), and participation in Economic Revitalization Teams (ERT). ERT efforts are designed to streamline the delivery of state services which cross agency lines to local communities through the coordination of effort.

Revenue Sources and Relationships

The 2001 Legislature included General Fund in the Cross Media program to support 4 limited duration positions to work with what is now ERT. These positions and funding were continued with General Fund in subsequent biennia. Other Funds from pollution control tax credit fees provide funding for agency work associated with certification of tax credit applications. Federal Funds for Cross Program activities are primarily from Environmental Protection Agency grants. Some federal grants are received as Other Funds through other state agencies (Homeland Security).

Governor's Budget

The Governor's recommended budget for the Cross Program area is 7% below the 2005-07 legislatively approved level due to elimination of one-time funding for project work that has been completed. The Governor's budget also proposes to allow the pollution control tax credit program to sunset, however, none of the positions responsible for administering the program or other program costs were recommended for elimination to reflect the end of the credit.

The Governor's budget for Cross Program includes the following changes:

- Adds $373,718 Federal Funds to continue work on the Environmental Information Exchange Network and continues 2 limited duration Information Systems positions (2.00 FTE) using monies from federal grants to conform DEQ's information systems to federal data reporting standards. This work is designed to streamline federally required reporting to EPA while at the same time making environmental data more available and more easily understood by the public and other governmental units. Work on the Network began in 2001-03.
- Adds $301,218 Other Funds expenditure limitation and establishes 2 limited duration positions (2.00 FTE) to address workload associated with 5 different proposals to build Liquefied Natural Gas (LNG) facilities in Oregon. The federal Energy Policy Act of 2005 preempts most state authority over the siting of energy facilities like LNG and gives that authority to the Federal Energy Regulatory Commission (FERC) instead. The state does retain authority to certify water quality under section 401 of the Clean Water Act and issue permits for air emissions. These new positions would work with FERC and parties interested in siting LNG facilities in Oregon over the area DEQ retains authority to regulate, as well as review and comment on resource reports and draft Environmental Impact Statements. The positions would be funded through monies received under the Department's receipts authority. The Department reports that the entities interested in siting LNG facilities in the state have expressed their willingness to pay the cost of DEQ's review and permitting of the facilities.
- $174,575 Other Funds is added to continue a limited duration position (1.00 FTE) first approved in October 2003 by the Emergency Board to act as a chemical terrorism response coordinator who works with first responders in planning, training, and implementing the state's response to chemical terrorism events. The monies are from a federal EPA grant.

DEQ – Agency Management

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	227,587	0	0	0
Other Funds	18,032,700	19,919,160	20,473,586	22,395,732
Total Funds	**$18,260,287**	**$19,919,160**	**$20,473,586**	**$22,395,732**
Positions	82	81	81	88
FTE	80.92	79.25	79.25	85.48

Program Description

The Agency Management program provides leadership, coordination, and support for the Department and staff assistance for the Environmental Quality Commission. Agency Management includes the Office of the Director, the Public Affairs Office, the Interprogram Coordinator, and the Management Services Division. Management Services consists of the Accounting, Budget and Administration, Human Resources, Information Systems, Business Systems Development, and Health and Safety sections.

Revenue Sources and Relationships

Agency Management is financed solely from indirect cost revenues. The indirect rate is calculated as a percentage of personal services. In previous biennia, the indirect rate was applied to personal services from Other Funds and Federal Funds sources. Agency Management received a direct General Fund appropriation to account for the remaining approved central service expenditures. Beginning with the 1999-2001 biennium, the indirect collection methodology was changed to include all funding types, including the General Fund. The budgeted indirect rate is set to provide sufficient revenue to fund Agency Management's current service level budget. The actual rate is negotiated annually with the Environmental Protection Agency once the agency's total budget is established. The change in methodology was necessary in order to meet the conditions of the agency's agreement with the EPA on charging the indirect rate against federal revenues. One budgetary effect of this procedure is a double counting of the limitation associated with the indirect charge against General Fund and Lottery Fund positions due to how the transfer is accounted for by the Department of Administrative Services (DAS). The budget first counts the General Fund appropriation to each program for personal services and then counts the indirect rate of that General Fund amount as Other Funds expenditure limitation in Agency Management.

Budget Environment

All funding for Agency Management is generated through its indirect rate charge. The Department estimates the indirect rate for the biennium as part of budget building. The actual indirect rate is negotiated each fiscal year, six months in advance. The Department endeavors to maintain an indirect rate where the ratio of Agency Management costs to program personal services is constant. As a result, lower personal service expenditures in the programs reduce Agency Management revenues and expenditures are adjusted accordingly. General Fund in the Division's budget was used to pay for central government service charges that cannot be assessed against Federal Funds through the indirect charge. The 2005-07 budget changed the manner in which central government service charges are paid. Now the programs transfer Other Fund revenues to Agency Management, which pays the charges.

Governor's Budget

The Governor's recommended budget for Agency Management is $22.4 million, an increase of 9% from the 2005-07 legislatively approved budget. Besides increases caused by personal services increases related to health benefits, pension obligation bond debt service, and inclusion of future merit increases for those eligible, this increase is caused by an enhancement package. In 2006 the Department hired an outside management consultant to examine the business operations of the agency's administrative services. The Governor's budget adds $1.3 million Other Funds and 8 new permanent positions (8.00 FTE) to the address potential improvements in the agency's administration of grants, transition or workforce development, and documents management identified in the consultants report. An internal auditor is added to comply with state requirements that agency's the size of DEQ have an internal auditor on staff. The proposal also adds a grants manager position to address a need for better grant coordination and a position dedicated to addressing public demand for DEQ information through greater use of e-records. Two human resources positions are added for workforce development needs as 31% of the agency's workforce will be eligible to retire within the next 5 years. Also added are two analyst positions, one to sustain continuous improvement initiatives begun with the consultant's report, and the other to work on strategic planning, performance measurement, and the performance partnership agreement with EPA.

DEQ – Pollution Control Bond Fund Debt Service

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	4,442,085	4,387,306	4,387,306	5,026,753
Other Funds	0	0	0	492,000
Other Funds (NL)	23,522,067	13,830,428	13,830,428	8,373,167
Total Funds	**$27,964,152**	**$18,217,734**	**$18,217,734**	**$13,891,920**

Program Description

The sale of pollution control bonds is used by the Department to finance the Clean Water State Revolving Fund, the Sewer Assessment Deferral Loan program, and the Orphan Site program. Bond proceeds are used to finance municipal waste water facility construction and other water pollution reduction projects, an assessment deferral program for low income households, and cleanup of hazardous waste sites where the responsible party is either unknown, unwilling, or unable to pay for cleanup costs. Bond proceeds also provide the 20% state match for federal capitalization funding.

Revenue Sources and Relationships

For the Orphan Site program, excluding solid waste sites, the Legislature initially provided that debt service would be financed in equal shares from the hazardous substance possession fee and the petroleum load fee. Following a 1993 court ruling on petroleum assessments, the Attorney General advised that the load fee no longer could be used for this purpose. The Legislature substituted temporary funding and directed a Joint Legislative Task Force to find a permanent funding source. The task proved difficult, and no alternative was recommended. Additional attempts to produce a permanent funding structure have met with similar results. The failure to adopt any permanent funding mechanism has meant the continued use of a combination of state General Fund and Lottery 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. The Clean Water State Revolving Loan Fund (CWSRF) program included a different mechanism to fund debt service in 2003-05. Debt service on CWSRF bonds was reduced by $5 million General Fund and $1.8 million Lottery Funds, which was replaced with Other Funds using interest paid on past loans from the CWSRF. 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 $0.6 million in 2005-07.

Governor's Budget

The Governor's recommended budget funds debt service payments on previously issued bonds for the Orphan Site and Clean Water State Revolving Loan Fund programs. Some of the General Fund debt service costs are reduced by shifting $492,000 in debt service payments for previously issued cleanup bonds from General Fund to Other Funds from Hazardous Substance Possession fees on a one-time basis. Debt service on new issuances of bonds providing the state match in the CWSRF program will again be funded with Other Funds derived from interest paid into the revolving fund. The budget also provides $638,250 General Fund for the first installment of debt service on the issuance of $7.5 million in general obligation bonds for cleanup of contaminated orphan sites; $4.8 million Other Funds expenditure limitation is included in Land Quality for expenditure of the proceeds. The remaining proceeds would be expended in the 2009-11 biennium as DEQ does not intend to issue more bonds for cleanup until 2011-2013. The estimated debt service on the $7.5 million bond sale is anticipated to increase from $638,250 in 2007-09 to $1.3 million General Fund for 2009-11.

DEQ – Nonlimited

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds (NL)	69,045,074	72,910,339	131,910,339	90,140,000
Total Funds	**$69,045,074**	**$72,910,339**	**$131,910,339**	**$90,140,000**

Program Description

A program to grant loans to local governments for construction of eligible waste water treatment facilities, where the amount available from the Clean Water State Revolving Loan Fund (CWSRF) was insufficient for the required work, was discontinued in 2003-05 due to lack of participation by local entities. During the 2003-05 biennium, the eligible uses of CWSRF loans were expanded to include projects addressing nonpoint source water pollution concerns. In October 2006, the Department revised their estimated Nonlimited expenditures for loans from the CWSRF. They now project that almost $120 million in loans will be made in 2005-07.

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.

Governor's Budget

The Governor's recommended budget for the agency's Nonlimited expenditures anticipates that during 2007-09 the Department will make about $90 million in new CWSRF loans for solid waste facilities, sewer systems, and projects addressing nonpoint source water pollution.

Department of Fish and Wildlife (ODFW) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	10,628,378	10,749,697	11,068,607	18,136,719
Lottery Funds	10,171,308	6,896,737	7,292,483	7,851,592
Other Funds	102,979,807	119,161,047	124,893,957	125,129,512
Federal Funds	77,898,469	95,472,053	102,347,590	110,093,920
Other Funds (NL)	2,919,970	0	0	0
Total Funds	**$204,597,932**	**$232,279,534**	**$245,602,637**	**$261,211,743**
Positions	1,383	1,399	1,399	1,384
FTE	1,141.91	1,163.26	1,163.26	1,162.99

Agency Overview

The Oregon Department of Fish and Wildlife (ODFW), under direction of its seven-member Commission, manages the fish and wildlife resources of the state. The agency's mission is to "protect and enhance Oregon's fish and wildlife and their habitats for use and enjoyment by present and future generations." By law, the Department is charged with managing wildlife to prevent serious depletion of any indigenous species and with managing fish to provide the optimum economic, commercial, recreational, and aesthetic benefits.

ODFW manages the state's fish and wildlife policies through three primary divisions: Fish, Wildlife, and Administrative Services. Enforcement of the state's fish and wildlife laws is provided by the Department of State Police, Fish and Wildlife Division. The agency is facing a number of major issues including declining fish populations, listings and potential listings of fish species as threatened and endangered, operation and maintenance of fish hatcheries, wildlife diseases, as well as landowner relationships and access for hunting.

Budget Environment

The ODFW budget has become increasingly reliant on revenue from the sale of hunting and angling licenses and tags. During the 2005-07 biennium, revenue from these sources is estimated to provide almost 35% of the Department's total revenue. ODFW has found that the largest variable affecting license and tag sales is the abundance, or even the perceived abundance, of fish and wildlife resources available to hunters and fishers. When the resource available to potential hunters and fishers declines, so do license and tag sales. Another challenge facing the Department, particularly in the Wildlife Division, is demographic changes. National and state trends indicate a declining proportion of the population engaging in hunting activities. Continuation of this trend, coupled with difficulties in attaining easy access to traditional hunting locations, is likely to result in further erosion of hunting license and tag sales. Hunting and angling license and tag fees were increased on January 1, 2004, however as time passes the fixed price of licenses and tags loses purchasing power as the cost of doing business increases. This gradual rise in the cost of doing business will reduce the Department's ending balance to minimal levels by the end of the 2007-09 biennium and will most likely necessitate a fee increase during the 2009-11 biennium.

Actions taken by the Pacific Fishery Management Council have lowered the harvest limits of many marine fish species, including groundfish stocks and most recently Klamath Basin salmon, 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.

Governor's Budget

The Governor's 2007-09 recommended budget for the Department totals $261.2 million and includes $18.1 General Fund, $7.9 million Lottery Funds, $125.1 million Other Funds, and $100.1 million Federal Funds. The Governor's recommended budget is 6.4% above 2005-07 legislatively approved budget. Besides the normal increase in the cost to continue current programs into the next biennium, the increase is due to the addition of Federal Funds from the Bonneville Power Administration for mitigation grants to protect important habitat in the Willamette Valley, Other Funds expenditures that draw down dedicated and obligated accounts balances, continuation of the Lower Columbia Monitoring program paid for with Measure 66 Lottery Funds, and Other Funds from the sale of certificates of participation (COPSs) to address the Department's deferred maintenance inventory. The amount of direct state support (combined General Fund and Ballot Measure 66 Lottery Funds) increased from the level of $18.5 million in the 2005-07 legislatively approved budget to $26 million in the Governor's recommended budget. This increase is caused primarily by replacing $5.5 million in Other Funds from the Pacific Coastal Salmon Recovery Fund (PCSRF) with General Fund due to significant reductions in the amount of PSCRF monies the state expects to receive during 2007-09. PCSRF monies have been used in the past to replace General Fund support in salmon recovery and watershed improvement programs to make those General Fund dollars available for statewide needs. The Governor's budget also adds back $0.9 million General Fund to support hatchery operations in place of Other Funds from hunting and angling licenses that had been shifted during the budget shortfall of 2001-03.

ODFW – Fish Division/Propagation

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	5,195,243	4,954,125	5,140,040	6,461,577
Other Funds	7,381,731	8,151,815	9,454,714	8,553,823
Federal Funds	28,221,445	29,964,874	30,904,356	32,623,956
Total Funds	**$40,798,419**	**$43,070,814**	**$45,499,110**	**$47,639,356**
Positions	285	292	292	292
FTE	250.84	253.81	253.81	253.79

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 2006, the program's 33 hatcheries and 15 satellite rearing facilities produced about 40 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 license 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.

Governor's Budget

The Governor's recommended budget for the Fish Propagation program is $47.6 million, which is 5% more than the 2005-07 legislatively approved level. The Governor's General Fund budget is $6.5 million which represents a 25% increase, the primary cause of which is the proposed shifting of $0.9 million in hatchery operations from Other Funds to General Fund.

The 2007-09 Governor's budget includes the following changes:

- A hatchery fund shift that restores $861,142 General Fund to support hatchery operations that had been shifted to Other Funds from license and tag revenue during the budget reductions of 2001-03 to make General Fund available to address the statewide revenue shortfall. The Other Funds made available from the proposed fund shift are then used to pay the increased cost of game enforcement officers supported with hunting and angling license and tag fees. This change allows the Department to support the same number of Department of State Police officers as it did during the 2005-07 biennium.
- Adds $160,000 in General Fund support for the South Fork Klatskanine hatchery which is operated in conjunction with the Clatsop Economic Development Committee Fisheries project. Historically, the state, through ODFW, has supported about 75% of operational costs; however, as the program has had no state funding growth added over the last few biennia, the state share is now closer to 50%. The non-state funding for the hatchery comes from voluntary assessments paid by local fishermen and seafood processors.
- Adds $58,034 General Fund, $489,094 Other Funds, and $398,980 Federal Funds to pay hatchery employees for night on-call duties performed in place of accruing leave time. Currently, the Department is operating

under an agreement with their employee's union to allow hatchery employees who work at night on-call to receive leave time. This agreement terminates at the end of the 2005-07 biennium and the union has indicated that this agreement will not be renewed; therefore employees will need to be compensated for night on-call work performed.

- 1 position (1.00 FTE) is continued from last biennium on a limited duration basis to address the need for additional staff in the High Desert region. The position is supported using $82,267 Federal Funds.

ODFW – Fish Division/Natural Production

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	264,674	1,315,323	1,338,510	5,346,167
Lottery Funds	4,823,126	5,582,846	5,892,622	6,696,273
Other Funds	17,764,682	20,746,392	22,708,088	17,148,514
Federal Funds	26,167,381	30,936,581	32,018,904	33,436,934
Total Funds	**$49,019,863**	**$58,581,142**	**$61,958,124**	**$62,627,888**
Positions	506	508	508	479
FTE	384.24	395.60	395.60	385.31

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. This amount was increased to $5 million for the 2005-07 biennium.

Governor's Budget

The Governor's recommended budget for the Fish Natural Production program is $62.6 million which represents a slight increase over 2005-07 legislatively approved levels. However, General Fund support is increased by $4 million over the 2005-07 legislatively approved budget.

The 2007-09 Governor's budget includes the following changes:

- Replaces $3.8 million in Other Funds from the Pacific Coastal Salmon Recovery Fund (PCSRF) with General Fund due to significant reductions in the amount of PSCRF monies the state expects to receive during 2007-09. Projected PCSRF revenue is insufficient to maintain previous fund shifts that used PCSRF monies to replace General Fund support in salmon recovery and watershed improvement activites.
- Reverses a shift begun in 2003-05 of $802,074 General Fund using Measure 66 operations Lottery Funds for aquatic surveys and fish passage activities supporting the Oregon Plan for Salmon and Watersheds.
- Adds $1.2 million Measure 66 operations Lottery Funds on a permanent basis to support the Lower Columbia Monitoring program which includes 16 permanent positions (9.59 FTE). The program used a Measure 66 Lottery Funds grant from OWEB beginning in the 2003-05 biennium for funding. Measure 66 Lottery Funds were again provided to continue the program last biennium.
- Adds $188,723 Measure 66 Lottery Funds from the OWEB Research and Development Fund and 5 positions (1.82 FTE) for continuation of a genetic pedigree study of returning coho in the Rogue River basin. This is an ongoing research project designed to collect DNA from multiple generations of wild and hatchery spawned fish in the system. ODFW received a grant from OWEB in 2005-07 to continue this project. This package would provide the funding necessary to complete the research project.

- Adds $384,359 Other Funds to continue as permanent a limited duration position (1.00 FTE) established during the 2005-07 biennium to work with Clackamas County Transportation Department on fish related transportation issues. The county provides the funding to support the position. The package also adds 2 limited duration positions (1.67 FTE) to assist with mitigation projects in the Rogue River basin as part of a hydroelectric re-licensing agreement with PacifiCorp. During the 2007-09 biennium, the positions would be completing a trout life history study that will assist in identifying key habitat as part of a long-term plan to improve fish habitat in the basin.
- $448,537 Federal Funds and $194,074 Other Funds supports the re-establishment of 7 limited duration positions (7.00 FTE) that were authorized for 2005-07 to work on monitoring and evaluating captive broad stocks in the Columbia and Snake rivers and conduct steelhead sampling surveys.

ODFW – Fish Division/Marine Resources

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	1,488,777	1,630,040	1,685,836	1,955,470
Lottery Funds	135,777	0	0	0
Other Funds	3,727,951	4,416,349	4,584,824	7,136,202
Federal Funds	4,794,473	6,031,988	6,237,319	6,104,700
Total Funds	**$10,146,978**	**$12,078,377**	**$12,507,979**	**$15,196,372**
Positions	134	109	109	127
FTE	94.13	80.35	80.35	92.72

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 which are deposited in the Commercial Fish Fund. 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 for marine resource management.

Governor's Budget

The Governor's recommended budget for the Fish Marine Resources program represents an increase of 21% from 2005-07 legislatively approved levels. This increase is caused by the addition of Other Funds for program enhancements and funding shifts detailed below.

The 2007-09 Governor's budget includes the following changes:

- Adds $444,557 Other Funds to make permanent a shift in support for the Pacific Coast Fisheries Information Network (PacFin) due to elimination of federal support for the program. PacFin expenses were paid during 2005-07 with monies from the state's Commercial Fish Fund on a one-time basis. This proposal would shift the majority of the cost for the program to the Commercial Fish Fund with only $86,421 of additional program costs continuing to be paid from Federal Funds. PacFin provides information which enables ODFW and industries to track commercial fish catches by area.
- Adds $671,051 Other Funds, $187,240 General Fund, and reduces Federal Funds by $431,377 to shift base program positions working on management of commercial ground fisheries to Other Funds from the Commercial Fish Fund due to declining federal grant revenue that had supported these positions in the past and also to shift funding type support for five positions working on near shore fishery management. These positions had been funded using the federal Wildlife Grant, but the Department now wants all those funds to remain in the Wildlife Division and instead is proposing to use revenue from shellfish licenses. Also included is the addition of a permanent fish biologist to the Newport field office (1.00 FTE) for estuary and habitat management which is supported using monies from the Commercial Fish Fund and recreational shellfish license revenue.

- Adds $336,865 Federal Funds and 3 positions (2.00 FTE) to address penniped (seal) predation on threatened fish species through the development, approval, and implementation of activities including hazing and the lethal taking of highly problematic individual pennipeds. Lethal taking of pennipeds requires federal approval as they are a federally protected species. ODFW will seek federal grants to implement this program.
- Includes a one-time increase of $270,182 from the Developmental Fisheries Fund to add 3 limited duration positions (2.00 FTE) for a stock assessment study of selected developmental fisheries.
- Adds $408,342 Other Funds for permanent positions (3.00 FTE) to create a recreational shellfish program designed to monitor, protect, and enhance these fisheries to be supported with revenue from the sale of recreational shellfish licenses.
- Adds $47,864 Other Funds for a permanent seasonal biologist position (0.50 FTE) in the Developmental Fisheries Program to conduct research on nearshore fisheries which is supported from monies in the Nearshore Species Research Fund.
- Adds $565,896 Other Funds and 7 limited duration positions (4.08 FTE) on a one-time basis for an assessment of recreational shellfish populations and habitat. Funding for the work comes from the beginning balance of the Recreational Shellfish Subaccount.
- Adds $25,000 Other Funds from the Halibut Research Fund for dockside sampling and abundance surveys.

ODFW – Fish Division/Interjurisdictional Fisheries

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	1,100,991	45,584	45,584	46,996
Other Funds	5,531,026	7,437,589	7,725,491	8,228,284
Federal Funds	6,407,596	10,184,161	10,505,771	10,949,530
Total Funds	**$13,039,613**	**$17,667,334**	**$18,276,846**	**$19,224,810**
Positions	83	162	162	160
FTE	87.57	108.39	108.39	106.22

Program Description

The Fish Interjurisdictional Fisheries program is responsible for management of Columbia River anadromous fisheries, coordination of Columbia Basin activities, and participation in regional and international management councils for the management of marine and migratory fish. The program monitors and evaluates projects funded through the Northwest Power Planning Council and provides the overall planning and management of the Fish Division.

Revenue Sources and Relationships

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.

Governor's Budget

The Governor's recommended budget for the Fish Interjurisdictional Fisheries program represents a 5% increase from the 2005-07 legislatively approved levels. This increase is caused solely by the projected increased cost of continuing current levels of program service into the 2007-09 biennium. The Governor's budget makes only one substantive change in this budget, the elimination of 2 positions (2.00 FTE) working as coordinators for ESA issues involving the lower Columbia and upper Willamette rivers. These positions had been supported in 2005-07 with the proceeds of bonds issued by the Economic and Community Development Department for Columbia River channel deepening.

ODFW – Wildlife Division/Game

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	355,094	336,398	343,630	503,493
Other Funds	19,498,043	20,689,608	21,291,306	22,393,760
Federal Funds	1,924,998	2,120,482	2,202,136	2,414,101
Total Funds	**$21,778,135**	**$23,146,488**	**$23,837,072**	**$25,311,354**
Positions	159	108	108	106
FTE	118.92	114.44	114.44	115.18

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 disease monitoring and management and habitat improvement projects for waterfowl and upland gamebirds. Management and planning for the entire Wildlife Division is included in the Game program budget.

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.

Governor's Budget

The Governor's recommended budget for the Wildlife Game program represents a 6.2% increase from the 2005-07 legislatively approved budget.

The 2007-09 Governor's budget includes the following changes:

- Adds $200,000 General Fund to be used to compensate landowners who have suffered livestock loses due to wolf predation as part of the Department's proposed Wolf Management Plan. The Department will need legislation approved to implement this plan.
- Adds $40,000 Other Funds on a permanent basis using proceeds of a special annual raffle of one antelope hunting tag to conduct research and monitoring of antelope populations.
- Other Funds added on a one-time basis that draws down existing dedicated or obligated fund balances include: $450,000 for the upland game bird program to lease private land for hunting and improve habitat; $300,000 for waterfowl wetlands habitat improvement; $100,000 from proceeds of raffles for special Bighorn Sheep hunting tags for population surveys and to complete genetic research on two specific sheep ranges; and $15,000 for trap and transplant efforts involving mountain goats to reintroduce the animals to their historic ranges.

ODFW – Wildlife Division/Habitat

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	396,581	314,446	326,130	1,259,568
Lottery Funds	0	1,313,891	1,399,861	1,155,319
Other Funds	5,358,324	9,089,685	9,252,739	9,535,872
Federal Funds	7,561,628	10,901,778	15,068,369	18,171,215
Total Funds	**$13,316,533**	**$21,619,800**	**$26,047,099**	**$30,121,974**
Positions	89	92	92	93
FTE	81.17	85.51	85.51	85.56

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 Access and Habitat (A&H) program started in 1993 and is used to provide both wildlife habitat improvement and improved hunter access to private lands. Projects are approved by a 7-member board and then submitted to the Fish and Wildlife Commission for final action

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.

Governor's Budget

The Governor's recommended budget for the Wildlife Habitat program represents a 15.6% increase above the 2005-07 legislatively approved levels. This change is due largely to the one-time addition of $6.6 million Federal Funds for grants anticipated to be received from the Bonneville Power Administration for protection of wildlife habitat. The Emergency Board added $3.9 million Federal Funds expenditure limitation in December 2006 for a similar grant.

The 2007-09 Governor's budget includes the following changes:

- Replaces $532,161 in Other Funds from the Pacific Coastal Salmon Recovery Fund (PCSRF) with a like amount of General Fund due to significant reductions in the amount of PSCRF monies the state expects to receive during 2007-09. Projected PCSRF revenue for the 2007-09 biennium is insufficient to maintain previous fund shifts that used PCSRF monies to replace General Fund support in salmon recovery and watershed improvement activities.
- Adds $384,783 General Fund to replace Measure 66 operations Lottery Funds used in 2005-07 to fund habitat biologists who provide technical assistance to private landowners, watershed councils, and other local entities undertaking watershed enhancement projects.
- Adds $6.6 million Federal Funds on a one-time basis for monies from the Bonneville Power Administration (BPA) to secure conservation easements or acquire lands to protect important habitat in the Willamette Valley as part of BPA's mitigation program.
- $600,000 Other Funds is added from a surcharge on hunting licenses on a one-time basis for the Access and Habitat program to create more hunting opportunities on private land.
- Adds $499,000 Other Funds in one-time expenditures from monies in the Pacific Gas Transmission Mitigation Account that were paid to the Department for mitigation of impacts to wildlife from the construction of the Pacific Gas Transmission line in the 1990s. The monies will be used to protect and enhance important shrub-steppe habitat that is used by raptors and other wildlife.
- $301,277 Other Funds from ODOT is added to create another liaison position (1.00 FTE) that works to provide technical assistance related to permits needed for highway construction and maintenance projects where listed species may be impacted. ODOT already provides funding for 3 such positions.
- Increases permanent funding from the Yoncalla Oil Spill Mitigation Fund by $75,000 Other Funds to identify and enhance habitat in the identified mitigation areas of the Rogue River basin.

ODFW – Wildlife Division/Wildlife Diversity

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	732,018	863,915	899,011	960,314
Lottery Funds	87,405	0	0	0
Other Funds	245,360	302,840	313,214	318,011
Federal Funds	1,813,541	3,692,296	3,731,845	3,907,748
Total Funds	**$2,878,324**	**$4,859,051**	**$4,944,070**	**$5,186,073**
Positions	15	12	12	12
FTE	14.42	12.50	12.50	12.50

Program Description

The goal of the Wildlife Diversity program is the protection and recovery of non-game bird and animal species through the protection and enhancement of populations and habitat of native wildlife. This represents 88% of the total wildlife species in the state. Non-game biologists conduct species surveys, determine species management requirements, initiate efforts to preserve and improve critical habitats, and coordinate wildlife rehabilitation programs. The program provides consultation to other state agencies regarding threatened and endangered species, as required under the Oregon Endangered Species Act. Oregon's Threatened and Endangered Species List includes 25 nongame wildlife species and 6 nongame fish species. The state's Sensitive Species List, species not threatened or endangered but with populations or habitats that could lead to listing, includes a total of 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.

Governor's Budget

The Governor's recommended budget for the Wildlife Diversity program represents a 5% increase from 2005-07 legislatively approved levels. This increase is caused by the anticipated increase in the cost of continuing current levels of program services into the 2007-09 biennium.

ODFW – State Police Enforcement

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	12,263,591	12,954,046	12,954,046	14,356,763
Total Funds	**$12,263,591**	**$12,954,046**	**$12,954,046**	**$14,356,763**

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.

Governor's Budget

The Governor's recommended budget includes $14.4 million Other Funds from ODFW revenues for support of the Department of State Police, Fish and Wildlife Division. The Governor's budget adds $0.9 million Other Funds from hunting and angling license and tags to cover the increased cost of the current contract with the State Police for fish and game enforcement. This will allow ODFW to fully support 64 positions at the State Police for the full biennium. The Other Funds for this increase are available as a result of the fund shift in the Propagation program unit that replaces Other Funds for hatchery operations with General Fund. The budget makes a one-time addition of $140,000 Other Funds from the Commercial Fish Fund for rental of large vessels capable of pulling commercial crab pots in the open ocean. This capability is needed to enforce new commercial crab pot limits adopted by the Department. The vessels would also be used for enforcement of other deep sea fisheries such as halibut, salmon, and sablefish.

ODFW – Agency Administration

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	896,856	1,088,221	1,088,221	1,395,186
Other Funds	26,601,190	28,748,713	29,980,678	32,889,722
Federal Funds	1,007,407	1,639,893	1,678,890	1,738,806
Total Funds	**$28,505,453**	**$31,476,827**	**$32,747,789**	**$36,023,714**
Positions	110	115	115	114
FTE	108.79	111.66	111.66	110.71

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 is in the process of implementing 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 COPs, donations, and miscellaneous sales. Federal Funds are received from the U.S. Fish and Wildlife Service in support of the Hunter Education and Aquatic/Angler Education programs. Much of the 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. This fee will not cover the full cost of the new point-of-sale program. The remainder of the cost is paid with revenue from license and tag fees, and other revenues.

Budget Environment

The agency's budget development process is guided by the Strategic Operational Plan. The Plan was developed to guide agency decision-making on budget challenges over the next six years. The agency developed its budget plan with the assistance of an External Budget Advisory Committee and presented the budget plan at a series of public meetings held across the state. Based on the responses to the plan, the Department made changes to priorities, which were then adopted by the Fish and Wildlife Commission. As part of its continued effort to ensure fiscal accountability, the Department provides reports to the Fish and Wildlife Commission on current biennium revenues and expenditures at each of its meetings.

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. General Fund now is only used to pay the agency's state government service charges and Department of Administrative Services' assessments.

Governor's Budget

The Governor's recommended budget for Agency Administration represents an increase of 10% from 2005-07 legislatively approved levels. The budget adds $222,982 General Fund for debt service payments on the sale of $1.5 million in COPs to finance deferred maintenance projects on many of the Department's buildings. Other Funds expenditure limitation from the proceeds of the sale of the COPs is included in the Capital Improvement program unit. The package total also includes $36,000 Other Funds that represent the cost of issuing the COPs and is funded using proceeds of the sale. In addition, the budget adds $60,497 for a new position (0.50 FTE) in the License Sales Unit to address additional workload caused by the adoption of crab pot limits on the commercial Dungeness crab fisheries. The new limits require buoy tags to accompany crab fishing permits. The new position would collect and monitor the new data required on crab permits. Monies to support the position would come from the Commercial Fish Fund.

ODFW – Nonlimited Debt Service

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds (NL)	2,919,970	0	0	0
Total Funds	**$2,919,970**	**$0**	**$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.

Governor's Budget

There is no Nonlimited debt service contained in the adopted budget. Debt service for the Deferred Maintenance financing is added instead to the Administration program unit.

ODFW – Capital Improvements

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	198,144	201,645	201,645	207,948
Lottery Funds	5,125,000	0	0	0
Other Funds	4,607,909	6,624,010	6,628,857	4,568,561
Federal Funds	0	0	0	746,930
Total Funds	**$9,931,053**	**$6,825,655**	**$6,830,502**	**$5,523,439**
Positions	2	1	1	1
FTE	1.83	1.00	1.00	1.00

Program Description

The Capital Improvements budget finances hatchery and wildlife management area facility repairs and improvements. Projects include diking, nesting, water control, and installation of bird netting, repairs to roads, channels, intakes, and ponds. The program includes a position for clerical support to the Restoration and Enhancement Board, funded by surcharge revenues.

Revenue Sources and Relationships

Nearly all of the Other Funds expenditures in the Capital Improvements budget had been for Restoration and Enhancement (R&E) Board projects. R&E projects are funded with a $2 surcharge per angling license. All General Fund expenditures are for emergency hatchery repairs. 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 a deferred maintenance study in 2005, which estimated the following deferred maintenance needs: hatcheries, $5.9 million; wildlife areas' facilities, $2.4 million; and administrative and operational facilities $0.9 million. Existing funding sources are not sufficient to eliminate the maintenance backlog.

Governor's Budget

The Governor's recommended budget adds $1.4 million Other Funds from the proceeds of the sale of COPs to address the Department's most critical deferred maintenance needs. ODFW updated its Deferred Maintenance Master plan in 2005 which found over $9 million in deferred maintenance needs. Federal Funds in the amount of $746,930 are also a one-time addition to also address deferred maintenance. This amount represents the current balance in the Federal Fund Hatchery Housing Fund, which holds rent paid by employees living at federally funded hatcheries.

Department of Forestry (ODF) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	38,795,674	37,682,391	52,711,325	43,906,134
Other Funds	161,503,006	157,983,199	192,261,701	181,130,571
Federal Funds	15,762,682	24,724,173	24,724,173	26,025,712
Other Funds (NL)	8,989,601	15,000,000	19,149,706	15,000,000
Total Funds	**$225,050,963**	**$235,389,763**	**$288,846,905**	**$266,062,417**
Positions	1,366	1,292	1,292	1,322
FTE	885.37	912.69	912.69	932.89

Agency Overview

The Oregon Department of Forestry (ODF), directed by the seven-member Governor-appointed State Board of Forestry, is a multi-program, multi-funded agency designed to administer the forest laws and policies of the state. The Department provides a cost-effective system of state, federal, and private forest land fire protection, manages state forest lands, and provides stewardship for non-federal forest lands through administration of the Forest Practices Act and provision of forestry assistance. The 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 Board of Forestry recognized as an impartial deliberative body operating openly and in the public interest.
- Citizens who understand, accept, and support sustainable forestry and who make informed decisions that contribute to achievement of the vision of the 2003 Forestry Program for Oregon.
- Adequate funding for the Department of Forestry to efficiently and cost-effectively accomplish the mission and strategies of the Board of Forestry, appropriate use of information technology, business management strategies, and department personnel policies that encourage and recognize employees, allowing them to meet their full potential in providing excellent public service.

Governor's Budget

The Governor's recommended budget is $266 million total funds. This is $22.8 million, or 8.5%, less than the 2005-07 legislatively approved expenditure level. The decrease is primarily due to the reduction of one-time General Fund and Other Funds expenditures related to fire protection in the 2005-07 biennium and a credit to the Forestry Department Account as a result of a judgement by the Tillamook County Circuit Court. The budget continues support for cooperative fire protection, forest plan implementation, smoke management, and reforestation tax credit activities. Without regard to the costs associated with these one-time costs, the recommended budget is $30.7 million, or 13%, more than the legislatively approved expenditure level.

The proposed budget provides resources through certificates of participation (COP) proceeds to improve agency business systems and major capital construction projects. The budget increases resources for fire protection activities, Private Forests, creates a new program and increases resources for Urban Forestry, and proposes permanent positions to replace limited duration positions in the State Forests program. Specific details are discussed in the individual programs.

ODF – Protection From Fire

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	24,974,227	19,275,422	23,809,039	20,402,533
Other Funds	71,200,193	52,961,334	85,061,334	59,181,584
Federal Funds	11,546,395	16,472,255	16,472,255	17,503,156
Other Funds (NL)	8,989,601	15,000,000	15,000,000	15,000,000
Total Funds	**$116,710,416**	**$103,709,011**	**$140,342,628**	**$112,087,273**
Positions	745	713	713	725
FTE	371.51	398.5	398.5	406.94

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 12 forest protection districts including three locally managed Forest Protective Associations. Over one-third of all agency positions are assigned to this program.

The Legislature combined two other program units with the Protection from Fire program in 1995. The four-member Emergency Fire Cost Committee is comprised of forest landowners or their representatives. The committee manages the Oregon Forest Land Protection Fund (OFLPF), which is used to purchase insurance for catastrophic fires and to equalize extraordinary fire costs among forest protection districts. The Cooperative Fire program provides forest management services to public and private forest landowners through contracts. The purpose is to maintain trained fire suppression personnel through the off-season and to maximize the use of public services through the sharing of resources. Both programs are entirely supported with Other Funds revenue.

Revenue Sources and Relationships

The State's Protection from Fire program is provided in three levels with separate funding mechanisms:

Base Protection – ODF's base protection program is delivered through nine local Forest Protection Districts and three private Forest Protective Associations. Each of the local fire protection units prepares an operating budget for prevention, detection, resource readiness, initial attack, and extra cost deductible. The revenue to support the local budgets comes from a combination of the Public Share Fire Fund (General Fund) and forest patrol assessments on local forest landowners. The assessment system includes more than 291,000 parcels, with and without improvements. The distribution is established in statute as 50% General Fund, 50% landowner assessment. Since each local budget is developed independently, the forest patrol assessments charged against subject landowners vary by district. The assessments are collected by county assessors and are made on a per acre basis with a minimum assessment of $18.00 per lot. Public landowners receive no General Fund match and pay the full cost of fire protection.

Emergency Protection – The purpose of emergency protection is to pay for the excess fire suppression costs of major fires in Oregon. The enabling legislation is based on the belief that the emergency fire suppression costs on forest lands protected by the State Forester need to be equalized so that no single district is required to pay the full amount of fire fighting expenses. Funding for emergency costs is provided through the Oregon Forest Land Protection Fund (OFLPF), administered by the Emergency Fire Cost Committee. The Legislature modified the reserve base for the OFLPF in HB 2327 from $15 million to $22.5 million stipulating that when the unencumbered balance of the fund reaches a level greater than $22.5 million but less than $30 million, the minimum assessment would decrease from $18 to $16.50, with $1.50 to be paid into the OFLPF. Above a $30 million balance, the assessment would drop to $15 per lot or parcel with none paid to the OFLPF. The OFLPF essentially serves as an insurance policy for local landowners in each of the forest protection districts. Revenues to support the OFLPF are estimated to be $16.8 million in 2007-09, and are generated from an assortment of landowner assessments and taxes:

- harvest tax of $0.50/thousand board feet (MMbf) on all merchantable forest products; the tax is suspended when the reserve base amount of the OFLPF is projected to exceed $22.5 million ($4.2 million);
- acreage assessment on all protected forest land ($0.04 per acre for protected western Oregon forestlands, $0.06 per acre for eastern Oregon protected forestland, and $0.06 per acre for all class 3 forestlands) ($1.47 million);
- assessment of $3.00 per lot (out of the $18.00 minimum assessed for forest patrol) ($1.14 million);
- surcharge of $38.00 for each improved tax lot ($9.9 million); and
- interest from State Treasurer investments of the fund ($0.1 million).

The OFLPF reimburses fire suppression costs after a district meets an annual deductible based on protected acreage and a deductible of $25,000 for any one fire or on any one day.

Catastrophic Protection – HB 2327 (2005) directs that, prior to February 1 of each year, the State Forester and the Emergency Fire Cost Committee review the need to purchase emergency fire suppression insurance and determine what level might be needed in view of the current condition of the forests, long-term weather predictions, available resources, and other factors. The 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 HB 2327 (2005) limits the landowners' responsibility to $15 million per year, including the cost of insurance premiums and all claims paid to local districts from the OFLPF. Beyond this limit, the cost responsibility falls on the General Fund. The current reserve and expenditure limits are inadequate when dealing with severe fire seasons and higher per unit costs for firefighters and equipment.

The *Smoke Management/Fuels program* is funded by registration and burning fees collected from landowners (87%), contractual payments from other government agencies (12%), and landowner assessments (1%).

Budget Environment

Fire suppression efforts and costs are driven by forest health (insect and disease damage) and weather (drought and lightning storms) and cannot be predicted with certainty. Over 7.5 million acres of forestland in eastern and southern Oregon are suffering from poor forest health and remain untreated. The last decade of drought has affected much of Oregon's forests. In addition, the siting of dwellings and other improvements on forestlands continues to increase the challenges to fire managers and large areas of the state have no fire protection coverage. Fires originating on these unprotected lands can be a threat to protected forestlands and communities. The increasing numbers of homes in the forest complicates protection priorities resulting in higher costs and greater damages and requires additional coordination by fire protection agencies. Numerous structures located on forestland have not been included within the boundaries of rural fire districts and are unprotected. An estimated 3.9 million acres of land in north central and southeast Oregon are completely unprotected. Fires originating in these unprotected areas threaten protected forest land. Fewer fire protection resources are available from the private sector such as logging crews and equipment. Federal budget cuts and local resource constraints have also decreased existing wildfire protection levels by reducing fire fighting resources and revenues. Also, federal fire management policies have reduced the overall productivity of suppression resources and at times limited the availability of critical resources.

During budget reviews in the past three biennia, the Legislature instructed the Department to establish an accounting system that reflects actual sources of program expenses within corresponding fund types. The Department has developed a work-plan to create and maintain an accounting and budget structure that will reduce complexity and clarify General Fund expenditures and allow for integration with agency enterprise-wide systems but requires additional resources to implement the plan. The Governor's budget does not include resources for this purpose.

Governor's Budget

The Governor's recommended budget of $112 million is $28.2 million, or 20%, less than the 2005-07 legislatively approved expenditure level. Most of the reduction is related to phasing out the one-time costs of $36.6 million total funds associated with the 2005 and 2006 extraordinary fire costs. The proposed 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 proposed budget includes a total of $20.4 million General Fund supporting the program at $3.4 million less than the 2005-07 legislatively approved budget level. The reduced level primarily reflects phasing out $4.5 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 and insurance premiums for the 2005 and 2006 fire seasons.

The budget includes the following policy packages:

- $633,162 Other Funds, $243,038 Federal Funds, and five positions (4.18 FTE) to transfer Smoke Management activties from Private Forests to Protection from Fire, aligning operations and objectives with this program.
- $266,769 General Fund and $736,257 Other Funds to establish 13 postions (5.43 FTE) to provide protection levels in line with the actual cost of services required for wildland firefighting; the package also provides resources to offset several biennial periods of reductions to restore capacity and keep pace with costs of firefighting resources that are increasing 6-12% annually.
- $615,358 Other Funds to establish one Natural Resource Specialist 3 position and one Principal Executive Manager D position (2.00 FTE) transferred from the Private Forests program, to increase ability for fuels management monitoring activities; smoke production related to wildfire and prescribed fire on public and private timberlands; and to provide ability for landowner outreach and education programs – the package is supported by burn fees.
- $71,165 General Fund and $49,438 Other Funds to merge the Industrial Fire Program into "Forest Patrol Assessment" program since industrial fire prevention and education are accomplished through forest fire protection statutes and based in the same revenue sources. The revenue for this activity was shifted from General Fund to Other Funds in 1991 for funding through Forest Patrol assessments to private landowners. The package proposes the program be supported by 60% General Fund and 40% Other Funds.
- A reduction of $146,113 General Fund, $251,073 Other Funds, and $145,425 Federal Funds to shift resources to the Private Forest Program restoring program monitoring capacity for maintaining investments in current established riparian monitoring projects. The package is supported by General Fund, Forest Patrol Funds, and the Federal National Fire Plan Grant.

The Governor's budget makes no provision for severity resources such as the costs associated with contracting for large air tankers and helicopters to supplement fire suppression resource or for the insurance premium for catastrophic insurance that have historically been provided by the Legislature through a special purpose apropriation to the Emergency Board. In the 2005-07 biennium, the agency required $3.9 million General Fund for this purpose.

The budget includes technical adjustments to increase personal service costs for returning seasonal employees by $190,374 General Fund and a reduction of $70,918 Other Funds to correctly allocate telecommunication reductions in appropriate budget unit. A corresponding increase is included in the Agency Administration program.

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 $6.2 million total funds.

ODF – State Forest Lands

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund			10,000,000	
Other Funds	51,379,301	62,030,648	63,668,328	63,749,357
Federal Funds	0	140,739	140,739	145,102
Total Funds	**$51,379,301**	**$62,171,387**	**$73,809,067**	**$63,894,459**
Positions	298	306	306	302
FTE	253.17	271.84	271.84	260.19

Program Description

The State Forest Management program manages 780,000 acres of state forestlands on behalf of counties and the Common School Fund. The Board of Forestry owns nearly 83% (648,200) of these acres, including the five state forests (Tillamook, Clatsop, Santiam, Sun Pass, and Elliott). Counties transferred the title to these lands to the Board of Forestry in the 1930s and 1940s. The remaining 132,000 acres are the Common School Lands, which are managed by ODF under contract with the State Land Board. The primary goal of the program is to provide for healthy, productive, and sustainable forests through active management that will produce sustainable timber and revenue on Board of Forestry lands and maximize revenue over the long-term on Common School Lands.

The Department participates in a cooperative tree improvement effort with other major landowners to increase the yield and quality of forest products. The State Forest Management program also operates the J.E Schroeder Seed Orchard to provide improved tree seed for planting on state land, on non-industrial landowner properties, and on 13 industrial lands whose owners share orchard expenditures.

Revenue Sources and Relationships

The State Forest Management program is entirely self-financed from timber sales and the sale of special forest products. The Department retains 36.25% of timber sales for management of the county trust lands. The remaining 63.75% is distributed to the counties and local taxing districts where the forestland is located. ODF projects the state's share of timber sales to be $57 to $69 million for 2007-09. 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 $24.9 to $34.3 million in revenue during the 2007-09 biennium. Management costs on the Common School Fund lands are proposed in the budget at slightly over $10.7 million for 2007-09.

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 2007-09 biennium. The agency projects a slightly declining timber market during the 2007-09 biennium.

Swiss Needle Cast, a foliage disease of Douglas-fir, is significantly affecting a portion of state forestlands on the Tillamook State Forest. Symptoms of this disease are also becoming evident in the Elliott State Forest. Federally listed species have significantly affected the management of state forestlands over the last decade. Listings for fish species also have effects on the ability of managing the resource to achieve program goals on state forest lands.

Governor's Budget

The Governor's recommended budget of $63.9 million total funds is $9.9 million, or 13.4%, less than the 2005-07 legislatively approved expenditure level. Most of the reduction is related to phasing out the one-time costs of $13.7 million one time costs included in the legislatively approved budget related to timber harvests ($2.1 million), credit to the Forestry Department Account as a result of a judgement by the Tillamook County Circuit Court ($10 million), and compensation plan increases ($1.6 million).

The proposed budget includes the addition of $1.5 million Other Funds expenditure limitation to establish 11 permanent positions for implementing the Forest Management Plan. Over the past two biennia, the agency received authorization from the Legislature for 21 limited duration positions. Organizational changes and improved efficiencies have resulted in a need to convert 11 of these to permanent. This includes one Natural Resource Specialist 3 Monitoring Specialist; two Natural Resource Specialist 1 Reforestation Foresters; three Natural Resource Specialist 1 Recreation Foresters; one Natural Resource Specialist 1 Timber Sale Specialist; and one Natural Resource Specialist 3 Check Scaler (11.00 FTE).

The budget also provides $18,108 Other Funds and a reduction of 0.01 FTE, to partially restore resources for Private Forest Program reduced in the past three biennia due to budget reductions. The package establishes permanent positions in the Private Forest program unit to assist forest landowners in interpreting and implementing current water protection rules and water protection rule modifications being deliberated by the Board of Forestry that enhance riparian functions.

The remaining changes in the program budget are adjustments to reflect a technical adjustment to redistribute a reduction for telecommunications charged exclusively to the Agency Administration program reducing the State Forest program unity by $57,330 Other Funds; and 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 $2.4 million Other Funds.

ODF – Urban Forestry

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	0	0	0	240,967
Other Funds	0	0	0	1,746,758
Federal Funds	0	0	0	507,256
Total Funds	**0**	**$0**	**$0**	**$2,494,981**
Positions	0	0	0	9
FTE	0.00	0.00	0.00	10.00

Program Description

The Urban Forestry program is a new unit realigned from the Private Forest program unit and is responsible for on-site technical, educational, and financial assistance for municipal governments, other public agencies, non-profit groups and civic organizations. The program provides technical information on tree risk assessment, ordinances, inventories, tree care, planting, tree selection, and urban forest management. The program unit was established to place emphasis on advocating for and promoting enhancing stewardship of Oregon's urban forests and to foster public awareness of the contributions that trees make to the quality of life and the environmental and economic well-being of Oregon cities.

The Urban Forestry Program was initiated in 1991 when federal funds became available from the President's America the Beautiful Initiative. The 1993 Legislature passed a bill directing the Department to assist cities in managing the trees within their urban growth boundaries. A 2004 survey of cities showed that ODF's assistance since 1991 has resulted in an increase in the number of cities with active urban forestry programs, an increase in the number of urban forestry program elements (inventories, management plans, etc.) found in cities, and an increase in local investment in urban forest management. Cities that had received ODF assistance were more likely to be proactively dealing with their tree problems than cities that were not assisted by ODF.

Revenue Sources and Relationships

The Urban Forestry program is funded by a combination of Other and Federal Funds. The majority of Federal Funds have been received through the U.S. Department of Agriculture's Forest Service as part of a consolidated grant program through the U.S. Forest Service State and Private Forestry Program. Match is met on a comprehensive basis. Estimated revenues from Federal Funds in the 2007-09 biennium are $400,000. Other Funds revenues include private donations, cooperative projects with utilities and other entities, and Federal Funds transferred from other state agencies. Estimated revenues from Other Funds are $100,000 for the 2007-09 biennium.

Oregon lacks a dedicated source of tree planting revenues for local communities to access. Most funding incentives are targeted outside of urban growth boundaries, despite the fact that most salmon bearing streams pass through urban areas on the way to the Pacific.

Budget Environment

Most cities lack the technical expertise to complete tree risk management plans. Storms often result in tree damage to public infrastructure and utility systems. Most cities are reactive rather than proactive when it comes to dealing with hazardous tree issues.

In the 2005-07 biennium there were two field foresters covering the entire state, one from Salem and one from Prineville, leaving the southern Oregon area and the Portland metro area under served. ODF lacks sufficient staff to meet the needs of all communities in the state.

Since 1991, Oregon has received over $4 million in urban forestry funds from the federal government that have never been matched with a state appropriation. The federal government is considering requiring states to equally match the federal funds it receives on a program basis which means the state would need to allocate at least $400,000 per biennium in order to be eligible for Federal Funds. Reductions in federal funding available to the state have reduced the program by 23% in 2006 and another 23% for 2007. The reduction has necessitated the elimination of a popular grant program for local governments and non-profit organizations and in the next biennium will result in reducing field staff that provides urban forestry assistance to cities. Before its elimination, this program funded over 400 projects and provided more than $1.9 million in grants that leveraged $3.8 million in local resources. The results of the second 23% budget reduction will be reducing field FTE to 1.00 to cover the entire state.

Governor's Budget

The Governor's recommended budget of $2.5 million total funds and nine positions (10.00 FTE) reflects a $1.8 million total funds and 8 position (9.00 FTE) increase over current budget levels. The proposed budget includes the addition of $240,967 General Fund, $1.5 million Other Funds, and $41,058 Federal Funds to establish eight positions (9.00 FTE); restore a grant program to local governments and community groups; and provide resources to continue the existing program; $1.5 million Other Funds creates a Community and Cooperative Forestry Program to provide services to cities and landowners within urban growth boundaries. Field Community Foresters would provide technical urban forestry assistance, wildland / urban interface fire planning advice, and Forest Practices Act administration within the state's 241 urban growth boundares. The package requests General Fund and Other Funds to match existing Federal Funds at a 47% General Fund, 53% Other Fund match ratio.

The Governor's budget proposes 9 positions and 10.00 FTE. The position associated with the additional FTE is attached to other program areas, but funded through Urban Forestry.

ODF – Private and Community Forests

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	822,686	9,133,400	9,428,274	11,933,588
Other Funds	1,751,247	8,850,514	9,119,016	9,639,764
Federal Funds	3,785,488	7,411,356	7,411,356	7,096,028
Total Funds	**$6,359,421**	**$25,395,270**	**$25,958,646**	**$28,669,380**
Positions	38	118	118	130
FTE	32.68	113.66	113.66	126.06

Program Description

The Private Forests program is an integrated program that:

- Promotes forest stewardship through the Oregon Forest Practices Act and rules, and by providing training, technical, and financial assistance to forest landowners and operators.
- Promotes healthy forests through monitoring insect and disease conditions, applying integrated pest management strategies, controlling / eradicating invasive species and assisting landowners conduct stand management prescriptions through technical and financial assistance.
- Promotes increased timber production by family forest landowners through information, incentives, services, and assistance.
- Promotes a stable regulatory and investment climate by developing and promoting science-based best management practices and encouraging federal, state, and local government policies that are supportive of the Board's mission, that avoid unintended adverse consequences, and that improve efficiency of program delivery.
- Promotes the implementation of the voluntary measures under the Oregon Plan for Salmon and Watersheds through technical, cost-share, and administrative assistance.
- Conducts monitoring to ensure rules and programs are effective and efficient.

The Forest Practices Act, adopted in 1971, provides the Board of Forestry authority to regulate forest practices, including timber harvesting and reforestation on 12.3 million acres of private, state, county, and some federal owned forest lands. The statutory and program goals are to ensure the continuous growing and harvesting of forest tree species is maintained as the leading use of privately owned forestland while ensuring forest practices are consistent with the sound management of soil, air, water, fish, and wildlife resources. The Forest Practices Act has been revised in nearly every legislative session since 1979, including major amendments in 1987, and 1991 that changed the requirements governing clear-cut size, green tree and downed wood retention, reforestation, and scenic highway corridors. As a result of the statutory changes, the Board adopted a number of rule changes from 1994 to 1996 related to water protection, chemical use and reforestation. SB 12 (1999) provided additional direction and authority for the Board to adopt rules to manage public safety risks from rapidly moving landslides. HB 3264 (2003) removed authority for the Board of Forestry and State Forester to require prior approvals and approve written plans and directed rulemaking for conformity. Staffing includes 56 stewardship foresters across the state to provide training, technical and cost-share assistance, review operating plans, and inspect operations for compliance. The Forest Practices program is also currently 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. The Governor's budget transfers the program to Protection from Fire.

SB 496 (2005) authorized the Department to implement the federal Forest Legacy program within urban growth boundaries. The federal Forest Legacy Program provides funding to nationally selected projects that protect key forest types threatened to be converted to other uses. The 2005 legislation limits the program to lands within Urban Growth Boundaries.

Oregon has approximately 166,000 family forest landowners and community forest managers owning a combined 4.5 million acres. Nearly 52,000 of these landowners own and manage at least 10 acres of forestlands. This acreage includes critical habitat for salmon and other fish and wildlife species and has the substantial potential for increased timber productivity. Thus, the program provides family landowners with the information, incentives, services, and assistance needed to encourage voluntary stewardship and investment in their forestland. The technical and financial assistance to family landowners includes multiple resource management, forest property tax policies and options, federal cost-share programs, the Forest Resource Trust, and insect and disease prevention.

The Private Forests Program also conducts insect and disease management surveys, evaluates and monitors forest insects and diseases, and provides information, education, and advice on integrated pest management practices for non-federal forest landowners.

Revenue Sources and Relationships

The Forest Practices subprogram is funded by a combination of 60% General Fund budget, and 40% Forest Products Harvest Tax (FPHT). The harvest tax rate is set in statute each biennium once the Forest Practices program budget is finalized, based on projections of harvest levels and the amount of revenue needed for program operations. Oregon Watershed Enhancement Board grants provide partial funding for some cooperative research projects. Pacific Coast Salmon Restoration funds were used to restore General Fund reductions for the 2003-05 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 a Privilege Tax from the western and eastern Oregon Timber Tax Accounts. These funds were used to inspect under-stocked designated forestland, administer the 50% reforestation tax credit program, and provide technical assistance to family forestland owners in eastern Oregon. The program also receives private donations, including the Forest Resource Trust funds and Urban and Community Forest donations, for specific projects. Pacific Coast Salmon Restoration funds were also used to restore General Fund for the 2003-05 biennium.

Budget Environment

Forest Practices workload has increased as harvesting on private lands accelerated due to improved timber and lumber markets. For the 2007-09 biennium, the Department anticipates processing over 17,000 notifications of operations per year (intent to conduct a forest operation), plus reviewing and commenting on 3,000 written plans describing operating methods on sensitive sites, and conducting more than 15,000 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 1.5 billion board feet of timber every year to insects and disease. Forest managers are concerned about declines in the coastal Douglas-fir forests due to Swiss needle cast disease. Dead and dying forests in Eastern Oregon due to bark beetle and other insect infestations need treatment in order to reduce fire hazards and restore forest health. Many wild salmon and trout populations are under scientific scrutiny. Assistance is also needed for over 166,000 non-industrial private forest land owners regarding the potential listing of threatened and endangered species. Approximately 783,000 acres of family forestlands are classified as under-producing or without a manageable stand of trees.

Governor's Budget

The Governor's recommended budget is $28.7 million total funds and 126.06 FTE. The proposed budget is $2.7 million, or 10.4%, more than the 2005-07 legislatively approved budgets. The proposed budget includes $12 million General Fund, $9.6 million Other Funds, and $7.1 million Federal Funds.

The budget phases out one time costs related to the compensation plan totaling $637,680 total funds that are included in the legislatively approved budget. The budget also includes a technical adjustment to realign a reduction in telecommmunications incorrectly charged exclusively to the Administration program resulting in a reduction of $60,595 General Fund.

Five program enhancements are proposed in the budget:

- A reduction of $830,563 Other Funds, $243,038 Federal Funds, and one position (1.00 FTE) to transfer Smoke Management into the Protection from Fire Program, resulting in a total net reduction of $1,073,601.
- A reduction of $723,156 Other Funds, $328,456 Federal Funds, and two positions (1.00 FTE) to transfer Urban Forestry to a new stand-alone program.
- An increase of $275,545 General Fund and $183,693 Other Funds to etablish three positions (2.00 FTE) to address capacity issues in Eastern Oregon forest practices monitoring activities. The positions will be located in eastern Oregon to implement monitoring projects to document best management practices and effectiveness.
- An increase of $1.4 million General Fund, $882,338 Other Funds, and a reduction of $5,184 Federal Funds to partially restore resources reduced in the last three biennia. The proposal would restore four monitoring seasonal Laborer 2s, three riparian Natural Resource Specialist 3s, one Office Specialist 2, two Natural Resource Specialist 3s, three Natural Resource Specialist 2s, and one Compliance Specialist/data manager so that the program can maintain its investment in current established riparian monitoring projects, assist forest landowners in interpreting and implementing current water protection rules that enhance riparian functions; and meet workload demands and statutory obligations relating to inspection, reforestation compliance, field support for conducting technical assessments of soil eroision, water quality, landlside, watershed protection hazards, and evaluating risks to natural resources and public safety.
- An increase of $341,811 General Fund to establish two positions (2.00 FTE) to facilitate development of biomass energy related to forest conditions and management. It is anticipated that General Fund support will be phased out as expenses become supported by Federal Funds and sale of biomass material to energy-producing facilities. The package implements SB 1072 (2005) related to development of a biomass energy industry in forest practices.

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 $2.4 million total funds.

ODF – Agency Administration

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	7,023,627	7,235,028	7,435,471	8,783,627
Other Funds	8,293,879	8,509,456	8,781,776	14,775,959
Federal Funds	339,800	699,823	699,823	774,170
Total Funds	**$15,657,306**	**$16,444,307**	**$16,917,070**	**$24,333,756**
Positions	82	80	80	81
FTE	82.11	78.84	78.84	78.85

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.

A tight labor market and generational changes in the workforce are making it more difficult to develop viable applicant pools for recruiting. Continued turnover in the leadership of the Department due to retirements will impact organizational effectiveness. It will take time and resources for employees to become proficient in their new leadership positions.

Governor's Budget

The Governor's recommended budget of $24.3 million for the Agency Administration program is $7.4 million, or 43.8%, more than the 2005-07 legislatively approved expenditure level. The budget phases out one time costs related to the compensation plan totaling $472,763 total funds that is included in the legislatively approved budget and includes a technical adjustment realigning a telecommunications reduction made exclusively in the Agency Administration program unit increasing total funds by $198,607.

The budget includes two enchancement packages:

- An increase of $172,250 General Fund and $152,750 Other Funds to provide resources to fund contracted resources and software licenses needed to bring the ODF systems up to industry standards and improve information security throughout the agency. Without these upgrades there is potential failure to meet fire reporting mandates and the Department can expect to see an increase in system downtime and a decrease in agency productivity. Results will be measured through information technology performance metrics related to system uptime.
- An increase of $4.2 million Other Funds to provide resources to improve agency business systems through the use of enterprise-wide business planning, process, and technology improvement projects throughout the Department. The package addresses needed improvements in business systems including financial, operating, administrative systems, and information access by the public. The package is financed by COPs to be repaid by a combination of General Fund and Other Funds.

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 $1.3 million General Fund, $1.8 million Other Funds, and $74,347 Federal Funds.

ODF – Facilities Maintenance and Development Program

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	1,145,162	3,200,396	3,200,396	3,297,956
Total Funds	**$1,145,162**	**$3,200,396**	**$3,200,396**	**$3,297,956**
Positions	1	1	1	1
FTE	1.00	1.00	1.00	0.99

Program Description

The Facilities Maintenance and Development program provides oversight and coordinates preventive maintenance, repairs, improvement, planning and construction coordination, and management for the agency's 390 structures throughout the state. The program unit is charged with developing a statewide facilities rental pool program to charge other program and field operations the cost of constructing, operating, maintaining, repairing, replacing, equipping, improving, acquiring, and disposing of structures.

Revenue Sources and Relationships

Facilities Maintenance and Development is currently funded by utilizing the facility operation and maintenance budgets of each program. The program was established to assist in the operations, maintenance, and construction of ODF facilities by providing an additional and relatively stable source of funding to allow more effective management of ODF properties.

Governor's Budget

The Governor's recommended budget is $3.3 million Other Funds and one position (1.00 FTE). This is $97,959 more than the 2005-07 legislatively approved level. The increase reflects applying standard inflation rates for other payroll expenses, scheduled merit increases, services and supplies, and state government service charge assessments.

ODF – Forest Nursery Program

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	4,229,996	4,351,074	4,351,074	4,497,643
Total Funds	**$4,229,996**	**$4,351,074**	**$4,351,074**	**$4,497,643**
Positions	85	45	45	45
FTE	20.61	19.11	19.11	19.11

Program Description

The Department's D.L. Phipps Nursery provides quality, genetically adapted tree seedlings to forest landowners for public and private reforestation. Currently, about 50% of the nursery's annual production goes to non-industrial woodland owners, 28% to the forest products industry, 12% to state forests, and 10% to the Bureau of Land Management. The agency has operated the nursery for over 74 years.

Revenue Sources and Relationships

Expenditures for the Forest Nursery program are financed 100% from sales of seedlings and service charges. Fees charged by the nursery change depending upon costs.

Budget Environment

The Forest Nursery program operates on a business model and adjusts expenditure levels to available revenue. The nursery must maintain an adequate supply of clean water for irrigation of seed crops and is subject to the requirements of the Umpqua Watershed Agricultural Water Quality Management Plan.

At the direction of the 2003 Legislature, ODF formed a Nursery Review Task Force to evaluate the role of the state nursery including the nursery's financial situation. The Department was also directed to work with representatives from private nurseries and other appropriate individuals to resolve issues on privatizing production of seedlings. The work of the task force resulted in legislation adopted by the 2005 Legislature authorizing the Department to form a nursery cooperative if a sufficient number of nurseries were willing to join the cooperative and formally obligate their nurseries to produce the speculative seedlings at a reasonable cost. The Department continues to evaluate the option.

Governor's Budget

The Governor's recommended budget of $4.5 million Other Funds is $146,569 Other Funds more than the 2005-07 legislatively approved program. The budget reflects a reduction of $5,510 to reallocate telecommunication charges reduced exclusively in the Administration program and an increase of $152,079 to reflect adjustments applying standard inflation rates for other payroll expenses, vacancy savings, scheduled merit increases, services and supplies, and state government service charge assessments.

ODF – Equipment Pool Program

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	10,179,575	12,955,827	12,955,827	13,800,991
Total Funds	**$10,179,575**	**$12,955,827**	**$12,955,827**	**$13,800,991**
Positions	30	29	29	29
FTE	29.82	29.74	29.74	30.75

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.

Governor's Budget

The Governor's recommended budget of $13.8 million Other Funds is $845,164, or 6.5%, more than the 2005-07 legislatively approved expenditure level. The budget reflects a reduction of $4,254 to reallocate telecommunication charges reduced exclusively in the Administration program and an adjustment to apply standard inflation rates for other payroll expenses, scheduled merit increases, and services and supplies, increasing the budget by $751,290.

ODF – Debt Service

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	2,041,904	2,038,541	2,038,541	2,545,419
Other Funds	1,243,268	1,241,492	1,241,492	2,187,745
Other Funds (NL)	0	0	4,149,706	0
Total Funds	**$3,285,172**	**$3,280,033**	**$7,429,739**	**$4,733,164**

Program Description

Debt service payments are required to pay off COPs issued for the construction of the Salem Headquarters Office Complex. COPs were issued in 1997-99 in the amount $6.6 million, in 1999-2001 in the amount of $11 million, and in 2001-03 in the amount of $1 million.

Certificate of Participation	Principal Amount	Final Payment
1998 Series A, Phase 1 (replaced by 2005-C below)	$1,685,000	May 1, 2008
2001 Series A, Phase 2	$11,095,000	May 1, 2020
2001 Series E, Phase 3	$985,000	November 1, 2008
2001 Series C, Phase 1	$4,150,000	November 1, 2016

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.

Governor's Budget

The Governor's recommended budget for debt service is $4.7 million total funds. Debt service is adjusted to reflect payments scheduled for the 2007-09 biennium on debt previously authorized by the Legislature.

In addition, $487,221 General Fund and $559,552 Other Fund debt service is proposed for COPs to be used for improving agency business technology systems and $262,481 General Fund and $507,073 Other Funds debt service is proposed for COPs to be used for renovation and remodeling of ODF buildings at five sites. Companion packages are included in the Agency Administration program unit and Capital Construction program unit.

ODF – Capital Improvements

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	2,408,488	3,882,458	3,882,458	4,002,814
Total Funds	**$2,408,488**	**$3,882,458**	**$3,882,458**	**$4,002,814**

Program Description

The Department owns and maintains 390 structures statewide. Examples include mountaintop lookout facilities, fuel facilities, remote forest fire guard stations, district and unit offices, seed and seedling processing facilities, and automotive maintenance shops. Many buildings need improvement or major construction because of age, type of construction, changing building codes, and growth of the agency.

Revenue Sources and Relationships

Generally, costs are prorated among the funding sources of the programs that occupy the specific facility. In the past, General Fund was provided as the public share match money for projects funded in the Protection from Fire program.

Budget Environment

Many of the Department's structures were built in the 1930s, 40s, and 50s, and are in need of renovation to prevent further deterioration and to meet new standards such as the Americans with Disabilities Act and energy conservation requirements. An architectural feasibility study of the Salem Headquarters site was completed during the 1993-95 biennium, which led to its remodeling. The Department uses a Long Range Facilities Management Plan to coordinate major maintenance, improvements, and construction projects on a statewide basis projected over a ten-year period. Site master plans prepared by private consultants are utilized for developing major construction proposals. These site master plans are coordinated with the long-range management plan in developing the agency capital budget.

Governor's Budget

The Governor's recommended budget of $4 million Other Funds for capital improvement projects represents an increase of 3.1% from the 2005-07 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

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	0	0	0	4,250,000
Total Funds	**$0**	**$0**	**$0**	**$4,250,000**

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.

Governor's Budget

The Governor's recommended budget proposes $4.2 million Other Funds for renovation / reconstruction projects at three sites:
1) Renovate and Restore Historic State Forester's Office – The project replaces and renovates the historic building's mechanical and electrical systems and restores the historical interior and exterior architectural components at an estimated cost of $1,500,000.
2) Relocate facilities at Central Oregon District – Sisters Sub Unit.
3) John Day Unit to more strategic and appropriate locations that will provide improved forest fire protection emergency response time and space to meet current and future operation needs, at an estimated cost of $1,250,000 and $1,500,000, respectively.

The budget proposes financing the renovation and / or reconstruction projects through proceeds from the sale of COPs.

Department of Geology and Mineral Industries (DOGAMI) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	2,906,001	3,377,365	3,598,160	3,306,931
Other Funds	2,867,469	3,148,288	3,850,631	7,803,343
Federal Funds	1,287,336	2,146,476	2,200,767	2,219,955
Other Funds (NL)	169	0	0	0
Total Funds	**$7,060,975**	**$8,672,129**	**$9,649,558**	**$13,330,229**
Positions	39	40	40	36
FTE	35.70	36.70	36.70	34.20

Agency Overview

The Department of Geology and Mineral Industries (DOGAMI) is the state's primary source of geologic information. DOGAMI gathers data and maps the state's geology including geologic minerals and hazards. The Department attempts to reduce the risks of damage from earthquakes, tsunamis, floods, landslides, and coastal hazards. The agency is also responsible for administering surface mining regulations. Department headquarters are located in Portland, with the Mined Land Reclamation unit sited in Albany. Three small Geologic Survey offices are located in Baker City, Grants Pass, and Newport. Employees of the Department are primarily geologists and other geotechnical experts. Department revenue comes from multiple sources including the General Fund, grants from federal and other state agencies, and fees.

DOGAMI – Geologic Survey

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	2,906,001	3,377,365	3,598,160	3,306,931
Other Funds	1,209,705	1,634,133	2,277,473	6,212,059
Federal Funds	1,287,336	1,823,072	1,867,492	1,916,797
Total Funds	**$5,403,042**	**$6,834,570**	**$7,743,756**	**$11,435,787**
Positions	29	30	30	27
FTE	26.21	27.21	27.21	25.71

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 (FEMA), National Oceanic and Atmospheric Administration, and other federal bureaus provide Federal Funds on a reimbursable basis. Additional sources of Federal Funds are from 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 2005 Legislative Assembly passed SB 2 which included $500,000 General Fund for DOGAMI, on a one-time basis, to conduct a statewide seismic assessment to be completed by July 1, 2007. The assessment is to include seismic safety surveys of school buildings (K-16), acute in-patient hospitals, police stations, fire stations, and other appropriate public safety buildings. DOGAMI received an additional $98,000 General Fund at the January 2006 Emergency Board meeting to complete the assessments. DOGAMI has completed rapid visual assessments of 2,542 qualifying buildings at 1,393 sites across the state. This information will be included in a database along with soils data that will allow individual building risk from seismic activity to be evaluated and ranked. The Oregon constitution limits bonding totals for expenditures to address seismic safety needs to $1/5^{th}$ of 1% of state assets, which currently would result in a cap on such bonding of $620 million each for schools and qualifying public safety buildings.

Governor's Budget

The Governor's recommended budget for the Geologic Survey program is 48% above the 2005-07 legislatively approved budget. This increase mostly caused by the addition of $4,505,000 Other Funds from proceeds of a proposed sale of certificates of participation (COPs) to purchase Light Detection and Ranging mapping data for 10,000 square miles of western Oregon. This work would cover those areas with the largest population centers in the Willamette Valley and Coastal areas. The data would be used for landslide and seismic hazard identification. The data has many other uses, including forest canopy surveys and modernization of floodplain mapping. The budget also includes $116,903 General Fund for interest only debt service payments on the issued COPs. The cost of debt service on these COPs in the 2009-11 biennium would be approximately $2 million General Fund.

DOGAMI – Mined Land Regulation and Reclamation

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	1,657,764	1,514,155	1,573,158	1,591,284
Federal Funds	0	323,404	333,275	303,158
Other Funds (NL)	169	0	0	0
Total Funds	**$1,657,933**	**$1,837,559**	**$1,906,433**	**$1,894,442**
Positions	10	10	10	9
FTE	9.49	9.49	9.49	8.49

Program Description

The Mined Land Regulation and 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 more than 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 Regulation and 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 Regulation and Reclamation program was administering approximately 825 active mining permits during November 2006. 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.

Governor's Budget

The Governor's recommended budget for the Mined Land Regulation and Reclamation program is virtually unchanged from the 2005-07 legislatively adopted budget. One limited duration position was removed in the Governor's budget due to concerns over sufficiency of revenue to continue to support the position.

Department of Land Conservation and Development (DLCD) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	8,433,934	11,539,656	11,539,656	15,984,821
Other Funds	746,449	897,056	897,056	799,347
Federal Funds	5,043,007	5,735,131	5,735,131	6,353,901
Total Funds	**$14,223,390**	**$18,171,843**	**$18,171,843**	**$23,138,069**
Positions	56	71	71	79
FTE	51.31	66.96	66.96	74.71

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 personnel assist LCDC in adopting state land use goals, ensuring compliance of local land use plans with the goals, coordinating state and local planning, and managing the coastal zone program. Oregon's land use planning system is based on a set of 19 statewide goals 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, LaGrande, 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 and Administration Program

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	6,406,125	9,111,588	9,111,588	13,764,189
Other Funds	746,449	897,056	897,056	799,347
Federal Funds	3,420,952	4,162,131	4,162,131	4,732,138
Total Funds	**$10,573,526**	**$14,170,775**	**$14,170,775**	**$19,295,674**
Positions	55	70	70	79
FTE	50.79	66.44	66.44	74.71

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 (14.00 FTE)* oversees day-to-day operations and agency policy. The *Operations Services Division (6.52 FTE)* provides financial, personnel, and information systems services to the agency. The Governor's recommended budget proposes to merge Landowner Notification activities into the Operations Services Division to streamline accounting and budget processes.

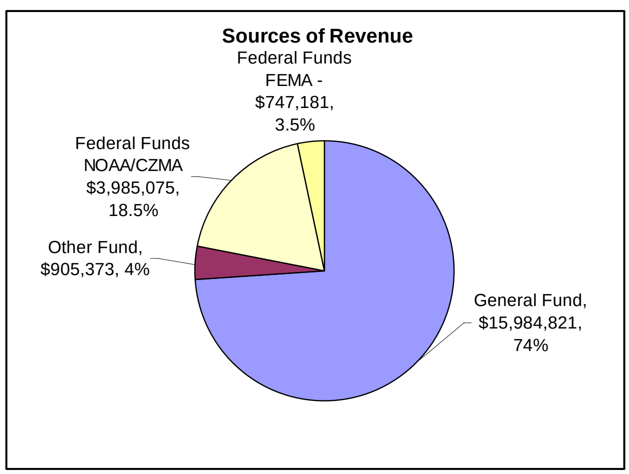
The *Community Services Division (14.00 FTE)* assists local governments in the implementation of the statewide land use program through technical assistance, administration of grants, periodic review of local plans and land use regulations, and plan amendment review. Regional representatives in the agency's field offices are part of this Division and work directly with local governments' elected officials and planners. Key issues for urban areas include affordable housing, urban growth boundaries, transportation planning, public facilities and services, and industrial land. Key issues for rural areas include conservation of farm and forestland, flooding and natural hazards, rural and community development, and protection of natural resources.

The *Planning Services Division (15.08 FTE)* provides technical assistance and policy consultation services in specific planning areas, such as economic development, urban growth boundary expansion, farm and forest protection, natural resource management, mineral and aggregate resources, and floodplain management. Services are provided to, among others, the agency's regional representatives in the *Community Services Division* and, in some cases, directly to Oregon communities. This Division also includes the agency's Economic Development Planning Team, which is a cross-divisional, intra-agency group of employees that works with other staff and agencies to implement HB 2011 (2003). This bill created the Economic Revitalization Team in the Governor's Office and directs various state agencies, including the Department to assist local governments in identifying potential sites and amending plans, taking final action on certain amendments to comprehensive plans within 180 days of their submission, and focusing on issues related to economic growth.

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. The Division provides 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 (10.11 FTE)* oversees the implementation of statewide planning goals, with an emphasis on the coastal goals, by local jurisdictions and state agencies in the coastal zone. This Division contains two programs: the federally approved Oregon Ocean and Coastal Management Program (OCMP) and the Oregon Ocean Resources Management Program. The Division provides services such as periodic review, plan amendment review, technical assistance, administration of coastal grants, coordination of state and federal programs in the coastal zone, and support to the Ocean Policy Advisory Council. 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 (16.00 FTE)* 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 where the property is located.



Revenue Sources and Relationships

Until the 2005-07 biennium, about 60% of the Planning Program had been funded with General Fund. General Fund support for the program in the Governor's recommended budget is proposed at 74%. 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. The Governor's budget provides 21% federal support. 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 CZMA 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 and its partners provide 100% match. The agency expects CZMA resources of $3.9 million for the Planning Program in 2007-09, about the same level as in 2005-07.

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 $0.7 million in 2007-09.

Other Funds revenue sources are primarily federal transportation funds from ODOT for support of the TGM Program. DLCD projects a transfer from ODOT of about $0.8 million in 2007-09, approximately the same level as 2005-07. 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. DLCD has no fee-supported revenue or access to alternate sources of Other Funds, placing it in a position to be reliant on general purpose tax revenues and federal resources.

The latest fiscal 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, as of October 2006, the state had received over 2,724 claims for compensation and approximately 2,044 of those have been referred to DLCD as the lead agency. As of December 6, 2006, the state has received 6,524 claims for compensation.

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 33-year-old statewide land use program. 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 Legislature passed SB 82, which established 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.

Governor's Budget

The Governor's recommended budget is a 12.6% increase over the 2005-07 legislatively approved level. General Fund support is increased by 15.5%, Other Funds expenditure limitation is decreased by 15.4%, and Federal Funds expenditure limitation is increaed by 8.9%. The Governor's budget phases out $4.1 million General Fund and 14 positions (13.75 FTE) for one-time expenses related to processing Measure 37 claims, the 30-year Land Use Review, and cost adjustments for reductions in payroll expenses including PERS, pension bond payments, social security taxes, mass transit taxes and flexible benefits; $170,000 Other Funds for planning resources from the Oregon University System; and phases in $70,000 Federal Funds related to updating flood hazard information.

The increase in General Fund support for the program is due primarily to the addition of $4.5 million for processing Measure 37 claims. Included in this amount is over $2 million for legal expenses such as legal advice, claims review, document preparation, and litigation. This additional support, which provides funding for 16 positions (16.00 FTE), is based on the agency's receipt of 170 claims per month on average and the 180 day deadline for responding to claims.

In addition to funding for the processing of Measure 37 claims, the recommended budget includes:

- $1,166,787 General Fund for 3 limited duration (3.00 FTE) to continue the comprehensive review of the statewide land use system;
- $292,614 General Fund and 1 permanent position (0.50 FTE) to combine the Landowner Notification Program with the Operations Services Division; and
- $386,318 Federal Funds to continue 3 limited duration positions (2.50 FTE), authorized by the Legislature for the 2005-07 biennium to improve the quality of flood hazard information, using funding from the Federal Emergency Management Agency.

The remaining increases reflect applying the standard inflation rate for services and supplies and to cover statewide governmental service charges and assessments, resulting in an increase of $97,519 General Fund, $10,657 Other Funds and $62,162 Federal Funds, and cost adjustments for unemployment assessments, PERS rates, overtime, temporaries, shift differentials, mass transit fees, and merit increases resulting in an increase of $88,239 General Fund.

DLCD – Grants

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	1,875,844	2,153,863	2,153,863	2,220,632
Federal Funds	1,622,055	1,573,000	1,573,000	1,621,763
Total Funds	**$3,497,899**	**$3,726,863**	**$3,726,863**	**$3,842,395**

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 $70,000 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 is expecting $1.6 million in CZMA funds for the Grants program in 2007-09, about the same level of funding available in 2005-07.

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 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 the 2003-05 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.

Governor's Budget

The Governor's recommended budget is a 3% increase from the 2005-07 legislatively approved level. The Governor's budget reflects applying the standard inflation rate, essentially continuing the 2005-07 General Fund level of support for grants.

DLCD – Landowner Notification

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	151,965	274,205	274,205	0
Total Funds	**$151,965**	**$274,205**	**$274,205**	**$0**
Positions	1	1	1	0
FTE	0.52	0.52	0.52	0.00

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. The Legislature has 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.

Governor's Budget

The Governor's recommended budget proposes to combine Landowner Notification activities with the Planning and Administration Program Unit. Proposed costs associated with this program totaling $292,614 General Fund and one position (0.52 FTE) are included in that program.

Land Use Board of Appeals – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	1,176,036	1,282,198	1,330,824	1,405,426
Other Funds	45,616	64,677	67,381	75,149
Total Funds	**$1,221,652**	**$1,346,875**	**$1,398,205**	**$1,480,575**
Positions	6	6	6	6
FTE	6.00	6.00	6.00	6.00

Agency Overview

The Land Use Board of Appeals (LUBA) was established in 1979 to provide prompt, professional, and efficient resolution of land use issues and to create a consistent body of land use law. Prior to the establishment of LUBA, review of local land use decisions was conducted by circuit courts, resulting in delays and inconsistent interpretations of land use law in different portions of the state. LUBA's mission is to decide appeals quickly and consistently, and to disseminate its opinions to create a body of land use law that allows for consistent land use decision making. The Board consists of three hearings referees, appointed by the Governor with Senate confirmation, who are members of the Oregon State Bar. Other staff include two support positions and one staff attorney. LUBA's offices are located in the Public Utility Commission (PUC) building, with the PUC providing accounting, personnel, and other administrative support to LUBA through an inter-agency agreement.

LUBA is the only forum that can hear appeals of local land use decisions. LUBA only has jurisdiction to review appeals of local government decisions for consistency with local and state land use laws. LUBA decisions may be appealed to the Court of Appeals and ultimately to the state Supreme Court. Private parties and public agencies – including agricultural interests, developers, environmental groups, individual property owners, and state and local governments – are able to bring issues to LUBA for review. Most appeals of local land use decisions are brought before LUBA by individual citizens with the responding party being a local government unit. LUBA has no ability to file an appeal and has no control over the number of cases brought forward for review.

Revenue Sources and Relationships

LUBA's operational expenditures are supported primarily by the General Fund, which represents about 95% of the agency's total budget. Other Funds revenue is generated from the sale of *LUBA Reports*, which are issued to meet the agency's statutory obligation to publish its opinions. LUBA estimates it will issue five volumes that will be sold to approximately 80 subscribers at $175 per volume. This equates to Other Fund revenues of $70,000 for the 2007-09 biennium. This is the same revenue estimate used for the 2005-07 biennium as sales are expected to be similar for 2007-09.

LUBA also collects an appeal filing fee, which is transferred to the General Fund. The current filing fee of $175 was last increased in 1997 (HB 2642). The Board anticipates receiving 421 appeals for the 2007-09 biennium, which translates to $73,700 in General Fund revenue. This is the same projection that was used during the 2005-07 biennium.

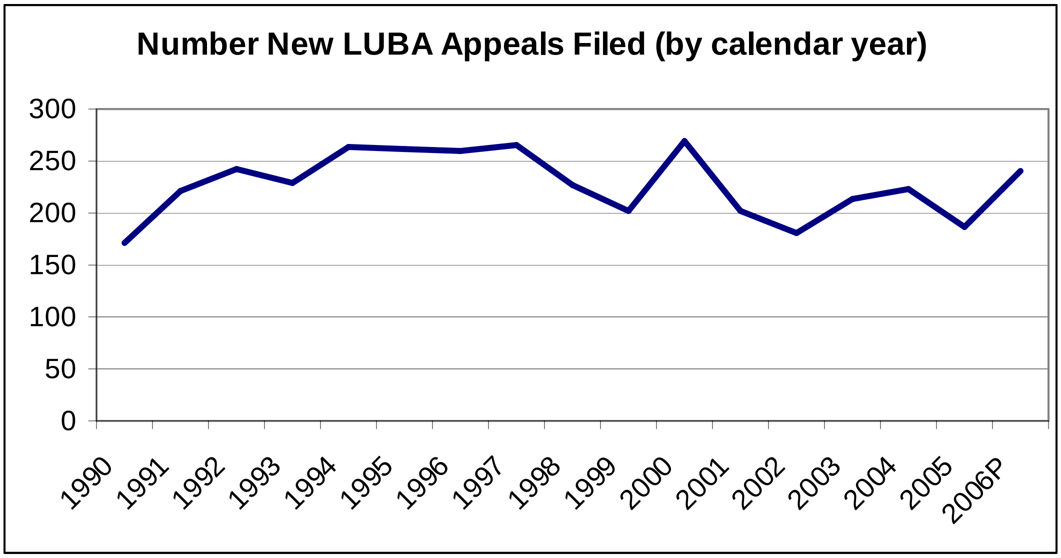
LUBA's Other Funds ending balance for 2007-09 is sufficient to fund their Other Fund operating expenses for several months.

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 out of compliance with the statutory deadline for issuing written opinions. To help address 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. In the 1999-2001 and 2001-03 biennia, a limited duration publications coordinator was added, which resulted in issuance of *LUBA Reports* within the agency's three month goal.

Workload management was also aided in the late 1990s by a general decline in the number of new appeals (see graph). The spike in new appeals in 2000 is attributed to Measure 7 appeals, which were ultimately ruled to be unconstitutional. The agency attributes the decline in new appeals to the state's economic downturn and subsequent slow recovery. As Oregon's economic situation improves, new appeals may increase. LUBA received 383 appeals for the 2001-03 biennium, 436 in 2003-05, and is projecting 426 appeals for 2005-07. At this time, the agency is unsure whether the anticipated increase for 2006 represents an upward trend or not. The Governor's recommended budget assumes that the number of appeals for the 2007-09 biennium will be similar to the number received in 2005-07.



In 2003, the Legislature replaced the limited duration publications coordinator position and a support position with a permanent paralegal position to be allocated among administrative support, publications, and website functions. The Governor's recommended budget supports the continuation of current staffing levels, which allows the agency to issue opinions and publications on time as well as meet other performance measures. Personal services expenditures represent 85% of the agency's total budget, so any significant budget reduction would likely result in a position reduction, which would impact the agency's ability to issue timely written opinions and *LUBA Reports.*

Measure 37, passed by voters in November 2004, requires governments to pay property owners or forego enforcement (either by waiver or modification) when certain land use restrictions reduce owners' property values. Thousands of claims have already been filed and many will result in waivers from state and local governments. In many cases, the state or local government will waive some regulations, but the development proposal will remain subject to land use regulations that were in effect when the owner acquired the property. The agency expects that any appeals of decisions to approve or deny development under regulations that were in effect when the owner acquired the property will come to LUBA. The potential number of post-Measure 37 cases is unknown, but the agency reports that these appeals will likely be more complex to resolve than ordinary appeals, given the difficulty of determining what regulations apply and how such regulations should be applied.

Governor's Budget

The Governor's recommended budget is $1.5 million, which is about a 10% increase over the 2005-07 legislatively approved level. The budget maintains the Board's current level of operations, and reflects standard increases, inflation adjustments, and a special General Fund increase of $2,214 to cover administrative costs paid to the Public Utility Commission. The Governor's budget does not reflect any possible effects on the agency resulting from Measure 37.

Department of State Lands (DSL) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	124,284	178,807	178,807	587,814
Other Funds	14,426,053	16,145,098	17,188,650	19,927,421
Federal Funds	1,449,271	2,030,733	3,003,472	3,054,205
Other Funds (NL)	54,713,664	1,602,450	1,602,450	1,101,450
Total Funds	**$70,713,272**	**$19,957,088**	**$21,973,379**	**$24,670,890**
Positions	90	92	100	114
FTE	87.26	90.68	96.05	106.04

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

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	111,458	149,816	149,816	557,836
Other Funds	12,750,342	13,946,328	14,325,502	17,180,830
Federal Funds	85,830	515,773	1,428,447	1,309,094
Other Funds (NL)	54,713,664	1,602,450	1,602,450	1,101,450
Total Funds	**$67,661,294**	**$16,214,367**	**$17,506,215**	**$20,149,210**
Positions	73	75	82	96
FTE	71.10	74.50	79.33	88.04

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) (25.50 FTE)* provides services related to land ownership, property and building 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. This Division currently prepares the agency's Asset Management Plan, which provides broad policy direction on the uses of state land, rates of return objective, and policies for the purchase and sale of state assets. Is is also responsible for determining the navigability of waterways.

- *Wetlands and Waterways Conservation (formerly Policy and Planning) (36.00 FTE)* approves wetlands delineations and develops long-range management plans and policies. 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 (21.54 FTE)* 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. It is also responsible for processing Measure 37 claims assigned to the agency by the Department of Administrative Services. Included in this Division is the Estate Administration Program that managed forfeited property and probates estates left without wills and know heirs. The Finance and Administration Division also includes the Unclaimed Property Section. The Governor's budget assumes transfer of this program to the State Treasurer.
- The *Director's Office (5.00 FTE)* 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 2005-07 to 2007-09. Investment income is derived from the interest, dividends, and capital gains earnings from funds invested by the State Treasurer according to Oregon Investment Council guidelines.

Common School Fund revenues also include receipts from timber harvests on state-owned land. The Department of Forestry projects $31.2 million in timber receipts for 2007-09. 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. 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 Department of State Lands reflected these distributions as revenue transfers.

During the 2003 and 2005 legislative sessions, 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 and 2005 Legislatures did not approve the fee increase, which would have provided additional revenues of $0.4 million in 2003-05 biennium and $0.5 million in the 2005-07 biennium. The Common School Fund is subsidizing the cost to administer these programs. DSL is again proposing fee increases for consideration by the 2007 Legislature.

Common School Fund distributions by the Department of State Lands are anticipated to be $71.5 million in 2007-09, a decrease for K-12 schools of about $23.4 million from the 2005-07 amount of $94.9 million. Distributions are based on a sliding scale for annual distributions between 2% and 5% of the Common School Fund market value as of December 31st of each year. The percentage of distribution is based on a three year rolling average of the annual growth in the Common School Fund's market value. The market value of the Common School Fund was approximately $1.083 billion as of October 31, 2006.

Federal Funds are received by the Common School Fund Programs primarily for U.S. Environmental Protection Agency support of the wetlands program, and permit streamlining efforts.

Budget Environment

In September 2005, DSL reorganized its functions to streamline service delivery and permitting and align the management structure to focus efforts on revenue generation for the Common School Fund. The State Land Board hired a new director during the 2005-07 biennium. The Department has identified developing and implementing strategies for improving efficiency and effectiveness of daily operations as a key initiative for the 2007-09 biennium.

Various legal and environmental factors can adversely affect DSL's ability to reduce expenses of the Common School Fund Programs. Increasing needs to balance protection, conservation, and development interests tend to raise land management costs. New legal requirements for agency programs – such as the addition of essential salmonid habitat provisions to the removal-fill law, responses to threatened and endangered species listings, and re-prioritization of efforts due to new initiatives – increase workloads and can affect timber receipts, sand and gravel royalties, and other land and water-related revenues. Lack of agency staff to actively market land leasing, sales, or investment opportunities can limit the growth of revenue from land management. General economic conditions affect lease rates tied to market prices or other indexes.

DSL is the depository of record for unclaimed and presumed abandoned property and funds. The Unclaimed Trust Property program collects $33 million annually; approximately $10 million is returned to owners. Remaining unclaimed funds are placed in trust in the Common School Fund. All unclaimed property, or the proceeds from the sale of the property, is available for claim by the owners forever. The investment earnings generated from the unclaimed property are part of DSL's semi-annual distribution to schools. DSL proposes legislation to reduce dormancy periods for certain unclaimed property holders to bring Oregon in line with holder periods established in California and Washington. The State Treasurer proposes legislation to move the Unclaimed Property Section to the Treasurer. Administrative costs for managing the program in the State Treasurer are proposed at more than twice the cost under DSL management. The State Treasurer claims the fiscal impact will be offset over time by an increase in unclaimed property receipts. The Governor's budget presumes the Legislature will approve this legislation.

DSL continues its regulatory streamlining efforts for the process of administering removal and fill permits included working with the U.S. Army Corps of Engineering to eliminate duplicate federal-state permitting. Recent efforts emphasize non-regulatory tools and incentives for wetland and watershed restoration.

Governor's Budget

The Governor's recommended budget is a 45.1% decrease from the 2005-07 legislatively approved level. These changes are primarily driven by $19.7 million in one-time costs, such as those associated with planning for the removal of the New Carrissa during the 2005-07 biennium that were phased out. The Governor's recommended budget is a 24.3% increase over the 2005-07 legislatively adopted budget level.

Within this increase, General Fund is increased by $400,000; Other Funds expenditure limitation, by $3.2 million; and Federal Funds expenditure limitation, by $800,000. While the increase in General Fund support appears substantial, General Fund represents only 2.9% of the budget, not including the Nonlimited budget. Thus, the main driver in the overall increase is the Other Funds expenditure limitation.

The Governor recommends a number of policy packages to address revenue generation, fiscal accountability, and streamlined operations. The budget adds:

- $806,881 Other Funds expenditure limitation to continue, as permanent, 7 limited duration positions (5.50 FTE) from the 2005-07 biennium. This includes 5 positions (5.00 FTE) in the Land Management Program, two positions (2.00 FTE) in Salem and three seasonal positions (1.50 FTE) in Eastern Oregon. This includes selecting specific lands to be sold, preparing them for sale, and processing the transactions. Two positions (2.00 FTE) are recommended for the Estates program to address increased workload.
- $303,688 Other Funds and $753,859 Federal Funds expenditure limitation to continue seven limited duration positions; five positions (5.00 FTE) to continue work on a federal grant for the State Programmatic General Permit Pilot Program, non-regulatory Wetland Restoration Program. Two additional positions (2.00 FTE) are for the Oregon Department of Transportation's bridge replacement program and are continued as limited duration.

- $32,091 to reclassify five existing positions and add months to one position (0.49 FTE); three positions are in the Land Management Program, one each in the Finance and Administration Program, the Wetlands and Waterways Program and the Estates Program.
- $112,549 Other Funds expenditure limitation to add one permanent Human Resource Assistant (1.00 FTE) to work on personnel issues including inputting actions into the personnel / payroll database, reminding managers of performance evaluation dates, developing and posting job announcements, grading and inputting applications, creating hiring lists, and maintaining employee files along with other duties.
- $248,658 Other Funds expenditure limitation to add one Information Systems Specialist 4 (1.00 FTE) to develop e-commerce initiatives including applying and paying for permits through the internet and streamlining internal agency processes.
- $292,191 Other Funds expenditure limitation for two Natural Resource Specialist 3 positions (2.00 FTE) to work as wetlands specialists that would review and process wetlands delineation reports. This package is dependent upon a new fee, which requires approval by the Legislature.
- $361,511 Other Funds expenditure limitation for a Natural Resource Specialist 4 position (1.00 FTE) to provide permit information for multiple agencies to applicants and to assist applicants through the permit process under a permit streamlining pilot project. Professional services expenditures will be used to develop computer data, software, and internet applications to expedite permit processing.
- $168,236 Other Funds expenditure limitation to add a permanent Internal Auditor 3 (1.00 FTE).
- $832,581 Other Funds expenditure limitation for three positions (3.00 FTE) to address issues at the Portland Harbor Superfund site and at areas owned by the state that are contaminated and will need to be cleaned up. There are 18 known sites that create workload and skill requirements exceeding the agency's current capacity.
- $165,744 Other Funds expenditure limitation to establish a limited duration position (1.00 FTE) to evaluate land for sale including reviewing environmental site assessments and natural, cultural, and recreational resources.

The budget reduces $716,346 Other Funds expenditure limitation and $501,000 Nonlimited Other Funds expenditure limitation to phase out 12 positions and expenses by July 1, 2008 for the Unclaimed Property Section to transfer the program to the State Treasurer and adding one position and 0.54 FTE for agency-wide duties currently handled by staff in the Unclaimed Property Section.

The remaining increase of $500,000 total funds reflect applying the standard inflation rate for services and supplies, state government service charges, and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases.

DSL – Oregon Wetlands Revolving Fund

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	320,250	550,000	550,000	718,646
Total Funds	**$320,250**	**$550,000**	**$550,000**	**$718,646**
Positions	0	0	0	1
FTE	0.00	0.00	0.00	1.00

Program Description

The Oregon Wetlands Mitigation Bank Revolving Fund Account was established by the 1987 Legislature to provide financial resources to acquire wetlands banking and wetlands mitigation sites; to accomplish wetlands restoration, enhancement, and creation; and to cover administrative costs. The first mitigation bank was established in Astoria during the 1985 biennium with a federal grant.

A mitigation bank is a wetlands site created or restored by a public or private entity to establish wetlands value credits. The credits represent biological values expressed in the form of dollars. Any entity proposing to fill wetlands must provide mitigation by restoring, creating, or enhancing wetlands or by purchasing credits from an existing mitigation bank. Legislation passed in 1995 allowed private mitigation banks to be established under rules adopted by the State Land Board.

Revenue Sources and Relationships

The Wetlands Mitigation Bank Revolving Fund Account allows for payments – called "Payment-To-Provide" mitigation funds – that can be used by removal-fill applicants with permissible projects that have a wetlands impact, but who cannot perform the required mitigation. The funds in the account are then used to create, restore, or enhance wetlands in the region of the permitted impact, if possible. After a two-year period, the funds can be used anywhere in the state for wetlands creation, restoration, or enhancement.

Budget Environment

Since establishment of the Wetlands Mitigation Bank Revolving Fund, DSL has disbursed funds for approximately 30 wetland and waterway restoration projects statewide. DSL is currently assessing about a dozen projects that may qualify for funding from the wetland revolving fund. In 1995, the Legislature expanded the Mitigation Banking Act to allow private mitigation banks. The Legislature made additional changes to the program in 1997 and again in 2003 to make the program more flexible and useful to the public. As of June 2006, there are 10 approved private banks, plus the city of Eugene's wetland bank program. There is high demand for the credits offered by these banks as many banks are sold out shortly after the credits are approved. The federal Environmental Protection Agency and the U.S. Army Corps of Engineers are developing new federal mitigation rules that call for higher standards to improve mitigation success.

Governor's Budget

The Governor's recommended budget is a 30.7% increase from the 2005-07 legislatively approved level. The Governor's budget adds $151,596 Other Funds expenditure limitation and a Natural Resource Specialist 3 (1.00 FTE) to manage the Oregon Wetlands Mitigation Bank to develop and improve mitigation fund performance. The remaining increase of $17,050 Other Funds expenditure limitation reflects applying the standard inflation rate for services and supplies.

DSL – South Slough National Estuarine Research Reserve

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	1,017,700	1,160,421	1,214,757	1,390,434
Federal Funds	1,295,520	1,443,994	1,443,994	1,671,945
Total Funds	**$2,313,220**	**$2,604,415**	**$2,658,751**	**$3,062,379**
Positions	17	17	18	17
FTE	16.16	16.18	16.72	17.00

Program Description

The 4,800-acre South Slough National Estuarine Research Reserve (SSNERR) is part of the U. S. National Estuarine Research Reserve System established by the Coastal Zone Management Act of 1972. The 26 estuarine sites in the national system are administered by a partnership with the states and the U.S. Department of Commerce's National Oceanic and Atmospheric Administration (NOAA). The national system was created to preserve representative estuarine types and provide opportunities for education and research.

The South Slough is a tidal inlet of the Coos estuary six miles southwest of Coos Bay. The reserve was designated in 1974 as the first national estuarine research reserve and consists of 1,000 acres of tidelands and open water surrounded by a 3,800-acre upland border. It includes five structures and seven miles of roads and trails. The SSNERR operates an interpretive center and maintains nature trails for hikers and canoeists. It also conducts a variety of research, educational, and stewardship programs.

Revenue Sources and Relationships

The main source of Other Funds revenue supporting the SSNERR is the Common School Fund, which was substituted in 1993 for one-half of the General Fund operating budget. In recognition of the SSNERR's educational opportunities for K-12, the 1997 Legislature added it to the statutory definition of "school lands" to secure Common School Fund dollars for the operation and maintenance of the SSNERR property. The 1997 Legislature then replaced all General Fund in the SSNERR's budget with Common School Fund revenues and transferred ownership of the reserve to the Common School Fund. Other Funds revenues also include grants, donations, and service charges.

Federal Funds are received through NOAA in the form of grants for operations and special projects. State match rates generally range between 30 to 50%, depending on the individual grant. The SSNERR's operating budget, tideland property valuation, and donations all qualify as match. The SSNERR has statutory authority to apply for grants and regularly submits such requests through NOAA's Office of Coastal Resource Management. Federal revenues for the ongoing operations grant are projected to continue at previously authorized levels.

Budget Environment

An estimated 30,000 individuals visit the reserve annually, including school-age children who participate in educational program offerings. The reserve also serves as a summer work site for Job Training Partnership Act and Youth Conservation Corps programs. The SSNERR expects to experience a continued increase in visitor use, especially from school field trips and from the developing ecotourism industry in the South Coast region.

The SSNERR also provides services to the state's higher education system through a Memorandum of Understanding with the University of Oregon's Institute of Marine Biology for sharing administrative resources and laboratory facilities. Reserve employees provide technical and logistical support to visiting scientists and scholars conducting research.

Services are provided at the SSNERR by 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.

Governor's Budget

The Governor's recommended budget is a 6.9% increase from the 2005-07 legislatively approved level primarily due to the continuation of federally grant funded activities. The budget adds:

- $142,027 Other Funds expenditure limitation and $928,703 Federal Funds expenditure limitation to continue 8 limited duration positions (8.00 FTE) for work on federally funded grants related to system-wide monitoring, the coastal training program, public involvement, reserve maintenance, and habitat restoration monitoring; and
- $54,090 Other Funds expenditure limitation and $54,089 Federal Funds to add a position (1.00 FTE) to monitor contracts, reconcile fund balances, and maintain financial records to address increased workload.

The remaining changes in the budget reflect the phase out of one-time expenses of $1.2 million total funds; and an increase of $200,000 total funds to reflect applying the standard inflation rate for services and supplies, state government service charges, and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases.

DSL – Natural Heritage Program

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	12,826	28,991	28,991	29,978
Other Funds	196	1,340	1,340	1,382
Federal Funds	67,921	70,966	131,031	73,166
Total Funds	**$80,943**	**$101,297**	**$161,362**	**$104,526**

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 2006, the statewide register of natural heritage resources contained 104 sites, including 8 dedicated as natural heritage conservation areas. This is an increase of 33 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.

Governor's Budget

The Governor's recommended budget is a 35.2% decrease from the 2005-07 legislatively approved budget, primarily due to the phasing out of one-time federal funding increases. The recommended budget is essentially the same level approved by the 2005-07 Legislature.

DSL – Capital Improvements/Common School Fund

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	337,565	487,009	1,097,051	636,129
Total Funds	**$337,565**	**$487,009**	**$1,097,051**	**$636,129**

Program Description

The Department owns and manages property as assets of the Common School Fund. The State Land Board adopted its second Asset Management Plan in 2006 that includes strategies for enhancing the revenue-producing capability of Common School Fund assets through capital improvements and property maintenance. Expenditures in this program include small infrastructure design and construction projects, facilities rehabilitation, general maintenance and repair, weed control, fire suppression, land rehabilitation, and response to environmental hazards.

Revenue Sources and Relationships

Capital improvement expenditures are financed by Common School Fund revenues.

Budget Environment

As a property manager, the Department must maintain assets to enhance their revenue production and to protect and improve the resource productivity. Examples of capital improvement expenditures include the reinvestment of a portion of grazing lease fees for rangeland health and productivity improvements. For example, to maintain a viable rangeland leasing program, problems such as noxious weed invasion must be controlled. The Department reports that currently it is at risk 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.

Governor's Budget

The Governor's recommended budget is a 42% decrease from the 2005-07 legislatively approved level primarily due to the phasing out of $460,922 in one-time expenses. The proposed budget includes $337,000 Other Funds expenditure limitation for rangeland maintenance, surveys, noxious weed control, and other activities related to protection and enhancement of Common School Fund lands. The remaining increase of $8,994 reflects applying the standard inflation rate for services and supplies.

Marine Board (OSMB) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	21,407,213	23,580,047	23,580,047	25,241,906
Federal Funds	3,911,348	5,099,625	6,184,599	8,583,252
Total Funds	**$25,318,561**	**$28,679,672**	**$29,764,646**	**$33,825,158**
Positions	39	40	40	40
FTE	38.00	39.00	39.00	39.00

Agency Overview

The Oregon State Marine Board (OSMB) was established in 1959 and is responsible for registering and titling all recreational boating vessels in the state. The Board consists of five members appointed by the Governor for four-year terms. The Marine Board's budget is comprised of three separate program areas. These programs are dedicated to the Board's mission of boater safety, education, and access in an enhanced boating environment.

Revenue Sources and Relationships

All agency programs are funded by three major revenue sources: registration and title fees (37%); marine fuel taxes (34%); and federal funds (26%). The agency receives no General Fund support or Lottery Fund allocations. A small amount (3%) of revenue is received from outfitter and guide registration, mandatory education, and late penalties. The 2007-09 recommended budget provides an ending balance of $1.5 million, or approximately one month of operating costs. The following table summarizes the Department's major sources of revenue.

	2005-07 Estimate	2007-09 Governor's Recommended
Other Funds		
Registration Fees	$ 9,555,402	$ 9,582,195
Title Fees	1,825,766	1,844,024
Mandatory Education Fees	390,000	450,000
Guides and Outfitter Fees	139,932	180,000
Charter Boat Fees	28,000	30,000
ODOT Gas Tax	10,972,383	11,190,974
OR Dept of Fish and Wildlife	89,000	89,000
Federal Funds		
Coast Guard Federal Funds	3,439,272	4,320,989
Boating Infrastructure Grant	1,673,942	3,157,634
Clean Vessel Act	1,071,415	1,104,629
Total	**$29,185,112**	**$31,949,445**

The motorboat fuel tax revenue is estimated to be $11 million during the 2007-09 biennium. Each year the Department of Administrative Services certifies the amount of motor vehicle fuel taxes imposed during the preceding fiscal year on fuel purchased and used to operate motor boats. The amount, less refunds for commercially used motor boats, is transferred to the Marine Board's Boating Safety, Law Enforcement and Facility Account. The estimate is based on the results of the Oregon Motorboat Gasoline Use Survey that is conducted every four years to determine the amount of fuel tax to be transferred from the Department of Transportation. The last survey was completed in spring 2006. The survey indicates total consumption has increased by 2% in turn resulting in a slight increase in fuel tax transfer to OSMB. The next survey will be conducted in the fall of 2009 and is expected to be completed in spring 2010.

Registration fees are set by statute and vary based on type and size of vessel. Registrations are valid for two years. A boat owner must also secure a one-time certificate of title from the Marine Board. The 2003 Legislature adopted new fees based on a flat fee of $3/foot for two years; one time title fees were adjusted to $30, which enabled the agency to restore funding levels for programs eroded by inflation, flat registration counts, and drought conditions. The agency projects total fee revenue at $11.9 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 ($4,354,268) and the Clean Vessel Act (CVA) program ($1,104,629). The Boating Infrastructure Grant (BIG) program grants ($3,157,634) 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.

Governor's Budget

The Governor's recommended budget of $33.8 million is $4 million, or approximately 13.6%, more than the 2005-07 legislatively approved budget. The recommended budget includes all existing programs at current activity levels, adjustments for inflation, pension bond costs, state government service charges, and increases related to reclassification policy packages; education and outreach; law enforcement; and an increase in facility grants. Specific details are discussed under each program unit.

OSMB – Administration and Education

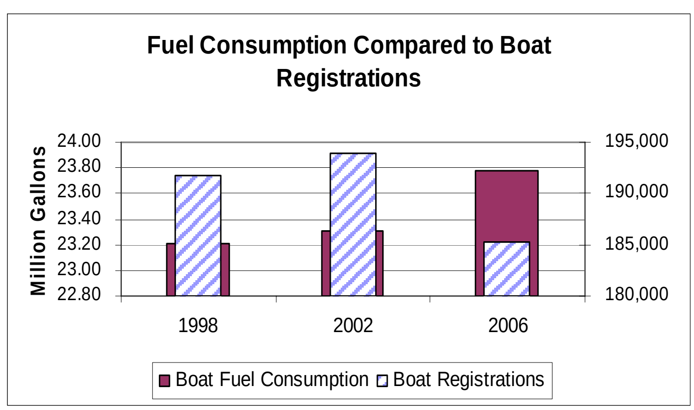
	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	4,124,908	4,811,608	4,811,608	5,392,647
Federal Funds	110,659	116,127	314,127	431,094
Total Funds	**$4,235,567**	**$4,927,735**	**$5,125,735**	**$5,823,741**
Positions	25	26	26	26
FTE	22.84	23.84	23.84	23.84

Program Description

The Administration and Education program is responsible for vessel titling and registration activities including floating homes and boathouses, outfitter and guide registration, and ocean charter boat licensing. The program also administers state boating laws, develops waterway management plans, serves as liaison with other government units, conducts boating accident analyses and boater surveys, coordinates the Adopt-a-River program, and provides the agency's central business functions. Education activities include implementation of mandatory boater education, coordination of statewide water safety school programs, development and distribution of safe boating promotional materials, and the production of public information materials for distribution to the media.

Budget Environment

The increasing popularity of water-based outdoor recreational activities in Oregon continues to challenge the Administration and Education program. Boater registration has declined since its peak of 194,715 boats in 2002. Currently, over 187,000 boats are registered with projections indicating boater use of the state's waterways will continue close to this level in the 2007-09 biennium. As evidenced by the latest boater use survey, even though boater registration has decreased, boater use on the water has increased by 2% since 1998. Other non-traditional boating activities, such as personal watercraft (jet skis) and sail boarding are expected to bring additional challenges to waterway management. Boating safety is the number one priority of the program unit. Over 90% of all boating fatalities involve persons who do not wear a life jacket. Human impact on waterways is a challenge for the Oregon State Marine Board. The Mandatory Education law took



effect January 1, 2001. As of October 31, 2006, there were 149,369 operators certified. The phase-in will continue over the next two years until all motorboat operators are certified by 2009.

Governor's Budget

The Governor's recommended budget of $5.8 million is $698,006 or 13.6% more than the 2005-07 legislatively approved expenditure level. The recommended budget includes the following policy option packages:

- An increase of $107,229 Federal Funds to increase boating safety publications and outreach materials. The package will also fund travel to national and regional boating safety meetings, and the installation of low power AM radio stations near coastal bars to notify boaters of hazardous conditions. Revenue to fund the package comes from National Recreational Boating Safety grants from the U.S. Coast Guard.
- An increase of $45,882 Other Funds to enhance the Oregon Clean Marina Program established in the 2005-07 legislatively adopted budget. The recommended budget also seeks legislative permission to apply for a federal grant under the Clean Water Action Section 319 program.
- An increase of $146,895 Other Funds for the reclassification of 14 existing positions determined by the Department of Administrative Services Human Resources Services Division to be working at higher classification levels.

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 an increase of $109,927 Other Funds and $9,738 Federal 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 $278,335 Other Funds.

OSMB – Law Enforcement Program

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	8,489,513	9,419,885	9,419,885	9,811,509
Federal Funds	2,184,452	2,238,141	3,125,115	3,889,895
Total Funds	**$10,673,965**	**$11,658,026**	**$12,545,000**	**$13,701,404**
Positions	4	4	4	4
FTE	4.83	4.83	4.83	4.83

Program Description

By statute, funding of law enforcement activities is the first priority for the Marine Board after administrative expenses are covered. The Law Enforcement program provides on-water safety patrol and boating law enforcement for 300 miles of coastline, over 5,500 miles of navigable rivers, 1,400 named lakes, and 889 square miles of inland water. Services are provided through contracts with 31 county sheriffs providing coverage in 32 counties and with the Department of State Police providing additional statewide coverage, with emphasis in the four counties not covered by contracts with county sheriffs. The program also provides patrol boats and specialized enforcement equipment, develops and offers basic and advanced training for county marine patrol officers, maintains a marine law enforcement database and reporting system, performs contract administration functions, and retains responsibility for the waterway marking system.

Revenue Sources and Relationships

Funding of the Law Enforcement program is from registration and title fees, marine fuel taxes, and the U.S. Coast Guard Recreation Boating Safety grants. U.S. Coast Guard funding has been reauthorized and will increase slightly over the next several years.

Budget Environment

Law enforcement contracts are continued at the current level with a 3.1% 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 3%. 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. Reauthorization of the U.S. Coast Guard's Recreational Boating Safety (RBS) grant program in 2005 provided an additional $1 million over the

2005-07 legislatively approved level. Federal aid contributes over $3.8 million to support the marine law enforcement program.

Governor's Budget

The 2005-07 Governor's recommended budget of $13.7 million total funds for marine law enforcement is $1.2 million, or 9.2%, higher than the 2005-07 legislatively approved expenditure level. The recommended budget includes the following policy option packages:

- An increase of $667,901 Federal Funds to increase law enforcement in the field funded by increased Recreational Boating Safety Grant funds through the U.S. Coast Guard formula grants to states; and
- An increase of $9,311 Other Funds to finance the reclassification of two positions determined by the Department of Administrative Services Human Resources Services Division to be working at higher classification levels.

The recommended budget also reflects applying the standard inflation rate for services and supplies; increases in the state government service charges; special payments; and capital outlay ($275,584 Other Funds and $96,879 Federal Funds). The remaining increase is for cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, PERS rates, mass transit fees, and merit increases ($106,729 Other Funds).

OSMB – Facility Programs

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	8,792,792	9,348,554	9,348,554	10,037,750
Federal Funds	1,616,237	2,745,357	2,745,357	4,262,263
Total Funds	**$10,409,029**	**$12,093,911**	**$12,093,911**	**$14,300,013**
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 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.

Governor's Budget

The Governor's recommended budget of $14.3 million for the Facility program is $2.2 million total funds or 18.2% higher than the 2005-07 legislatively approved expenditure level. The recommended budget includes the following policy option packages:

- An increase of $1,410,525 Federal Funds for facility grants through the federal BIG program.
- An increase of $250,000 Other Funds for marine facility projects that are not completed within a biennium.
- An increase of $66,646 Other Funds and $4,864 Federal Funds for the reclassification of 5 existing positions determined by the Department of Administrative Services Human Resources Services Division to be working at higher classification levels.

The recommended budget is reduced by $750,000 to reflect a one-time expenditure for facility grant projects but adds back the expenditure limitation in a policy package to make additional grants to local governments for boating facilities. 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 ($199,094 Other Funds and $81,994 Federal Funds) and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, PERS rates, mass transit fees, and merit increases ($153,262 Other Funds and $19,070 Federal Funds).

Parks and Recreation Department (OPRD) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended *
Lottery Funds	56,588,242	84,066,848	90,719,992	96,234,473
Other Funds	68,629,363	91,712,078	97,909,366	107,144,129
Federal Funds	5,699,248	8,964,578	8,964,578	6,493,033
Other Funds (NL)	3,975,197	0	0	0
Total Funds	**$134,892,050**	**$184,743,504**	**$197,593,936**	**$209,760,635**
Positions	788	865	866	884
FTE	528.39	560.82	570.75	599.33

***** *The Governor's recommended budget includes resources for the Oregon Historical Society. For analysis purposes, this program will be discussed separately and is not reflected in these figures.*

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 98,667 acres. These include 55 campgrounds, 174 day-use areas, 478 miles of recreation trails, 362 miles of ocean shore, and other special sites such as boating and fishing docks, group meeting halls, interpretive centers, museums, and historic inns.

Revenue Sources and Relationships

In November 1998, voters approved Measure 66, constitutionally dedicating 15% of the net proceeds of Oregon's lottery revenues to be deposited into a Parks and Natural Resources Fund, until the year 2014, when it will be re-referred to the voters. Half of the fund is allocated to OPRD, the remainder is allocated to the Oregon Watershed Enhancement Board. The 2007-09 Governor's recommended budget assumes $93.2 million Lottery Funds revenue will be generated for the State Parks and Recreation Department sub-account in the 2007-09 biennium. For 2007-09, these Lottery Funds represent 44% of total revenue in the Department's budget, an increase of 8% from the 2005-07 legislatively adopted budget.

Park user fees represent 15% of the total budget. User fees are expected to generate $33 million in 2007-09 without a fee increase. The other major source of Other Funds revenue is from recreational vehicle (RV) registration fees. RV fees are shared 30% by the counties and 70% by the state. For 2007-09, the RV fee is expected to produce $35.4 million, $24.8 million for the state parks system and $10.6 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. OPRD anticipates receiving $594,892 in the 2007-09 biennium from the salmon license plate. OPRD expends its share of proceeds from the sale of these plates on salmon habitat restoration needs and related projects.

Other dedicated revenue sources include $4.8 million from the Oregon Department of Transportation State Highway Fund for roadways and rest area maintenance, $1 million from the Marine Board for boater facility maintenance and rehabilitation, and $9.7 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 $6.5 million in federal funds from the Land and Water Conservation Fund– National Park Service (LWCF / NPS) ($0.8 million), Historic Preservation ($0.8 million), the Recreational Trails Program ($2 million, part of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: a Legacy for Users – SAFETEA-LU), and $2.9 million from miscellaneous other sources of federal funds for project grants. Federal funding from NPS and Historic Preservation is decreased significantly from prior biennia.

Budget Environment

The Department is challenged to balance rates and fees for park users at an affordable level for a diverse population with the rising costs of doing business. The constitutionally dedicated Lottery 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. The Department continues to invest in facility maintenance and repair, land acquisitions, and local park grants. Since 1999, the Department has invested over $81.6 million in maintenance, repair, and upgrades to existing state parks, acquired over 3,600 acres of additional park land, and issued more than 160 local park grants.

Governor's Budget

The Governor's recommended budget of $209.8 million total funds (excluding the Oregon Historical Society) and 599.33 FTE is $12.2 million, or 6.2%, and 28.58 FTE more than the 2005-07 legislatively approved level. The proposed budget provides resources to:

- provide additional staff for the Heritage, Facilities Investment, and the new Recreation Program and Planning divisions;
- increase grants for heritage and local recreation programs;
- increase support for recent acquisition, investments, and land acquisitions;
- promote bicycle recreation for Oregonians and to make Oregon a bicycling destination for tourists; and
- support youth outdoor recreation programs and trails.

Specific details are discussed under each program unit.

OPRD – Administration

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Lottery Funds	9,691,421	10,404,352	11,066,138	10,325,702
Other Funds	9,718,025	14,512,940	14,777,083	13,741,625
Federal Funds	0	21,450	21,450	993
Total Funds	**$19,409,446**	**$24,938,742**	**$25,864,671**	**$24,068,320**
Positions	86	88	89	76
FTE	79.73	81.23	81.90	69.85

Program Description

The Administration program includes six divisions:

- *Directors Office* (3.00 FTE) consists of three positions including the Director, an Executive Assistant, and a communications staff person. The Office is responsible for overall agency management; support of Commission activities; coordination with the Governor, Legislature, and other government entities; and development of broad policy direction. The Director's office works with the Historic Preservation Advisory Committee, the Oregon Heritage Commission, the Recreational Trails Advisory Council, and the non-governmental, non-profit Oregon State Parks Trust.
- *Human Resources* (5.00 FTE) supports the Department on all personnel and labor relations including recruitment, training, and collective bargaining. The Division provides safety services through risk management, workers' compensation, safety awareness, and property and visitor liability.
- *Financial Services* (14.00 FTE) is responsible for the biennial budget development and execution; coordination of Secretary of State audits, centralized accounting, payroll, and recreation grants. This area also includes the Assistant Director for Administration and the internal auditor.
- *Procurement* (7.00 FTE) provides centralized contracting, procurement services and fleet management.
- *Information Systems* (14.00 FTE) provides planning, development, and support for the Department's business applications including the installation, standardization, and operation of the Department's desktop and laptop computers, network and internet/intranet connections, geographic information system, and operation of the automated reservation system. It also provides technical management of the Department's financial interface to the Statewide Financial Management System.

- *Reservations Northwest* (26.85 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.

The funding for these programs is from park user fees and Lottery Funds.

Budget Environment

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. Growing local populations and increasing tourism bring demands to state parks.

Governor's Budget

The Governor's budget of $24.1 million and 69.85 FTE is $1.8 million, or 7%, and 12.05 FTE less than the 2005-07 legislatively approved expenditure level. The budget recognizes a reduction of $1.9 million to phase out project costs for the Financial Management System and the phase-in of facility rent for the new North Mall Office Building, debt service, and realignment of beach safety duties to the Operations program and Public Services to the new Recreation Programs and Planning Program. It also realigns personnel safety to the Operations program. The budget is also reduced by $517,356 total funds for one time costs related to compensation adjustments approved by the Emergency Board in June 2006.

The recommended budget includes $350,000 Lottery Funds to establish wireless internet in key areas of state Parks such as campground registration booths, common areas, and high volume camp loops.

The remaining changes in the recommended budget reflect a net increase of $648,832 total funds applying the standard inflation rate for services and supplies and state government service charges. Cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, pension bond costs, and merit increases reduces the budget by $388,231 total funds.

OPRD – Heritage Programs

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended *
Lottery Funds	2,103,841	2,916,249	2,990,707	5,041,272
Other Funds	235,376	474,214	482,045	420,785
Federal Funds	1,236,070	1,800,512	1,800,512	672,563
Total Funds	**$3,575,287**	**$5,190,975**	**$5,273,264**	**$6,134,620**
Positions	18	18	18	21
FTE	16.50	18.00	18.00	20.76

***** *The Governor's recommended budget includes resources for the Oregon Historical Society. For analysis purposes, this program will be discussed separately and is not reflected in these figures.*

Program Description

The Heritage Programs Division (20.76 FTE) consists of three primary programs: The State Historic Preservation Office, the Oregon Heritage Commission, and the Oregon Commission on Historic Cemeteries.

- *The State Historical Preservation Office* (SHPO), which consists of 18 positions (18.76 FTE), manages and administers all federal and state programs for historic and archeological resource planning and preservation. The program also assists with the development and interpretation of historic and cultural resources in the park system. Staff administer the federal grant-in-aid program and seven other federal programs under the National Historic Preservation Act. SHPO also manages two state programs: the Archeological Permit program and the Special Assessment of Historic Properties program.
- The *Oregon Heritage Commission* (1.00 FTE) is the primary organization for coordination of the state's heritage activities. The Commission, created in 1995, consists of nine voting and eight ex-officio members. The Commission is charged with establishing and implementing an Oregon Heritage Plan for the purpose

of coordinating heritage conservation and avoiding duplication among various interest groups. The Commission coordinates statewide anniversary celebrations, encourages heritage tourism, maintains an inventory of state-owned cultural properties, and administers local museum and heritage grant programs.

- The *Oregon Commission on Historic Cemeteries* (1.00 FTE) is one of the few commissions of its type in the United States. It is charged with the preservation of tribal and pioneer-era cemeteries throughout Oregon. It provides grants, education, and technical assistance. The Department Director appoints commissioners.

Revenue Sources and Relationships

Approximately 20% of the Department's Federal Funds are received through the State Historic Preservation Office. About a third of the Federal Funds are provided to local governments in the form of grants to operate local historic preservation programs. Grants are awarded on a reimbursable basis and require at least a 50% state match. Owners of property on the National Register can also apply for a fifteen-year property tax freeze through SHPO. Other revenue for these programs comes from special assessment application 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.

SHPO 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 annual review (3,000/year in 2003-05) for potential impacts on historic and cultural resources.

The Division has also been supporting the 2009 Oregon Sesquicentennial activities and is requesting funding in the Governor's recommended budget to continue this activity in the 2007-09 biennium.

Governor's Budget

The Governor's budget of $6.1 million is $0.9 million total funds, or 16.3%, and 2.76 FTE higher than the 2005-07 legislatively approved expenditure level. The budget includes resources for the Oregon Historical Society. For analysis purposes, this program will be discussed separately and is not reflected in these figures.

The budget recognizes a reduction of $1.1 million to phase out grants supporting commemorative activities for the Lewis and Clark bicentennial, an archaeological study, and declining revenues from the federal Heritage program. The recommended budget also includes:

- $500,000 Lottery Funds for increased grant funding for assistance in smaller communities, including remote and rural areas of Oregon and to offer grants annually rather than biennially;
- $249,908 Lottery Funds to establish two permanent positions to provide archaeological and historic preservation expertise to the Department and local governments;
- $269,000 Lottery Funds and $150,000 million Other Funds to support the efforts of a private non-profit organization in planning and execution for Oregon's Sesquicentennial Celebration; and
- $750,000 Lottery Funds to establish Oregon's Main Street Program to assist communities in revitalizing their historic downtown commercial districts through grants and establish two positions to support the program.

The remaining budget changes reflect applying the standard inflation rate for services and supplies and state government service charges at $103,496 total funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and scheduled merit increases at $183,139 total funds.

OPRD – Property Acquisitions

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Lottery Funds	6,616,523	7,500,000	7,500,000	11,000,000
Total Funds	**$6,616,523**	**$7,500,000**	**$7,500,000**	**$11,000,000**

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. In 2005, the Legislature increased the program to $7.5 million. Since 1999, the Department has acquired a total of 6,012 acres of property through direct purchase and donation.

Governor's Budget

The Governor's budget reflects a $3.5 million increase from the 2005-07 legislatively approved expenditure level. The additional resource will enable OPRD to make progress toward the target of performance. There are no positions budgeted in this program.

OPRD – Operations

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Lottery Funds	12,251,831	12,508,691	12,537,158	12,754,979
Other Funds	50,747,608	56,733,738	56,733,738	64,346,156
Federal Funds	325,705	1,650,130	1,650,130	1,507,437
Other Funds (NL)	3,975,197	0	0	0
Total Funds	**$67,300,341**	**$70,892,559**	**$70,921,026**	**$78,608,572**
Positions	658	674	674	681
FTE	407.16	416.13	416.60	422.72

Program Description

The Operations program has responsibility for daily operation of the state park system. Five activity areas make up the Operations program:

- *Assistant Director for Operations* (2.00 FTE) consists of the Assistant Director and support staff to provide overall direction for Operation program activities.
- *Operations Support* (3.00 FTE) provides safety services through risk management, workers' compensation safety awareness, and property and visitor liability, plus beach safety programs.
- *Park Operations* (400.72 FTE) is directly responsible for statewide operations of state parks. Management and maintenance responsibilities include insuring the safety of the public and protection of natural resources and facilities. Park Operations are divided into four geographic areas based on the number of park facilities and visitation. Park Operations employees – rangers and seasonal park aides – maintain park buildings and grounds, operate registration services, collect fees, enforce park rules, and provide information. Other duties include maintenance of trail systems, Willamette Greenway sites, and the Deschutes River Scenic Waterway Recreation Area.
- *Property and Natural Resource Management* (8.00 FTE) provides technical expertise and support to field staff on resource management issues. The Natural Resource Management unit plans and conducts all timber management on state park property, coordinates timber sales and monitors replanting, identifies hazardous and unhealthy trees, oversees removal, trains forestry interns, manages wildlife and habitat programs, and protects threatened and endangered species on state park properties. In addition, Natural Resource Management also prepares natural resource plans for individual park areas. The unit also administers the Department's land acquisition and concession programs and manages leases of park land for agricultural use.
- *Engineering* (9.00 FTE) provides survey and engineering services for park projects not funded through the Facilities Investment Program.

Budget Environment

Growth in Oregon's population and economy has increased the demand on current resources and facilities and created a need for new parks and recreational programs. In 1995, the Department implemented a program to promote use of state park campgrounds in off-prime seasons and increase camping revenues. The Department added yurts, cabins, and other promotional activities during this same period.

Additional personnel were provided to meet the growth in demand for visitor services that has resulted from the increased usage. Over 41.8 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 438:1 far exceeds the national average of 75:1; and Oregon ranks 6th in the nation in the number of campsite rentals per year.

Governor's Budget

The Governor's budget of $78.6 million is $3.4 million, or 4.5%, higher than the 2005-07 legislatively approved expenditure level. The budget:

- Adds $262,713 Other Funds to continue work on the Ocean Shores Management Plan and Habitat Conservation Plan that were initiated during the 2005-07 biennium.
- Eliminates $1 million Lottery Funds and $72,680 Other Funds associated with the realignment of recreation programs and resource management planning to a new program unit, the Recreation Program and Planning unit.
- Eliminates $505,554 Lottery Funds associated with one-time costs for new staff approved during the 2005-07 biennium.
- Eliminates $2.3 million total funds associated with one time costs related to compensation plan adjustments approved by the Emergency Board in June 2006.
- Eliminates $2 million Other Funds associated with one-time costs for the Recreational Trails Plan, L.L. Stub Stewart State Park, and Garrison Lake approved by the Emergency Board in September 2006.
- Adds $2.1 million Other Funds to establish 16 positions (8.81 FTE) for Cougar Valley State Park, Depoe Bay Whale Watch, Golden Town Site, Kam-Wah Chung, L.L. Stub Stewart, and Prineville Reservoir state parks.
- Adds $1 million Lottery Funds and $0.5 million Other Funds to initiate a Preventative Maintenance Program to prevent maintenance backlog growth, maintain and protect assets during the life cycle it was designed for, and provide the ability to manage the financial aspects of facility maintenance.
- Adds $1 million Lottery Funds for the Governor's Willamette River Initiative.

The remaining changes reflect applying the standard inflation rate for services and supplies and state government service charges for $1.3 million total funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases for a net increase of $3.1 million total funds.

OPRD – Facility Investments

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Lottery Funds	18,078,409	37,503,570	38,628,103	33,474,809
Other Funds	1,961,269	3,720,297	5,814,014	3,838,902
Federal Funds	417,320	1,500,160	1,500,160	1,546,665
Total Funds	**$20,456,998**	**$42,724,027**	**$45,942,277**	**$38,860,376**
Positions	17	17	18	16
FTE	16.00	16.50	17.17	15.50

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 (12.50 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.

Budget Environment

In 1999, the Legislature authorized the issuance of $15 million lottery backed bonds to address overdue repairs from deferred maintenance. The bonds were repaid during the 2005-07 biennium. Ongoing investments in repairs and renovations from Lottery Funds were increased in the 2005-07 biennium to $20 million per biennium. Of this amount, an average of $10 million to $13 million has been applied directly each biennium to reduce the maintenance backlog to a manageable level by the year 2014. An additional $7 million is utilized to improve and expand parks for the future.

Small grants are often available for facility investments from local governments, other state agencies, or the federal government.

Governor's Budget

The Governor's budget of $38.9 million is $5.4 million, or 15.4%, less than the 2005-07 legislatively approved expenditure level. The budget reflects an adjustment reducing one time costs of $7.9 million Lottery Funds associated with development of L.L. Stub Stewart state park and an increase of $743,896 total funds reflecting application of the standard inflation rate to services and supplies and cost adjustments to unemployment assessments, overtime, temporaries, shift differentials, and merit increases. The budget also reflects a reduction of $8.9 million Lottery Funds and $1.6 million Other Funds eliminating debt service for the issuance of bonds in 1999.

The budget also:

- Adds $134,875 Lottery Funds to provide funding to establish a permanent position (1.00 FTE) to address workload increases following the addition of new park properties, changes to state contract administration, and the addition of the State Fair.
- Adds $11.2 million Lottery Funds to provide resources for developments and improvements at new and existing park properties including Cougar Valley State Park, Crissey Field Welcome Center and Recreation site, Kam-Wah Chung and Company Museum and Visitor Center; L.L. Stub Stewart Memorial State Park – Phase III, and Tseriadun Park Development.
- Adds $1 million Lottery funds for the Governor's Willamette River Initiative.

OPRD – Recreation Programs and Planning Program

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Lottery Funds	0	0	0	3,636,727
Other Funds	0	0	0	2,943,027
Total Funds	**$0**	**$0**	**$0**	**$6,579,754**
Positions	0	0	0	22
FTE	0.00	0.00	0.00	21.50

Program Description

The Recreation Programs and Planning Program is a new unit realigned from assets in other parts of the Department and is responsible for planning, implementation, and outreach regarding outdoor recreation in Oregon. The program unit was established to place emphasis on advocating for and promoting outdoor recreation in Oregon. This includes planning for future recreational needs and providing interpretive programs that educate visitors about the natural resources, history, and culture of the areas surrounding the parks and through Oregon. Additionally, public services and marketing such as development and printing of brochures, media contact, and maintenance of the Department webpage is part of the program. Five activity areas make up the Recreation Programs and Planning Program:

- *Recreational Programs* (7.00 FTE) plans, develops, and directs services to enrich visitor experiences by providing oversight for park interpretive programs, managing motorized and non-motorized recreational trails programs, and providing technical assistance to field staff regarding trail development in state parks, developing water-based recreation, implementing a statewide bicycle recreation program, overseeing more than 31,000 park volunteers each year, establishing and monitoring Friends Groups, and developing State Parks Policies and Procedures.
- *Planning* (5.50 FTE) is responsible for development of the Statewide Comprehensive Outdoor Recreation Plan which documents statewide and regional recreation demands and trends, the supply of recreation

opportunities, facilities and settings, and identifies emerging needs of Oregon residents and visitors. The Planning unit creates plans for development, protection, and public enjoyment of state park properties and regional recreation corridors; identifies natural, cultural, and scenic resources, opportunities, and constraints; directs the master planning process; and provides direction on planning and development of sites and facilities. The Planning unit also coordinates with park units and other governmental agencies planning for ocean shore use and protection.

- *Public Services* (7.00 FTE) is responsible for internal and external communications, marketing, paid media campaigns, website content, public relations, coordination of media relations, statewide special event management, graphic design and production, publications, map production, exhibit creation and fabrication, consultation on signage, interpretive writing, and visual identity.
- *Grant Administration* – Although part of this new program area, it is discussed in a separate section of this analysis.
- *Recreation Administration* (2.00 FTE) provides oversight and communication with the Oregon Parks and Recreation Commission; park providers at the local, county, state, and federal levels; and recreation stakeholders including the Oregon Outdoor Recreation Council, Oregon Recreation trail Advisory Council, All-Terrain Vehicle Account Allocation Committee, and the Oregon State Parks Trust.

Budget Environment

A wide range of public and private-sector recreation organizations provide outdoor recreation opportunities for the general public in Oregon. The major land and water recreation resources are owned and managed by the federal government with 93.9% of the land and 46.2% of water recreation areas under federal management. The state owns 5.1% of the land and 29.6% of water recreation areas. Growth in Oregon's population and economy has increased the demand on current resources and facilities and created a need for new parks and recreational programs. Demographic changes over the past 10 years include a recreating public that is older, more highly educated, with higher income levels, increasingly urban living, and increasing in ethnic diversity. In addition, people have become less physically active.

The public is asking public land managers to protect streams, fish, wildlife habitat, and threatened and endangered species. They are also seeking amenities including quiet, natural places, natural appearing settings, and information and education. The recreating public wants family-oriented activities, and to travel closer to home with more frequent but shorter stays. There is also a growing demand for motorized and non-motorized trail facilities, alternative camping facilities such as yurts and cabins, and RV camping especially at the coast.

Biking vacations attracted more than 27 million travelers in the past five years and they rank as the third most popular outdoor vacation activity in America. An ad-hoc partnership of bicycle enthusiasts, including Cycle Oregon, the Bicycle Transportation Alliance, the Oregon Tourism Commission, Oregon Department of Transportation (ODOT), the Governor's office, and OPRD, formed in 2004 to unify Oregon's bicycle tourism strategy. The group has been working to promote recreational bicycling in the state. The effort has been on-going for three years. A recent accomplishment of this group was the creation of the Willamette Valley Scenic Bikeway from Champoeg State Park to Armitage County Park. During 2005, Cycle Oregon, OPRD, Travel Oregon and the ODOT Bicycle Pedestrian Program have taken a leadership role in moving the effort forward. The bicycle partnership's effort is to position Oregon as a premier bicycle tourism and recreation destination. The partnership is proposing that bicycle tourism-related work that is now done by ODOT, OPRD, Cycle Oregon, Portland Oregon Visitors Association, League of American Bicyclists, Oregon Tourism Commission, and various bike shops be coordinated through OPRD. The primary tool for the program would be an interactive website from which users can find information needed to create their own itinerary based on their preferences. OPRD administratively created a limited duration position within current resources during the 2005-07 biennium to initiate work on producing a coherent, productive state bicycle recreation program, combining the contributions from bicycle partners. The Governor's recommended budget assumes a permanent position to continue OPRD's role is this program.

Governor's Budget

The Governor's budget of $6.6 million total funds reflects a $1 million, or 19%, increase from current services. The budget:

- Adds $144,132 Lottery Funds to establish a permanent position (1.00 FTE) to work on the Ocean Shore Management Plan, the Habitat Conservation Plan for Western Snowy Plover, and support the Department's participation with the Ocean Policy Advisory Council.

- Adds $200,000 Lottery Funds to establish a permanent position (1.00 FTE) to administer and coordinate bicycle trail programs, work with bicycle advocacy groups, and promote bicycle tourism in Oregon.
- Adds $724,000 Lottery Funds to extend a rails-to-trails project (Cazadero Trail), support trails along the Rogue River, develop more of the Banks-Vernonia trail, and develop a state trails resource webpage.

OPRD – Grants

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Lottery Funds	7,846,217	8,998,751	9,008,343	12,002,055
Other Funds	5,967,085	8,389,271	8,428,919	11,266,913
Federal Funds	3,720,153	3,992,326	3,992,326	2,765,375
Total Funds	**$17,533,455**	**$21,380,348**	**$21,429,588**	**$26,034,343**
Positions	9	9	9	10
FTE	9.00	9.00	9.00	10.00

Program Description

The Grants program is responsible for direction and management of the Department's major grant programs. These programs include the All-Terrain Vehicle (ATV) grants program, the Land and Water Conservation Fund, the Local Grant Program, the Recreational Trails Grant Program, and the Recreational Vehicle Grant Program. Funding for these programs is from ATV permit fees, recreational vehicle registration fees, Lottery, Other, and Federal Funds.

Budget Environment

The number of applicants seeking grant program funds drives workload levels. There continues to be a high degree of interest in the Local and Federal Grants program funds. Funding from the National Park Service Land and Water Conservation Fund is expected to decrease during the biennium. The Local Grant program was increased to $8.5 million for 2005-07.

Governor's Budget

The Governor's budget of $26 million is $4.6 million, or 21.5%, higher than the 2005-07 legislatively approved expenditure level. The recommended budget:

- Increases funding for ATV riding area improvement and enforcement by $2.4 million Other Funds.
- Adds $142,358 Other Funds to establish a permanent position (1.00 FTE) to coordinate and administer a safety outreach program for off-road vehicle trail riding.
- Adds $2 million Lottery Funds to increase grant funding to replace $1 million of reductions in the Land and Water Conservation federal grant program for acquisition and development of recreational properties for local governments and state agencies and to establish a permanent position (1.00 FTE) which was also reduced as a result of the loss in federal funds; $500,000 would establish a competitive grant program for the construction and restoration of memorials honoring veterans and war memorials located on public property and $500,000 would increase the overall funding level in the Local Government Grant Program.
- Adds $1.5 million Lottery Funds to provide grant funding to schools and local government recreation providers for programs that promote outdoor and environmental education activities, and increase outdoor recreation activities and the use of parks.

The recommended budget recognizes a reduction of $500,000 Lottery Funds for completion of the Keizer Rapids grant; a reduction of $263,254 Lottery Funds to maintain the $8.5 million local grant program level, and a $1.4 million Federal Funds reduction as a result of reductions in Land and Water resources.

The remaining increases reflect applying the standard inflation rate for services and supplies and state government service charges at $620,429 total funds; and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases at $151,137 total funds.

OPRD – Oregon State Fair

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Lottery Funds	0	0	4,091,323	3,652,859
Other Funds	0	7,881,618	8,061,767	10,586,721
Total Funds	**$0**	**$7,881,618**	**$12,153,090**	**$14,239,580**
Positions	0	59	59	58
FTE	0.00	19.96	29.22	39.00

Program Description

The Oregon State Fair conducts an annual state fair that is typically 11 days in length and provides services for ongoing exposition activities including recreational vehicle and organization meetings, concerts, and consumer products and services shows. The purpose of the Fair is to provide information and encourage the growth and prosperity of all agricultural, stock raising, horticultural, mining, mechanical, artistic and industrial pursuits in the state. The Fair represents Oregon's agricultural, industrial, artistic, and cultural heritage. The Fair responds to the needs and interests of visitors, participants, exhibitors, concessionaires, vendors, and facility users.

Revenue Sources and Relationships

The Fair receives Other Funds revenue from grounds admission, commercial exhibit fees, ride and show admissions, parking, space rental fees, and food concessions, which is not sufficient to fully cover increases in fixed operating costs or to fund essential maintenance. The budget is supplemented with Lottery Funds from the Parks and Natural Resource Fund.

Budget Environment

Since 1997, the Oregon State Fair has experienced significant difficulty in meeting its operating and debt service requirements out of existing revenue. The 2005 Legislature determined that the best option was to combine the Fair with OPRD since the statute for OPRD already includes fairs and heritage programs as part of 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.

In January 2006, OPRD hired a professional market research firm to conduct a survey and facilitate a series of meetings with community, business, and elected officials from eight geographically distinct regions across the state to gather ideas for the vision and future direction of the Fair and its facilities. Overall themes that emerged from the conversations included high expectations of strong fiscal management and clear accountability and that the Oregon State Fair should be for and about Oregon; more inclusive of regions of the state; have a greater educational role for youth and adults; and continue its traditional ties to agriculture, but expand its connection to industry, manufacturing, cultural heritage, history, and resources within Oregon.

As a result of these meetings, a business plan has been developed to clarify the mission and business objectives of the annual state fair and usage of fairgrounds between annual state fairs. The plan outlines strategies to:

- Revitalize the annual state fair by showcasing the best of Oregon.
- Provide leadership to counties, areas, regions, municipalities, and organizations across the state to create local venues for events and activities that build up to and culminate at the annual state fair.
- Address methods to improve the quality of the experience (both annual state fair and interim activities on the fairgrounds) – including facility and land improvements, and customer service from vendors, contractors, and staff.
- Meet all expenses for the Fair including operations and maintenance from revenue generated by the enterprise.
- Provide an "exit strategy" for decision-makers to take action on the future of the enterprise.
- Address business systems and management policies to ensure efficient operation and accountability.
- Identify a role for the State Fair Foundation, partnerships with other enterprises, and an expanded role for sponsorships.

Governor's Budget

The Governor's budget of $14.2 million total funds is $2 million, or 17.2%, higher than the 2005-07 legislatively approved expenditure level. The budget recognizes a net increase of $1 million total funds to reflect a full 24 months operating expenses following the merging of the Oregon State Fair within OPRD.

The remaining increases reflect applying the standard inflation rate for services and supplies and state government service charges at $8,537 total funds; and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases at $1 million total funds.

OPRD – Oregon State Fair Debt Service

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Lottery Funds	0	4,235,235	4,235,235	4,235,070
Total Funds	**$0**	**$4,235,235**	**$4,235,235**	**$4,235,070**

Program Description

This program pays the principal and interest on construction bonds. The 2001 Legislature added $10 million in lottery-backed bonding authority and increased the debt service from Lottery Funds to $2,611,346. The debt service cost for 2003-05 was $3.7 million. This cost increased to $4.2 million in 2005-07. The increase reflects the full debt service cost for all of the Lottery-backed bonds.

Revenue Sources and Relationships

Lottery Funds revenue from the Parks and Natural Resources Fund is used to repay debt service on the capital construction and improvement bonds.

Governor's Budget

The Governor's budget funds the existing debt service on lottery-backed bonds.

Water Resources Department (WRD) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	19,191,983	20,562,623	21,282,467	24,290,985
Other Funds	5,963,277	6,525,415	6,683,565	7,029,645
Federal Funds	800,717	1,137,424	1,146,313	1,176,003
Other Funds (NL)	909,102	645,639	1,521,457	1
Total Funds	**$26,865,079**	**$28,871,101**	**$30,633,802**	**$32,496,634**
Positions	145	140	140	149
FTE	143.18	138.00	138.00	147.00

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 scarce 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 needs. The Endangered Species Act and other environmental regulations have also brought new challenges and have raised the complexity of water allocation decisions through the demand for instream water rights.

WRD – Administrative Services Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	2,790,115	2,614,529	2,665,324	2,767,736
Other Funds	49,263	447,962	460,501	554,620
Total Funds	**$2,839,378**	**$3,062,491**	**$3,125,825**	**$3,322,356**
Positions	11	11	11	11
FTE	10.50	9.50	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. The Division also provides administrative support (accounting, human resources, budgeting, and financial reporting) for the Oregon Watershed Enhancement Board.

Revenue Sources and Relationships

The Division is primarily funded with General Fund, but receives some Other Funds revenue from charges for services and sales of publications and surplus property.

Budget Environment

The need for administrative and support service activity within the Water Resources Department rises or falls as external demands on agency programs change, programs are either added or removed, or programs undergo restructuring or add new processes.

Governor's Budget

The Governor's budget represents a 6% increase from the 2005-07 legislatively approved level. This reflects the higher cost of continuing the same level of service as in the previous biennium due to personal services increases for employee benefits, inclusion of future merit increases for those eligible, and inflation allowances for goods and services. The Governor's budget adds $385,090 Other Funds to continue as permanent a position (0.50 FTE) that was added last biennium. The Department has the legal authority to contract for work to process applications when the applicant is willing to pay actual costs to move out of the queue for the regular application process. The position provides oversight of contracted services authorized under the Department's receipts authority. Of the package total, $311,140 Other Funds limitation is for monies passed through to approved contractors to process applications under the Department's receipt authority.

WRD – Field Services Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	6,289,663	8,167,152	8,497,297	9,639,345
Other Funds	2,798,523	2,130,898	2,195,524	2,237,633
Federal Funds	100,372	118,544	127,433	125,538
Other Funds (NL)	0	0	0	1
Total Funds	**$9,188,558**	**$10,416,594**	**$10,820,254**	**$12,002,517**
Positions	64	64	64	69
FTE	63.34	63.50	63.50	68.50

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 four regions for more efficient use of field personnel. Field staff includes region managers, watermasters, technicians, and locally-funded assistants. Field staff responsibilities include dam 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 staff also act as liaisons with Watershed Councils, municipal water suppliers, local governments, and irrigation districts to explain Commission and Department policies, review water management plans, provide information on water availability and water rights, and bring regional policy issues back to the Department.

Revenue Sources and Relationships

Field Services Division activities are primarily supported by the General Fund. Revenue from Start Card fees (well drilling) comprises about 40% 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 populations, and other uses increase, the need for accurate and complete information on the location, supply, and quality of water sources within the state intensifies. The Department's emphasis on water management and additional statutory obligations are generating additional workload and demands for field enforcement activities.

Field activities are largely dependent on the state's watermasters and their relationships to local communities. Counties are required to provide office space for the state watermasters and are asked to provide clerical support and assistant watermasters. Due to local government budget constraints, the amount of assistance provided to the state's watermasters by local partners has declined in recent years. As of July 2006, 10 assistant watermasters and 10 other staff (mostly clerical) were funded locally, compared to 12 assistant watermasters being locally supported in 2002. 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 248 transfer applications per year. However, an average of 269 new transfer applications has been received annually over the past five years, with 209 new applications filed in 2005. 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 2006, there was a backlog of 523 transfer applications awaiting final decisions, which is down from a backlog of 782 applications in July 2004.

Governor's Budget

The Governor's recommended budget represents an 11% increase from the 2005-07 legislatively approved level. The recommended budget includes $9.6 million General Fund, a 13% increase from the 2005-07 approved level.

The Governor's budget includes the following changes:

- Adds $686,965 General Fund to increase field capabilities by adding 5 field staff positions (5.00 FTE) to restore capacity that had been lost due to past state and local funding reductions. The new positions would address increasing demands for accurate stream flow and ground water data that is used to regulate existing water rights and address increasing contacts with customers.
- Adds $70,000 General Fund to maintain or replace existing stream flow measuring devices. An additional $30,000 General Fund would be used to create a Water Measurement Cost Share Program Revolving Fund for loans to purchase and install water measuring instruments on private water diversion points in high-priority areas. Loan repayments would be used to make additional loans.
- Uses $249,345 Other Funds to continue as permanent 2 positions (2.00 FTE) that were added as limited duration the past two biennia. The positions are currently working on reducing the backlog of applications to transfer water rights. As water in the state become more fully appropriated, more potential water users are seeking transfers of water rights to address their needs. The positions are continued through an increase in application fees being proposed in agency sponsored legislation.
- Continues as permanent a position (1.00 FTE) that was added as a limited duration position the past two biennia to work as an assistant water master in the south central region. The position is funded through contracts with counties that pay the Department $137,393 Other Funds.
- Continues as permanent a Hydro Technician position (1.00 FTE) that was added as a limited duration position the past two biennia. The position is working on stream flow data in the eastern region. Funding for the position comes from several federal sources and totals $125,518 during 2007-09.
- $138,114 Other Funds is added to continue as permanent a position (1.00 FTE) that was added as a limited duration position the past two biennia. The position reviews water conservation and management plans and processes instream leases. The position is funded using fees from water management and conservation plan applications.
- Continues as limited duration a position (0.50 FTE), using $78,369 Other Funds, added last biennium to work on modifications to pre -1955 registrations of ground water rights who were issued "certificates of registration," which is not a final water right. This work is possible due to passage of HB 2123 (2005) that allows modifications in certificates of registration to change such things as point of diversion before a final adjudication of the water application is finalized.
- Adds $1 Other Funds Nonlimited as a placeholder for expenditures from the Water Measurement Cost Share Program Revolving Fund, which was created in 2001 but never funded. The Fund is for moneys gifted, bequeathed, donated, or granted from any person for the purpose of installing, substantially repairing, or replacing stream flow gauges, measuring devices, or headgates with measuring devices. The Department may use the moneys in the fund to contribute up to 75% of the moneys needed to install, substantially repair, or replace a stream flow gauge or measuring device. The Department plans on seeking grants and donations during 2007-09 to deposit in this fund and the $1 would serve as a placeholder for those Nonlimited expenditures.

WRD – Technical Services Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	5,844,950	5,456,837	5,669,378	7,018,997
Other Funds	1,107,016	2,295,992	2,320,990	2,421,421
Federal Funds	700,345	1,018,880	1,018,880	1,050,465
Total Funds	**$7,652,311**	**$8,771,709**	**$9,009,248**	**$10,490,883**
Positions	38	36	36	40
FTE	37.67	36.00	36.00	40.00

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.

Governor's Budget

The Governor's recommended budget represents a 16% increase from the 2005-07 legislatively approved level. This increase is caused in part by the inclusion of additional resources to complete a water supply and conservation study which is detailed below.

The Governor's budget includes the following changes:

- Adds $891,025 General Fund for the Department to begin a "Water Supply & Conservation Initiative" designed to address long-term water supply issues that are critical to population and economic growth in the state. The initiative has five components: 1) a statewide assessment of future water needs; 2) an inventory of potential water storage sites throughout the state; 3) investigation of average water runoff that can be expected in a drainage basin; 4) an inventory and assessment of water conservation projects to be out-sourced to a private contactor; and 5) a program to provide matching funds to local communities conducting water supply planning activities. Some of this work would be out-sourced to private contactors (components 1 and 4), while the remainder would be completed with the addition of 3 permanent positions (3.00 FTE).
- $138,114 General Fund is added for one Natural Resource Specialist 3 position (1.00 FTE) to restore water use reporting capacity lost to previous budget cuts. Water use reporting is required by statute and the loss of this position has affected data collection and analysis needed for good water management decisions.
- Uses $136,517 Other Funds to convert to permanent a position (1.00 FTE) that was added as a limited duration position the past four biennia. The position will continue work on the well log database entering data submitted on start card applications. The position is supported by start card fees which are required when wells are started, altered, or abandoned.

WRD – Water Rights and Adjudications Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	2,277,814	2,393,250	2,470,324	2,805,291
Other Funds	1,735,546	1,311,129	1,361,213	1,443,944
Total Funds	**$4,013,360**	**$3,704,379**	**$3,831,537**	**$4,249,235**
Positions	24	22	22	22
FTE	23.67	22.00	22.00	22.00

Program Description

The Water Rights and Adjudications 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 5,660 legal contests to 730 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. As of November 2006, about 96% of all the legal contests to claims to water rights in the Klamath Adjudication process were resolved, however those remaining are some of the most difficult to resolve due to their complexity and the entities involved, including the federal government.

Revenue Sources and Relationships

The Water Rights and Adjudications Division receives General Fund support for program functions conducted in the public interest such as processing in stream water right applications. The primary Other Funds revenue sources include water right application fees, water right transfer fees, and hydroelectric licensing fees. The Klamath Adjudication process has received additional General Fund appropriations since the 1999-2001 biennium.

Budget Environment

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 2007-09; however, as less water is available for appropriation, the application review process is becoming more complex. The agency anticipates roughly 100 protests to water right claims for the biennium. The alternative dispute resolution process successfully resolved 100% of the protests in the past year, thereby greatly reducing the need for expensive contested case hearings.

Governor's Budget

The Governor's recommended represents a 10.9% increase from the 2005-07 legislatively approved level. This increase in the recommended budget is caused primarily by the addition of $1,035,677 General Fund to support two limited duration positions and Attorney General costs associated with continuing the Klamath Basin Adjudication of pre-1909 water rights claims. The Klamath adjudication began in 1975. Similar funding was added on a one-time basis in 2005-07. Funding includes monies to pay legal costs and continue as permanent 2 positions (2.00 FTE) that were added on a limited duration basis in 2005-07.

WRD – Director's Office

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	1,714,441	1,930,855	1,980,144	2,059,616
Other Funds	80,323	22,262	22,890	27,393
Total Funds	**$1,794,764**	**$1,953,117**	**$2,003,034**	**$2,087,009**
Positions	7	6	6	6
FTE	7.00	6.00	6.00	6.00

Program Description

The Director's Office is responsible for the oversight of all policy-related functions of the agency. The Office coordinates the development of administrative rules, provides citizen response and information services, supports the Water Resources Commission activities, develops legislative proposals, and provides oversight of agency activities related to the Oregon Plan for restoration of salmon and watersheds.

Revenue Sources and Relationships

With the exception of small amounts of miscellaneous Other Funds revenue from publication and copy fees, the Director's Office is supported by the General Fund.

Budget Environment

The Director's Office was created to provide additional internal controls and improve performance in key areas and projects affecting the entire agency. The Office has performed a central role in the Klamath Basin Adjudication. The Department began its alternative dispute resolution program in 1995 to reduce reliance on the Attorney General's office in contested cases and to negotiate effective outcomes for contested matters avoiding the time and cost of formal hearings or further litigation.

Governor's Budget

The Governor's recommended budget represents a 4.2% increase from the 2005-07 legislatively approved level. This increase is caused by the normal increases in the cost of providing the same level of service as the previous biennium, including an inflation allowance for goods and services, inclusion of future merit increases for those eligible, and higher costs for employee benefits such as health care.

WRD – Water Development Loan Program

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	275,000	0	0	0
Other Funds	192,606	317,172	322,447	344,634
Other Funds (NL)	909,102	645,639	1,521,457	0
Total Funds	**$1,376,708**	**$962,811**	**$1,843,904**	**$344,634**
Positions	1	1	1	1
FTE	1.00	1.00	1.00	1.00

Program Description

The Water Development Loan Program was established by the Legislature in 1977 as a general obligation bond program to finance irrigation and drainage projects. The loan program was expanded in 1982 and 1988 through constitutional amendments approved by voters to also include community water supply, fish protection, and watershed enhancement projects. To date, the Water Development Loan Program has reviewed 320 loan applications and funded 181 loans. Of the approved loans, 176 were for irrigation and drainage projects; the five remaining loans were for the development of community water supply systems. The last application for a loan from the Water Development Loan Fund was submitted in December 1990.

The Loan Program issued state general obligation refunding bonds in 1991 for $6.9 million that were used to pay off existing outstanding bonded debt at higher interest rates. Bonds have not been issued to finance new water development projects since 1984 and no new loan applications have been received since 1990.

Revenue Sources and Relationships

The limited Other Funds expenditures are for administrative costs, including the program's one staff, agency loan management, and contracts for financial services. These costs are financed from sinking fund interest earnings. Nonlimited expenditures include past debt service and bond sale costs. A General Fund appropriation has been used in prior biennia to supplement Other Funds revenue to maintain solvency in the program by covering administrative costs and debt service shortfalls.

Budget Environment

The state retains responsibility for all administrative costs and for any debt service shortfalls until the loans are retired. The Water Development Loan Program experienced cash flow difficulties from defaulted loans and a class action lawsuit filed in December 1991. The Legislature provided General Fund appropriations in previous biennia to fill this short fall. The Department called for repayment of all remaining bonds in May 2006, therefore no debt service expenditures will need to be made unless new bonds are issued. The program is established in the Constitution and therefore the possibility for issuing new bonds still exists.

Governor's Budget

No additional program activity other than servicing the few remaining outstanding loans is anticipated in the Governor's budget.

Oregon Watershed Enhancement Board (OWEB) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Lottery Funds	30,121,113	49,565,099	52,333,961	77,836,469
Other Funds	1,140,918	2,283,412	2,283,412	2,194,862
Federal Funds	33,813,437	29,309,479	34,450,279	25,917,918
Total Funds	**$65,075,468**	**$81,157,990**	**$89,067,652**	**$105,949,249**
Positions	28	27	27	28
FTE	24.32	26.38	26.38	28.00

Agency Overview

The Oregon Watershed Enhancement Board (OWEB) was established in 1999 by the legislation implementing Ballot Measure 66, which established the framework for the full allocation of the measure's constitutionally dedicated lottery revenue. Ballot Measure 66, passed by the voters in November 1998, amended Section 4, Article XV of the Oregon Constitution to dedicate 15% of net lottery proceeds to be split between state parks and salmon, watershed, and habitat restoration. OWEB was designated as the single state agency charged with administration of the salmon and watershed portion of the dedicated lottery revenues. OWEB consists of 11 voting members, including five voting members from state natural resource agency boards and commissions and six public members appointed by the Governor and confirmed by the Senate. OWEB is also authorized to include up to six additional non-voting members, including the director of Oregon State University's agricultural extension service and representatives from five federal land and natural resource agencies.

HB 3225 (1999) created a Parks and Natural Resources Fund to receive the dedicated lottery revenues and established two accounts, the Parks Subaccount for park purposes and the Restoration and Protection Subaccount for salmon and watershed purposes. Ballot Measure 66 required that at least 65% of the revenue for salmon and watershed restoration be used for capital expenditures. In order to maintain accountability, HB 3225 defined "capital expenditures" and the Watershed Improvement Grant Fund (WIGF) was designated to receive these funds. The bill also established a Watershed Improvement Operating Fund (WIOF) to receive the 35% of lottery revenues able to be used for non-capital expenditures.

OWEB – Operations

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Lottery Funds	5,172,406	7,685,099	9,050,346	17,247,355
Other Funds	1,140,918	2,283,412	2,283,412	2,194,862
Federal Funds	33,813,437	29,233,918	34,374,718	25,917,918
Total Funds	**$40,126,761**	**$39,202,429**	**$45,708,476**	**$45,360,135**
Positions	27	26	26	28
FTE	23.94	25.38	25.38	28.00

Program Description

The agency's operations are funded through the Watershed Improvement Operating Fund (WIOF) which receives 35% of the Measure 66 dedicated Lottery Funds. The fund was created to facilitate the tracking and accounting of lottery revenues for the required purposes. Use of the revenue in the WIOF is authorized for the operational expenses of OWEB; activities of state and local agencies and other public entities related to the restoration and protection of native salmonid populations, watersheds, fish and wildlife habitats, and water quality; and watershed improvement grants that are not capital expenditures such as funding for education and technical assistance. One of the fundamental challenges of the Oregon Plan is the coordination of actions by a variety of federal, state, and local entities to restore and manage watershed health. Since the Oregon Plan was founded largely on the principles of local involvement and volunteerism, OWEB provides an important role by distributing funding for projects, offering technical assistance, and making information available.

Revenue Sources and Relationships

The forecast available during development of the Governor's 2007-09 budget (December 2006) assumes $93.2 million Lottery Funds revenue will be generated for the Restoration and Protection Subaccount in the 2007-09 biennium. In addition to this amount, $5.7 million of Lottery Funds for non-capital expenditures and $11.2 million of Lottery Funds for capital expenditures are projected to remain unallocated at the end of the 2005-07 biennium caused primarily by increases in Lottery forecasts above the May 2005 forecast used to set the 2005-07 adopted budget levels. These funds are now available for expenditure during the 2007-09 biennium. Inclusion of these carryover amounts increases the total Measure 66 Lottery Funds available for expenditure in 2007-09 to a total of $110.1 million. Based on the constitutional split between operations and capital expenditures, $38.3 million of this total can be used for non-capital expenditures such as grants and other agency operational costs, during the 2007-09 biennium. By comparison, the Governor's budget for 2005-07 included only $68.6 million in total Measure 66 Lottery Funds expenditures. This very large increase is due to the addition of slot machine style gaming by the Oregon Lottery Commission during the 2005-07 biennium. These new gaming options have significantly increased the amount of Lottery Funds generated for watershed improvement and salmon recovery activities.

Federal Funds are derived primarily from National Oceanic and Atmospheric Administration - Fisheries, an agency within the U.S. Department of Commerce, which administers the Pacific Coastal Salmon Recovery Fund (PCSRF). PCSRF monies were authorized by Congress in 2000 and are for salmon habitat restoration, stock enhancement, and research. Through Federal Fiscal Year (FFY) 2006, Oregon has been awarded $87 million in PCSRF funding, with $9.4 million of this total being earmarked by Congress for specified expenditures. Congress approved $6.4 million for FFY 2006 during the interim, with $2.1 million being earmarked for purchase of fish marking trailers to be used at federally funded hatcheries in the Columbia River basin. The Governor's 2007-09 budget assumes a FFY 2007 grant amount of $9.4 million, with $2 million for Congressional earmarks, which leaves $7.4 million for expenditure recommendations by the Governor. The federal grant amount for FFY 2008 is not known and no expenditure limitation was included in the Governor's budget. If, and when, a Congressional appropriation is made, OWEB can request expenditure authority from the Emergency Board as they have in the past.

Other Funds are received from the Department of Transportation for one-half of the proceeds from the sale of salmon license plates and from various non-governmental sources in the form of donations and grants. The license plate funds are used primarily for road-related fish passage grants.

Budget Environment

There is uncertainty over the continued availability of PCSRF monies from the federal government and Oregon has already experienced a significant reduction in PCSRF funding. For example, the $6.4 million approved for FFY 2006 compares to $13.1 million approved for FFY 2004. And while the 2004 FFY grant also included a Congressional earmark of $1.1 million for fish marking equipment, this is about half of the $2.1 million in required earmark spending included in the FFY 2006 grant, which reduced the amount that could be used for state identified priority spending from $12 million in 2004 to $5.3 million in 2006. This most recent lower grant amount likely signals a significant decrease in the size of the PCSRF grant the state can expect to receive from the federal government. In the past, significant portions of Oregon's PCSRF grants have been used to replace General Fund in other natural resource agencies' budgets to support salmonid recovery and watershed enhancement and protection activities, which made the freed up General Fund available for other statewide needs. Because of concerns over the likelihood that these much lower levels of federal funding will continue, which would make these past fund shifts unsupportable in the 2007-09 biennium, the Governor's budget reverses these shifts in the Departments of Agriculture, Fish and Wildlife, and Environmental Quality budgets by adding back $6.6 million General Fund to support this work in 2007-09 instead of using PCSRF monies. All PSCRF funding for 2007-09 would be expended by OWEB in the Governor's proposed budget for grants.

Governor's Budget

The Governor's budget for Operations is nearly identical to the 2005-07 legislatively approved levels and 16% higher than the adopted budget for 2005-07. This change from the adopted budget level is due to the addition of $5.1 million PCSRF monies from the FFY 2006 appropriation approved by the Emergency Board in April 2006 and included in the 2005-07 legislatively approved budget, but not the adopted budget. This increase was carried over into the Governor's budget for 2007-09.

The Governor's budget for the Operations program includes the following changes:

- Adds \$7.1 million operations Lottery Funds and \$3.9 million Federal Funds from PCSRF to fund the non-capital grant program for projects not eligible for funding using Measure 66 capital Lottery Funds such as monitoring, watershed education, and technical assistance. This total includes \$2.7 million Lottery Funds which is transferred from the Restoration and Protection Research Fund. This \$2.7 million is statutorily restricted to funding research activities. Traditionally, these expenditures have been included in the Research and Development budget unit, but the Governor's budget transfers them to the Watershed Improvement Operating Fund (WIOF).
- Adds \$3.2 million PCSRF Federal Funds for Watershed Council support grants. This funding, plus \$824,800 Measure 66 operations Lottery Funds in the base budget, brings total state support for Watershed Councils back to the \$4.1 million current service level.
- Uses \$648,967 operations Lottery Funds and \$423,785 Federal Funds from the administrative allowance on PCSRF grants to continue 5 positions and transfer 1 position added last biennium from the Capital program unit to Operations. This proposal makes permanent a Grant Program Manager (PEM E) position added in 2005-07 as limited duration. The package also continues a limited duration Information Systems Specialist 7 position added for database management and development of applications needed to meet federal reporting requirements. Two additional limited duration positions were also continued, an accountant position for processing small grants and an Office Specialist 2 position to provide grant program support. Both positions were funded with the administrative allowance on PCSRF grants. The transferred position from the Capital program validates whether projects are completed as described, functioning as intended, and actually producing the outcomes expected when funded, and helps refine best practices for similar types of restoration projects.
- \$1 million in Measure 66 operations Lottery Funds carry forward expenditure limitation is added for non-capital grants awarded during the 2005-07 biennium that will not be fully paid out until into the 2007-09 biennium.
- Adds \$494,541 Measure 66 operations Lottery Funds to create 4 new positions (4.00 FTE), one of which would be permanent and the others limited duration. The permanent position would be a Natural Resource Specialist 4 who would serve as the OWEB program representative for a new sixth OWEB region, the Columbia Plateau region. In previous biennia, OWEB had divided the state into 5 regions for purposes of the grant program. The limited duration positions funded using Measure 66 Lottery funds include a Natural Resource Specialist 4 to serve as a technical assistance coordinator for grant policy development and a Public Affairs Specialist 2 position to promote awareness of, and participation in, OWEB's grant programs.
- Includes \$138,699 Federal Funds from OWEB's administrative allowance on PCSRF grants to support a limited duration Data Analyst and Information Specialist.

The following table shows the Governor's recommended 2007-09 allocations of all Measure 66 Lottery Funds, including a total of \$32.2 million 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.

2007-09 Measure 66 Lottery Fund Allocations

	M-66 LF Operations	M-66 LF Capital
Available Resources December '06 Lottery Forecast and 2005-07 unallocated	**38,314,530**	**71,860,409**
Department of Fish and Wildlife	3,234,395	5,000,000
OSP/ Fish and Wildlife Enforcement	6,056,880	996,405
Department of Agriculture	7,734,760	5,274,890
Department of Environmental Quality	3,897,947	0
Oregon Watershed Enhancement Board	17,390,528	60,589,114

OWEB – Capital Construction Projects

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Lottery Funds	24,221,497	41,380,000	42,157,841	60,589,114
Federal Funds	0	75,561	75,561	0
Total Funds	**$24,221,497**	**$41,455,561**	**$42,233,402**	**$60,589,114**
Positions	1	1	1	0
FTE	0.38	1.00	1.00	0.00

Program Description

Capital Construction Projects are funded through the Watershed Improvement Grant Fund (WIGF). The WIGF was an existing fund used by the Governor's Watershed Enhancement Board prior to the establishment of OWEB to support on-the-ground projects and other eligible expenditures under the Oregon Plan. With passage of Ballot Measure 66 and its implementing legislation (HB 3225), the funding source for the WIGF changed. Measure 66 required that 65% of the dedicated lottery revenues be used for capital expenditures, but failed to define the term. HB 3225 defined capital expenditures to mean projects that restore, enhance, or protect fish and wildlife habitat, watershed functions, native salmonid populations, or water quality or expenditures for personal property of a nonexpendable nature used in the enforcement of fish, wildlife, and habitat protection laws and regulations.

Revenue Sources and Relationships

The December 2006 lottery forecast assumed $60.6 million Lottery Funds revenue would be generated for the Watershed Improvement Grant Fund (WIGF) in the 2007-09 biennium based on the constitutional split of 65%/35% between capital and operations. In addition to this amount, $11.2 million of Lottery Funds from revenue in excess of the amount included in the close-of-session forecast is projected to remain unallocated at the end of the 2005-07 biennium, and is available for expenditure during the 2007-09 biennium. Inclusion of this carryover amount increases the total Measure 66 Lottery Funds constitutionally dedicated to capital expenditures to $71.8 million.

Of the $71.8 million available for capital expenditures, the Governor's budget provides $60.6 million for grant project funding left to the discretion of OWEB. The remaining $11.2 million is distributed to other agencies, including the Department of Agriculture ($5.2 million) for protection of riparian and wildlife habitat through weed and invasive species control, the Department of State Police ($1 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 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 three grant cycles annually for consideration of capital project funding.

Governor's Budget

The Governor's recommended budget for OWEB Capital Construction Projects totals $60.6 million, an increase of 44% from the 2005-07 approved levels and a 150% increase over 2003-05. This increase is caused by higher forecasts for lottery revenue resulting primarily from the addition of slot games and the inclusion of $4.8 million from the Restoration and Protection Research Fund. These Research Fund monies have never before been included in this program unit. If these Research Fund monies are removed from the capital grant total, the Governor's budget for OWEB Capital Construction Projects would be $55.8 million, for an increase of 32% from the 2005-07 approved levels. OWEB receives six-year capital expenditure limitation for capital Lottery Funds. The Governor's budget also moves 1 limited duration position, $83,555 of Measure 66 operations Lottery Funds, and $82,724 of federal PCSRF monies to the Operations program unit. This position validates whether projects are completed as described, functioning as intended, and actually producing the outcomes expected when funded, and helps refine best practices for similar types of restoration projects.

OWEB – Research and Development

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Lottery Funds	727,210	500,000	1,201,335	0
Total Funds	**$727,210**	**$500,000**	**$1,201,335**	**$0**

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. The Attorney General has advised OWEB that expenditures of interest earned on the WIOF and WIGF are constrained in the same manner as expenditures from each of these funds are constrained. This means only interest on the Operation Fund can be used for expenditures that are not considered to be capital type expenditures of a research project. For example scientific equipment has been funded in the past from interest on the WIGF, but staff time to analyze the data collected using the equipment would have to be paid using interest from Lottery Funds deposited in the WIOF.

Revenue Sources and Relationships

Revenue for the Restoration and Protection Research Fund is derived from interest earnings on the other OWEB funds, including the operating and grant funds. The Governor's budget assumes approximately $2.7 million that can be used for non-capital research and $4.8 million for capital-related research activities will be available in the Fund for research projects in 2007-09.

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.

Governor's Budget

The Governor's recommended budget transfers all money currently in the Research Fund and all anticipated interest on Lottery Funds that would be deposited in the Fund to the Operations and Capital program units for expenditure. Therefore, no expenditures are included in the Governor's budget for the Research and Development program unit. The Governor's budget does transfer $188,723 Measure 66 Lottery Funds from the Research and Development Fund to support 5 positions (1.82 FTE) for continuation of a genetic pedigree study of returning coho in the Rogue River basin. This is an ongoing research project designed to collect DNA from multiple generations of wild and hatchery spawned fish in the system. ODFW has received a series of grants from OWEB, including one in 2005-07, to continue this project. The research project was begun during the 2001-03 biennium.

TRANSPORTATION

Department of Aviation (Aviation) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	15,769,226	6,604,588	6,604,588	7,024,120
Federal Funds	0	10,510,000	10,510,000	9,635,252
Total Funds	**$15,769,226**	**$17,114,588**	**$17,114,588**	**$16,659,372**
Positions	16	16	16	20
FTE	16.00	16.00	16.00	19.34

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.

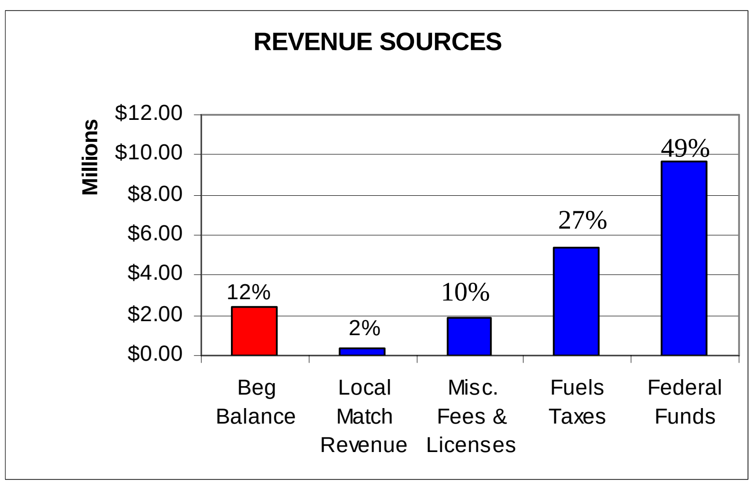
Sixteen staff support five programs: 1) Operations; 2) Search and Rescue; 3) General Aviation Entitlement; 4) Capital Improvements; and 5) Capital Construction. Staff conduct aviation safety and public education programs, safety inspections, and assist local governments with guidance, information, and technical support regarding airport ordinances, layout, land use laws, grant and entitlement programs, pavement management, and airport master plans. In addition, the Department operates 27 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 and Federal Funds. Total estimated revenue for 2007-09 is $19.6 million. The revenue is made up of about 27% fuels tax, 49% Federal Funds, and 12% beginning fund balance, with the remaining 12% 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 $4.5 million for the 2003-05 biennium. Over $5.3 million is projected to be generated in 2007-09, approximately the same level estimated for 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, 8 of which the Department has administered under the GA Entitlement Program since 2003. Eligibility is based on a federal formula; therefore, the state does not have to compete for the funds. The funds provide improvements to airport security, pavement, and lighting and require a 10% match.

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 backlogs. Staff provide 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 4,800 pilots, deducts for administrative costs, and passes the dedicated funds to the Oregon Emergency Management Search and Rescue program. 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.

Governor's Budget

The Governor's recommended budget provides $16.7 million total funds and 19.34 FTE. This represents a decrease of $4.4 million, or 20.9%, from the 2005-07 legislatively approved budget. The recommended budget recognizes a reduction in federal funds and reflects increases of $2.4 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

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	6,466,149	6,010,434	6,010,434	6,467,319
Federal Funds	0	1,260,000	1,260,000	1,260,000
Total Funds	**$6,466,149**	**$7,270,434**	**$7,270,434**	**$7,727,319**
Positions	16	16	16	20
FTE	15.50	15.50	15.50	18.84

Program Description

The Operations Program is responsible for the following three service areas:

- *Airport Services* and *Administration* (8.50 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; registers 6,412 aircraft annually; maintains an aviation lending library; and provides support services The *Airport Services and Administration* unit also manages and provides oversight for more than 300 leases and other property agreements; coordinates tenant relations for state-owned airports; and applies for and administers the Federal AIP grants.
- *Airport Operations* and *Maintenance* (6.34 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. The *Maintenance* unit 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.
- *Aviation Engineering and 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; oversees construction on development projects; 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 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. The 2005 Legislature approved a $1 Other Funds expenditure limitation and concept to partner with the Oregon Military Department (OMD) to co-locate the Department of Aviation Salem Office Building. Subsequently, at its October 2005 meeting, the Emergency Board increased the $1 Other Funds expenditure limitation to $1.9 million for the joint design and construction of a new headquarters in partnership with OMD.

Aviation and OMD worked with Department of Administrative Services (DAS) on a plan to co-locate the two departments at the OMD Salem Airfield Operations Facility. The original plan called for OMD to develop a new facility using a design-build approach and include Aviation as a partner. Due to unforeseen additional costs that could not be absorbed by Aviation, the partnership with OMD was dissolved. Aviation is currently consulting with DAS to develop a stand-alone facility. It is anticipated that construction will start in the fall of 2007 and occupancy in late summer of 2008.

The 2005 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. The Department advises that work on the master plan is expected to be completed in March 2007 and an analysis of use of the Department's aircraft by the end of December 2006.

Governor's Budget

The Governor's recommended budget provides $7.7 million Other Funds and 20 positions (18.84 FTE). This represents a net decrease of $4.7 million, or 37.9%, from the 2005-07 legislatively approved budget. The budget recognizes a reduction of $5 million for one time costs associated with Aviation Improvements funded through Connect Oregon. The recommended budget adds $400,000 Other Funds expenditure limitation and four positions (3.84 FTE) to address the reclassification of a Fiscal Analyst 1 to a Fiscal Analyst 2 and an increase in engineering responsibilities and maintenance at state airports. The remaining increases relate to applying the standard inflation rate for services and supplies and assessments at $50,000 Other Funds expenditure limitation; and cost adjustments for unemployment assessments, pension bond payments, overtime, temporaries, shift differentials, and merit increases of $50,000 Other Funds expenditure limitation.

Aviation – Search and Rescue

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	51,322	107,312	107,312	115,818
Total Funds	**$51,322**	**$107,312**	**$107,312**	**$115,818**
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 the Department of 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 8,153 pilots annually and collecting fees.

Governor's Budget

The Governor's recommended budget provides $115,818 Other Funds expenditure limitation for the Search and Rescue Program. This represents an increase of $6,435, or 5.9%, over the 2005-07 legislatively approved budget. The recommended budget is increased by $2,045 Other Funds expenditure limitation for applying the standard inflation rate of 3.1% for services and supplies; and cost adjustments of $6,461 Other Funds expenditure limitation for unemployment assessments, pension bond payments, overtime, temporaries, shift differentials, and merit increases.

Aviation – General Aviation Entitlement Program

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	4,351,755	486,842	486,842	335,720
Federal Funds	0	9,250,000	9,250,000	6,375,252
Total Funds	**$4,351,755**	**$9,736,842**	**$9,736,842**	**$6,710,972**

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. Beginning in 2003, the Department has awarded 8 General Aviation Entitlement Grants totaling over $10 million.

Governor's Budget

The Governor's recommended budget provides $6.7 million total funds, representing a decrease of $3 million, or 31%, from the 2005-07 legislatively approved budget. The recommended budget recognizes a reduction in the availability of Federal Funds by $2.9 million and phases out $150,000 Other Funds expenditure limitation for local match.

Aviation – Capital Construction

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	4,900,000	0	0	105,263
Federal Funds	0	0	0	2,000,000
Total Funds	**$4,900,000**	**$0**	**$0**	**$2,105,263**

Program Description

The Capital Improvement Program provides for airport improvement projects that are less than $500,000 and can be accomplished in one biennium. The Capital Construction 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 improvements 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 and specification development, and then 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 $34 million in federally eligible projects for the years 2007 through 2013.

Governor's Budget

The Governor's recommended budget proposes $2 million Federal Funds expenditure limitation and $150,000 Other Funds expenditure limitation for realigning the taxiway at the Aurora State Airport.

Department of Transportation (ODOT) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	3,914,616	8,626,167	8,626,167	6,575,313
Lottery Funds	20,903,444	22,162,072	22,819,951	54,777,424
Other Funds	2,381,492,585	2,608,580,793	2,760,310,824	3,376,912,431
Federal Funds	52,388,014	64,780,422	65,054,123	78,148,081
Other Funds (NL)	221,944,075	17,663,632	17,663,632	17,663,632
Total Funds	**$2,680,642,734**	**$2,721,813,086**	**$2,874,474,697**	**$3,534,076,881**
Positions	4,667	4,676	4,687	4,682
FTE	4,559.61	4,562.87	4,568.37	4,559.19

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 $4.5 billion to be collected for 2007-09, $680 million is projected to accrue to other state agencies and local governments, leaving $3.8 billion available for expenditure on transportation programs. The most recent revenue forecast projects gross highway fund collections to increase by about 6.3% from the 2005-07 estimates. Total state motor fuel tax receipts are forecast to increase 3.7%, as the slow, but steady, recovery in Oregon's economy is expected to continue.

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 4.6% 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 2007-09 forecast for all motor carrier activities combined increases by about 2.5% from 2005-07 levels. DMV revenues are forecast to rise 1% in the 2007-09 biennium over 2005-07. The overall outlook is for about 2% annual growth in gross revenues.

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 $8.3 million in the 2007-09 biennium is expected to be available for non-highway uses. These revenues can be used for expenses ineligible for payment from constitutionally restricted Highway Funds.

The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) was enacted August 10, 2005, authorizing federal surface transportation programs for highways, highway safety, and transit for the 5-year period 2005-2009. These funds are received and reported as Other Funds. The total amount of Federal Funds in this category for the 2007-09 biennium is over $783 million. Federal Funds received and reported as federal revenue are grants or direct revenue for specific programs such as transit and rail projects. As a result of congressional action to reauthorize and increase Federal-Aid Highway funding to states, the 2007-09 budget includes a 17.6% increase in Federal Highway funds from the 2005-07 legislatively adopted 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 2010. The 2001 Legislature authorized the sale of $35 million in Lottery Bonds to participate in the South Metro Commuter Rail Project during the 2001-03, 2003-05, and 2005-07 biennia. The bonds were sold in the 2007-09 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 $2.3 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	**2005-07 Estimated**	**2007-09 Governors Recommended Budget**	**Percent of Total Revenue**
Beginning Balance	300,907,864	390,671,234	8.74%
General Fund	8,626,167	6,575,313	0.15%
Federal Revenue	65,401,369	78,646,304	1.76%
Federal Revenues as Other	666,226,444	783,683,649	17.54%
Other Funds:			
Charges for Services	1,955,965	2,180,913	0.05%
Drivers' Licenses	78,474,052	77,933,779	1.74%
Interest Income	16,538,864	15,866,881	0.36%
Lottery Funds	24,046,024	54,767,020	1.23%
Motor Vehicle Fuels Tax	849,415,744	881,471,428	19.73%
Other Licenses and Fees	77,027,003	77,308,491	1.73%
Other State and Federal	19,653,189	18,301,733	0.41%
Revenue Bonds	620,778,383	990,703,607	22.17%
Sales Income	15,611,621	19,811,516	0.44%
Vehicle Licenses	410,637,789	423,323,045	9.47%
Weight Mile Tax & Fees	483,525,332	506,071,428	11.32%
Transportation Operating Account	8,100,000	8,300,000	0.19%
Transfers In (Revenue, etc.)	103,839,663	133,019,557	2.98%
Subtotal Revenues	**3,750,765,473**	**4,468,635,898**	100.00%
Transfers to Other Agencies	(70,638,666)	(71,869,764)	
Transfers to Cities and Counties	(606,240,580)	(607,881,105)	
Revenues Available for Expenditure	**3,073,886,227**	**3,788,885,029**	

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. 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 2007-09 biennium, $813 million in bonds will be issued for bridges and modernization projects.

The agency General Fund component partially funds the Willamette Valley Passenger Rail. The proposed budget reduces the General Fund component by $4.3 million by redirecting revenues from the sale of custom license plates to the support of passenger rail service. 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 continues consolidating the data centers of twelve state agencies, including ODOT. For the 2005-07 biennium, agencies made payments based on a percentage of the costs taken over by the State Data Center. A rate-based charge back model based on usage is expected to be in place for the 2007-09 biennium.

Governor's Budget

The Governor's recommended budget of $3.5 billion total funds is increased $660 million, or 23%, from the 2005-07 legislatively approved expenditure level and includes 4,682 positions (4,559.19 FTE). The budget emphasizes a priority for highway construction projects including $990 million supported by highway user bonds, $784 million from federal revenues, and $33 million from other highway funds for highway construction projects. The budget proposes another $100 million in lottery-backed revenue bonds and $2 million Lottery Funds for related debt service costs to continue an initiative for transportation projects approved by the Legislature for the 2005-07 biennium, 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 budget also includes proposals to respond to mandates outlined by SB 640 (2005) to utilize biometrics in the issuance of driver licenses, permits, and identification cards; respond to requirements of the Federal Real ID Act; study Oregon's freight and passenger rail system; and make significant investments in maintaining and improving the agency's aging infrastructure. The budget continues support for senior and disabled transit operations and equipment and proposes to dedicate certain Other Fund revenues to support the Willamette Valley Passenger Rail program.

ODOT – Highway Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	$1,985,555,942	$2,012,521,884	$2,123,315,637	$2,487,881,730
Total Funds	**$1,985,555,942**	**$2,012,521,884**	**$2,123,315,637**	**$2,487,881,730**
Positions	2,537	2,728	2,647	2,647
FTE	2,476.13	2,674.75	2,597.08	2,597.08

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.

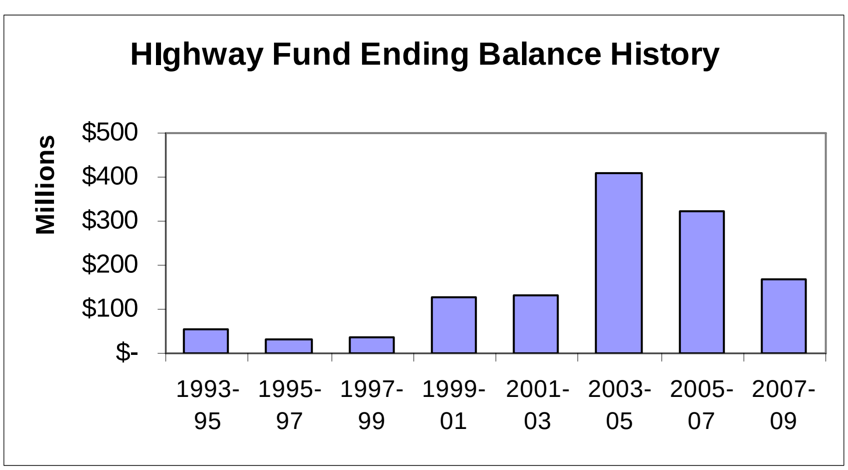
Organizationally, the Highway Division is administered through the five regional offices and the headquarters office. In the past, the agency had completed most engineering and design work in-house while contracting with private companies for the actual construction of projects. During the 2003-05 biennium, 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 2001-03. The 2007-09 recommended budget includes a total of $813 million bond financing for the three OTIA programs; $20 million for OTIA I, $5 million for OTIA II; and $788 million for OTIA III.

Funds	2001-03 Actual	2003-05 Actual	2005-07 Estimated	2005-07 Governor's Recommended
Beginning Balance	$ 131,731,496	411,353,739	245,909,553	324,834,197
Federal as Other	578,997,272	643,917,034	610,972,030	730,558,790
State Other	743,033,733	854,235,501	893,415,722	788,139,251
State Revenue Bonds	226,190,078	321,959,221	587,058,776	813,275,160
Total Funds	**$1,679,952,579**	**$2,231,465,495**	**$2,337,356,081**	**$2,656,807,398**

In addition, the 2005-07 legislatively adopted budget included $294.8 million in highway funds that were unspent in the 2003-05 biennium. Based on history, the ending balance appeared to be building over time which was an indication that current revenue was not being managed aggressively. This indicated 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. Several strategies were initiated by ODOT. Although still significantly higher than the $100 million ending balance target established by ODOT, the agency expended more during the 2005-07 biennium on construction contracts and is now showing a declining ending balance.



Budget Environment

The Highway Division budget includes the portion of the 2006-09 STIP to be expended during the 2007-09 biennium. The STIP encompasses a four-year construction period based on a federal fiscal year; it is updated every two years. The first two years of the STIP contain the updated projects from the previous two years. The last two years include the new projects that are scheduled to begin in those years. The current STIP covers the period 2006-09. A draft 2008-11 STIP has been prepared and is currently in the public review process. Federal regulations require that the STIP include only projects for which the state can reasonably expect adequate funding. The 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. Approximately 43% of these funds have been expended. In addition to OTIA projects, the 2006-09 STIP contains over $1.4 billion in traditionally funded projects and programs. Approximately 71% of the funding for these additional projects ($992 million) comes from federal sources. State highway funds contribute $409 million. In addition, the STIP contains about $284 million Federal Funds for local government projects.

ODOT operates and maintains nearly 8,147 miles of highways in every corner of Oregon. The highway system is as diverse as the state itself. It ranges from six-lane, limited-access freeways with metered entrances to 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 10% of total road and street miles in the state, but carry 61% of the traffic – more than 56 million vehicle miles per day. More people are driving more cars for more miles. Roughly 73% of commuters drive alone to and from work. Congestion is worsening, especially on urban freeways. Despite a 24% increase in miles traveled over the past decade, Oregon's road mileage has grown by only 2%. Oregon's population is also aging. Ensuring mobility for older citizens requires creative transportation solutions, such as more visible pavement markings, traffic signals, and signing. Environmental concerns have prompted many changes to ODOT practices. Often, additional work is required to deliver projects and programs in the most environmentally responsible manner. 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.

Governor's Budget

The Governor's recommended budget of $2.5 billion Other Funds is $364.5 million more than the 2005-07 legislatively approved expenditure level. The budget reflects $361.3 million in increased spending for highway construction projects as a result of scheduled contractor payments to be made during the 2007-09 biennium. Bond proceeds for local bridges and STIP projects are the largest increase in the Highway program budget.

Other increases in the Highway program consist of policy packages totaling $4.6 million. A technical adjustment totaling $8 million reduces the budget to realign positions previously associated with Nonlimited expenditures to more accurately reflect program expenditures. The remaining $6.9 million are for adjustments in salary and merit increases, and applying the standard rate of 3.1% for inflation. Specific budget changes are described in the individual Highway Division program units.

ODOT – Highway/Maintenance and Emergency Relief

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	305,431,756	299,114,039	341,463,633	346,680,769
Total Funds	**$305,431,756**	**$299,114,039**	**$341,463,633**	**$346,680,769**
Positions	1,210	1,406	1,406	1,349
FTE	1,171.00	1,368.90	1,368.90	1,312.36

Program Description

The purpose of the Highway Maintenance and Emergency Relief program is to maintain, repair, and extend the service-life of the 8,147-mile state highway system. Program activities include surface patching and bridge repair; upkeep of roadway shoulders, drainage, landscape, and rest areas; snow removal; sanding of roads; emergency repairs to roadways following natural disasters; and maintenance of ODOT buildings and equipment. Maintenance projects may include the replacement of necessary safety materials (such as road signs), but do not generally include reconstruction. Department personnel perform much of the Highway Maintenance work, in contrast with construction and engineer/design work, which is primarily contracted out to private companies. The ODOT Wireless Group is also supported with Highway Maintenance funds. The Wireless Group performs operational, maintenance, engineering, construction, and customer support work for the ODOT two-way radio and microwave networks, the network wireless LAN infrastructure, and Intelligent Transportation Systems (ITS) wireless support. The Maintenance program also provides testing and inspecting of roadway materials; purchasing equipment and fleet vehicles; repairing equipment in the field and in shops located in Salem, Bend, and La Grande; selling and distributing fuel; operating storerooms; designing and manufacturing signs; and traffic signals.

Budget Environment

ODOT estimates it would need an additional $44 million per year to fully meet maintenance needs. The Highway Maintenance budget has experienced steady upward pressure as Oregon's highways age and the vehicle miles traveled on them increase. The Department routinely surveys all roads, bridges, and connecting surfaces under its maintenance jurisdiction and grades their condition. Increased traffic volume has caused faster than expected deterioration and driven up the costs of maintenance work sites. Inflation in the price of materials used to maintain and preserve the state's roadways is another significant cost driver. New environmental regulations and restrictions require costlier practices and materials. An aging highway system demands larger, more expensive, and more complex maintenance projects. Lacking sufficient funding, roads have not been maintained in the condition called for in the Department's planning statements. Deferring necessary preservation projects further increases future maintenance needs.

Future maintenance costs are estimated on the basis of current expenditures and assume that current maintenance practices will continue into the future. This assumption does not consider the intensification of maintenance activities required by the system's increasing use and age or by catastrophic natural events. Preventive maintenance that would minimize potential damage from natural disasters is restricted by limited resources. The Federal Highway Administration Emergency Relief program supplements state resources in case of damage to the Federal Highway System caused by a natural disaster. Application for these federal funds requires a declaration of emergency by the Governor and damage must generally exceed $700,000 from a single event.

Governor's Budget

The Governor's recommended budget of $347 million Other Funds is $5.2 million more than the 2005-07 legislatively approved expenditure level. The budget does not reflect $29.6 million Other Funds expenditure limitation that is included in the legislatively approved expenditure level for costs associated with emergency relief projects and the compensation plan approved by the Emergency Board. Without regard to the costs associated with the compensation plan, the budget is $47.6 million, or 16%, more than the legislatively approved expenditure level.

The budget includes 1,349 positions (1,312.36 FTE) which are 57 positions (57.00 FTE) less than the 2005-07 legislatively approved position level. The reduction in positions is the result of shifting 57 positions and $6.3 Other Funds to other program areas to more accurately reflect program expenditures. The primary changes are adjustments that reflect a $14 million Other Funds increase to transfer low volume road projects from the Highway Preservation unit to the Maintenance unit; a technical adjustment to add $12.8 million for increased fuel and material costs; increases in employee compensation and merit increases totaling $17.3 million, $10.3 million for inflation and state government service charges; and a $500,000 Other Funds reduction to shift Capital Outlay to the Capital Improvement expenditure limitation.

ODOT – Highway/Preservation

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	302,853,659	231,195,773	280,041,596	242,564,075
Total Funds	**$302,853,659**	**$231,195,773**	**$280,041,596**	**$242,564,075**
Positions	220	220	220	201
FTE	219.75	220.00	220.00	201.00

Program Description

The Preservation program rehabilitates existing roadways and facilities to extend their service life. Preservation projects add useful life to the highway system without increasing capacity. The program strives to conduct resurfacing treatments at the most cost-effective time in the life cycle of a pavement, which typically entails resurfacing at eight- to fifteen-year intervals. This approach allows highways to be resurfaced while they are still in "fair or better" condition and require only relatively thin paving. Costs escalate as road conditions deteriorate into the "poor" category. To sustain the most cost-effective pavement program, the 1999 Oregon Highway Plan established a long-term goal of having 90% of state highway miles in fair or better condition.

Budget Environment

In 1976, the first year pavement condition information was collected by ODOT, Oregon's highways were in poor condition with only 51% of state highway miles rated "fair or better." In 1984, a Preservation program was established in the STIP to improve long-term pavement condition. Pavement condition peaked at 83% "fair or better" in 1993. Conditions then declined to 78% "fair or better" in 1999, as resurfacing costs increased and fewer miles could be treated. For the last ten years, STIP preservation funding has been relatively constant (after adjusting for inflation). Funding from other sources, as well as changes in the manner in which funds are applied, has helped to improve pavement conditions. ODOT altered its preservation strategy for some low traffic volume highways in 1999 by switching to thin, maintenance-only treatments. While these treatments typically have shorter life and must be applied more frequently than conventional preservation treatments, this strategy reduced the resurfacing cost per mile and is largely responsible for improvements in statewide pavement conditions. This improvement is reflected in the 2004 pavement condition rating of 85% "fair or better." However, this improvement is a short-term phenomenon and pavement conditions will decline through 2010 as these thinner treatments wear out. Preservation projects funded with OTIA I and II bond proceeds also improved pavement conditions, although higher volume and higher classification highways did not receive OTIA funds. To make the best use of available funds, preservation treatments over the last several years have primarily focused on highways with lower per-mile resurfacing costs. Keeping up with deteriorating pavement conditions has become increasingly difficult as the Department completed most of these lower cost projects. Highways in poor condition, which need extensive rehabilitation or which require costly upgrades to meet current standards, are typically too expensive to include in the STIP in the current fiscal environment. Many of these highways are in high volume urban areas. Until additional funds become available, these highways will receive only patching and a disproportionate level of maintenance funds will need to be devoted to keeping them drivable.

Governor's Budget

The Governor's recommended budget of $242.6 million Other Funds is $37.5 million less than the 2005-07 legislatively approved expenditure level. The budget does not reflect $48.8 million Other Funds expenditure limitation that is included in the legislatively approved expenditure level for preservation projects approved by the Emergency Board. Without regard to the preservation project expenditures, the budget is $11.4 million, or 5%, higher than the legislatively approved expenditure level.

The budget is adjusted to reflect a reduction of $14.8 million to transfer low-volume road projects to the Maintenance Program unit and to move five positions (5.00 FTE) to the Special Programs unit. The budget adds $19 million for projected timing of contractor payments for STIP projects during 2007-09. The recommended budget adds $6.1 million for inflation and state government service charge assessments and $1.1 million for employee compensation and benefit increases

ODOT – Highway/Bridge

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	402,542,330	533,585,745	534,615,643	932,701,835
Total Funds	**$402,542,330**	**$533,585,745**	**$534,615,643**	**$932,701,835**
Positions	167	150	150	149
FTE	160.79	150.00	150.00	148.50

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.

Governor's Budget

The Governor's recommended budget of $932.7 million Other Funds is $398 million, or 74.4%, higher than the 2005-07 legislatively approved expenditure level. The budget does not reflect $1 million Other Funds expenditure limitation that is included in the legislatively approved expenditure level for costs associated with the compensation plan approved by the Emergency Board. Without regard to the costs associated with the compensation plan, the budget is $399 million, or 75%, higher than the legislatively approved expenditure level.

The budget is adjusted by an increase of $380.5 million Other Funds to reflect anticipated contractor payments in the 2007-09 biennium. The proposed budget also reflects transferring $651,897 Other Funds and three positions (3.00 FTE) to the Highway Special Programs unit resulting from the realignment of resources to accurately reflect program expenditures. 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 $16 million Other Funds, and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases of $3.3 million Other Funds.

ODOT – Highway/Safety

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	44,113,500	54,473,792	54,717,578	52,059,623
Total Funds	**$44,113,500**	**$54,473,792**	**$54,717,578**	**$52,059,623**
Positions	42	38	38	34
FTE	41.75	37.50	37.50	34.00

Program Description

The Highway Safety Program identifies sections of state highway with the highest number of fatal and serious injury crashes and takes steps to improve safety on these roadway segments. ODOT uses a management system called the Project Safety Management System (PSMS) to improve decision-making and safety on Oregon's highways. The Safety Priority Index System (SPIS) is used to identify highway locations with high crash histories. The Safety Investment Program (SIP) prioritizes segments of highway for corrective action based on a history of fatal and serious injury crashes. SIP indicates where safety investments should be incorporated into preservation projects. Crash patterns are analyzed to determine the optimal corrective actions that can be undertaken by the Department, and corrections are selected based on estimated best return. Corrections often include the addition of passing lanes, roadway realignments, turning refuges, shoulder widening, rumble strips, guardrail additions, sign changes, pedestrian islands, or access control measures. Currently, there are over 650 high crash locations identified on the state highway system and approximately 1,540 miles of roadway with a significant number of fatal and severe injury crashes.

Budget Environment

Increases in population have created more traffic, which in turn has created more congestion and, consequently, an increased number of crashes. Highway Safety funds target high crash locations. Corrective actions are often combined with preservation projects, although stand-alone safety projects may address specific crash types or high crash locations. To free up funds for safety improvements in the maximum number of critical areas, preservation projects with no significant history of crashes may be scaled down to minimum design standards.

In 2004, 456 reported traffic fatalities occurred. Oregon's highway death rate has declined to 1.25 people killed per 100 million vehicle miles traveled from 2001's rate of 1.4. The ODOT Safety Division and the Oregon Transportation Commission have set a goal to reduce this fatality rate to 0.99 per 100 million vehicle miles traveled by 2010. This equates to lowering the statewide fatality count to 370 by 2010.

Governor's Budget

The Governor's recommended budget of $52 million Other Funds is $2.6 million, or 4.9%, less than the 2005-07 legislatively approved expenditure level. The budget does not reflect $0.2 million Other Funds expenditure limitation that is included in the legislatively approved expenditure level for costs associated with the compensation plan approved by the Emergency Board. Without regard to the costs associated with the compensation plan, the budget is $2.4 million, or 4.4%, less than the legislatively approved expenditure level.

The budget reflects applying standard inflation rates for services and supplies and state government service charges of $1.4 million Other Funds; cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases of $505,003 Other Funds; and a decrease of $4 million Other Funds to reflect anticipated reduction in contractor payments in the 2007-09 biennium. The budget also reflects transferring $338,308 Other Funds and two positions (2.00 FTE) to the Highway Special Program unit reflecting the realignment of resources to accurately reflect program expenditures.

ODOT – Highway/Operations

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	29,869,516	45,637,976	46,297,830	46,744,382
Total Funds	**$29,869,516**	**$45,637,976**	**$46,297,830**	**$46,744,382**
Positions	116	104	104	150
FTE	114.79	103.04	103.04	147.62

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.

Governor's Budget

The Governor's recommended budget of $46.7 million Other Funds is $446,552, or 1%, more than the 2005-07 legislatively approved expenditure level. The budget does not reflect $657,854 Other Funds expenditure limitation that is included in the legislatively approved expenditure level for costs associated with the compensation plan approved by the Emergency Board. Without regard to the compensation plan costs, the budget is $1.1 million, or 2%, higher than the legislatively approved expenditure level.

The budget reflects a decrease of $9.4 million Other Funds to reflect an anticipated reduction in contractor payments in the 2007-09 biennium and adds 57 positions transferred from other divisions and transfers 9 positions to other divisions reflecting the realignment of resources to accurately reflect program expenditures, increasing the budget by $8.7 million Other Funds and 49.58 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, increasing the budget by $697,726 Other Funds, and adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases of $1.1 million Other Funds.

ODOT – Highway/Modernization

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	238,707,763	453,831,831	454,831,831	396,580,357
Total Funds	**$238,707,763**	**$453,831,831**	**$454,831,831**	**$396,580,357**
Positions	160	157	157	133
FTE	159.25	156.75	156.75	132.50

Program Description

The Highway Modernization program designs and builds highway improvements that add capacity to accommodate current or projected traffic growth. This includes adding traffic lanes for passing, 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. The OTIA added $200 million in 2001 and 2002 and as well as $500 million identified in 2003. In order to meet the 20-year need identified in the Oregon Highway Plan, approximately $390 million per year will need to be provided. While the influx of revenue from OTIA bond proceeds will assist in meeting this need in the short-term, long-term funding levels remain far below what is needed to meet the challenges of providing an adequate transportation infrastructure for Oregon's growing population.

Governor's Budget

The Governor's recommended budget of $397 million Other Funds is $58.2 million, or 12.8%, less than the 2005-07 legislatively approved expenditure level. The budget does not reflect $938,440 Other Funds expenditure limitation that is included in the legislatively approved expenditure level for costs associated with the compensation plan approved by the Emergency Board. Without regard to the costs associated with the compensation plan, the budget is $57.2 million, or 12.6%, less than the legislatively approved expenditure level.

The budget is adjusted by a decrease of $67 million Other Funds to reflect a reduction in anticipated contractor payments in the 2007-09 biennium. The proposed budget also reflects transferring $482,309 Other Funds and three positions (3.00 FTE) to the other Highway divisions, reflecting the realignment of resources to more accurately reflect program expenses. 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 $11.2 million Other Funds and a net reduction in the cost for unemployment assessments, overtime, temporaries, shift differentials, and merit increases of $884,022 Other Funds.

ODOT – Highway/Special Programs

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	162,190,336	175,265,289	191,773,218	204,455,383
Total Funds	**$162,190,336**	**$175,265,289**	**$191,773,218**	**$204,455,383**
Positions	587	618	618	602
FTE	574.28	603.56	603.56	592.10

Program Description

A number of smaller special programs play unique roles in Oregon's Highway Program. Positions associated with these programs are often budgeted in other Highway program areas and reimbursed for services performed in these categories. These payments are in turn used to backfill program staff with contracted work for current services. In activity areas where no FTE are assigned, the work makes up a small portion of the duties for multiple positions, and varies from year to year. Special program activities include:

- *The Oregon Plan for Salmon and Watersheds* identifies how various agencies will restore threatened or endangered salmon species and meet the requirements of the Clean Water Act. Projects include construction of highway culverts, opening tide gates, and other improvements to help fish populations impacted by ODOT projects.
- *Environmental Services* ensures ODOT's compliance with the National Environmental Policy Act and more than forty other environmental laws and regulations covering air quality, acoustics, archaeology, cultural resources, energy, hazardous materials, biology, threatened and endangered species, wetlands, water quality, and visual impacts.
- *The Pedestrian and Bicycle Program (2.00 FTE)* ensures ODOT's compliance with state laws requiring reasonable expenditure of highway funds on footpaths and bicycle trails. The program administers a local assistance grant program for improvements to pedestrian and bike paths.
- *The Winter Recreation Parking Program (7.46 FTE)* oversees snow removal and parking enforcement at designated winter recreation area parking locations. Sno-Park permit sales fund this program.

- *Snowmobile Facilities* develops and maintains snowmobile facilities, including the purchase of land and the enforcement of registration, operation, and equipment requirements. Registration fees and fuel taxes attributed to snowmobile use fund this program.
- *The Surplus Property Unit (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 (53.20 FTE), Materials Testing Lab (22.75 FTE), and Indirect Services (117.27 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 (39.20 FTE)* include Deputy Director and support staff (3.00 FTE) for the Highway program Executive Deputy Director; financial support staff (21.00 FTE) for budget, funds, and grant tracking, financial coordination for regions, report writing, and financial analysis; and headquarters project delivery staff (15.20 FTE) responsible for ensuring efficient and consistent statewide delivery of all transportation projects.
- *Innovative Private Partnerships (4.00 FTE)* develops transportation projects for solicitation of private sector proposals for partnership and to respond to proposals initiated by private firms and units of government.
- *Project Delivery (61.47 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 (15.30 FTE)* performs work related to speed zone studies, signal timing, and traffic investigations, including crash sites.
- *The TripCheck Program* operates and maintains ODOT's traveler information systems, including the TripCheck website, 5-1-1 phone system, and cable TV systems. These systems provide the public with information about road and weather conditions, incidents, construction, restrictions, and closures.
- *Systems Management (138.45 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 (86.00 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.
- *Reimbursables (35.00 FTE)* contains ODOT services that are paid by other parties including damage to structures and outside billings allowing ODOT to bill private citizens and businesses for services provided.

Governor's Budget

The Governor's recommended budget of $204.4 million Other Funds is $12.7 million, or 6.6%, more than the 2005-07 legislatively approved expenditure level. The budget does not reflect $3.9 million Other Funds expenditure limitation that is included in the legislatively approved expenditure level for costs associated with the compensation plan approved by the Emergency Board. Without regard to the costs associated with the compensation plan, the budget is $29.1 million, or 16.6%, more than the legislatively approved expenditure level.

The budget provides $13.1 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 $4.8 million Other Funds; and reflects a reduction of $7.8 million Other Funds to realign 27 positions (25.58 FTE) with other Highway program areas to accurately reflect program expenses. The budget reflects an increase of $1.8 million Other Funds expenditure limitation to reflect anticipated contractor payments in the 2007-09 biennium.

The following policy option packages are proposed in the Governor's recommended budget:

- An increase of $556,960 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.
- An increase of $12.6 million to recognize a variety of reimbursable expenses provided to other state agencies and local governments.
- An increase of $4 million to establish professional services expenditure limitation to allow for the development of an integrated electronic database for all technical and engineering documents necessary to manage the state highway system including continuation of the right-of-way data management initiative, implementation of the electronic engineering document management process, and linking together additional key engineering and technical documents.

ODOT – Highway/Local Government Programs

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	497,893,686	214,899,208	215,048,416	261,203,471
Total Funds	**$497,893,686**	**$214,899,208**	**$215,048,416**	**$261,203,471**
Positions	23	23	23	17
FTE	22.52	23.00	23.00	17.00

Program Description

The purpose of the Local Government Programs unit is to work in a cooperative venture with cities, counties, and regional planning agencies to ensure priority transportation needs are met. ODOT provides federal revenues and reimbursements to local governments for surface transportation, local bridges, congestion mitigation, transportation enhancements, and planning. The Legislature has mandated that a portion of state gas tax revenues be distributed among cities with populations of less than 5,000. ODOT shares a portion of its federal funds with counties and cities outside the Portland metropolitan area with populations greater than 5,000. The Portland metropolitan area receives funding through a separate federal appropriation dedicated to Transportation Management Areas. The program represents only the federal highway funds passed through to local agencies; it does not include the state bond-funded OTIA program.

Budget Environment

Local governments face the same critical transportation issues as the state. Pressure on property taxes and local general funds, combined with flat state funding, have left local communities with fewer resources for transportation. ODOT's Local Government Fund Exchange program allows local governments to exchange $1 of their federal fund allocation for 94 cents in state highway funds. This exchange helps local agencies avoid complicated state and federal contracting regulations and ensures that all federal funds are expended within required timelines. The amount of funds available for exchange is determined annually by ODOT. Local governments may need to accumulate funds over several years to pay for large projects.

Governor's Budget

The Governor's recommended budget of $261.2 million Other Funds is $46.2 million, or 21.4%, more than the 2005-07 legislatively approved budget. The budget does not reflect $149,208 Other Funds expenditure limitation that is included in the legislatively approved expenditure level for costs associated with the compensation plan approved by the Emergency Board. Without regard to the costs associated with the compensation plan, the budget is $46.3 million, or 21.5%, higher than the legislatively approved expenditure level.

The budget is adjusted by an increase of $40.4 million Other Funds to reflect anticipated payments to local governments in the 2007-09 biennium. The proposed budget also reflects transferring $768,196 Other Funds and four positions (4.00 FTE) to the other Highway divisions, reflecting the realignment of resources to more accurately reflect program expenses. 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 $6.5 million Other Funds and a net reduction in the cost for unemployment assessments, overtime, temporaries, shift differentials, and merit increases of $105,675 Other Funds.

ODOT – Utility Permits

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	1,953,396	4,518,231	4,587,452	4,891,835
Total Funds	**$1,953,396**	**$4,518,231**	**$4,587,452**	**$4,891,835**
Positions	12	12	12	12
FTE	12.00	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.

Governor's Budget

The Governor's recommended budget of $4.9 million Other Funds is $304,383, or 6.6%, more than the 2005-07 legislatively approved expenditure level. The budget does not reflect $69,221 Other Funds expenditure limitation that is included in the legislatively approved expenditure level for costs associated with the compensation plan approved by the Emergency Board. Without regard to the costs associated with the compensation plan, the budget is $373,604, or 8%, higher than the legislatively approved expenditure level.

The expenditure limitation is proposed to increase by the standard inflation rate of 3.1%, increasing the budget by $240,817 and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases increasing the budget by $132,787 Other Funds.

ODOT – Driver and Motor Vehicles Services

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	121,150,627	129,927,024	134,377,470	153,585,089
Federal Funds	0	245,934	245,934	519,219
Total Funds	**$121,150,627**	**$130,172,958**	**$134,623,404**	**$154,104,308**
Positions	859	862	873	923
FTE	825.63	826.88	832.38	866.25

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

The role of DMV in providing identity documents is increasing as a result of the escalation in identity theft crimes and the 2001 terrorist attacks. National efforts at uniformity for driver licenses and identity cards will require DMV to be connected to national databases and may require the collection of biometric data on drivers. Both initiatives will require resources not currently funded. Business process changes and computer system enhancements are increasingly driven by federal mandates, largely unfunded from the U.S. Department of Transportation Federal Motor Carrier Safety Act and Department of Homeland Security Real ID Act. The Federal Motor Carrier Safety Act tightens requirements for issuing and suspending commercial driver licenses and increases the requirements for data sharing of driver records between states. The Real ID Act creates national standards for issuing driver licenses and identity cards which will require extensive changes to Oregon's current processes.

In addition, the Legislature adopted SB 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.

Total DMV transactions decreased in Fiscal Year 2005 primarily reflecting the 2003 legislative impacts and are expected to grow slowly over the coming years with a small decline in Fiscal Year 2007. Demographic and economic changes combined with legislative impacts explain most of the variation in total DMV transactions over time.

Governor's Budget

The Governor's recommended budget of $154.1 million total funds is $19.4 million, or 14.5%, more than the 2005-07 legislatively approved expenditure level. The budget does not reflect $4.5 million Other Funds expenditure limitation that is included in the legislatively approved expenditure level for costs associated with the compensation plan approved by the Emergency Board. Without regard to the costs associated with the compensation plan, the budget is $24 million, or 18.3%, higher than the legislatively approved expenditure level.

The budget is adjusted to reflect a reduction of $543,934 total funds for one-time expenditures related to biometric data collection and a grant to electronically verify the validity of Social Security numbers received from applicants for driver licenses.

The budget increases expenditures by $3.6 million Other Funds to establish six permanent positions (4.00 FTE) to continue the conversion for central issuance of driver licenses, permits and identification cards. This expenditure is funded by a $3 transaction fee approved by the 2005 Legislature. An increase of $5.8 million Other Funds is requested to establish 50 permanent positions (29.00 FTE) to meet requirements of the federal Real ID Act. The Act sets minimum standards for state issued driver licenses, permits, and identification cards. A legislative concept is proposed to align Oregon statutes with the new federal law. In addition, $519,219 Federal Funds is proposed to establish a limited duration position for 14 months (0.58 FTE) for a federal grant from the Federal Motor Carrier Safety Administration to implement a 10-year driver history check with other states before issuing a commercial driver license. Approval to apply for the grant was made by the Emergency Board in September 2006. An increase of $1.4 million is proposed to provide resources to replace the individual Automated Testing Devices that are used in DMV field offices. Over 200 machines will be replaced. Also proposed is $432,000 Other Funds to provide resources to move the DMV Beaverton field office to a location that better suits its business needs. The move results in a net rent increase over the current facility.

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 $2.9 million Other Funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases of $9.8 million Other Funds.

ODOT – Motor Carrier Transportation

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	43,075,011	45,834,160	47,575,160	52,093,496
Federal Funds	4,610,460	4,463,932	4,486,105	5,372,359
Total Funds	**$47,685,471**	**$50,298,092**	**$52,061,656**	**$57,465,855**
Positions	319	319	319	317
FTE	319.00	319.00	319.00	317.00

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 91 weigh stations, including six ports-of-entry, and at dozens of portable scale sites. The Division also processes mileage reports and collects highway-use (weight-mile) taxes and fees.

Revenue Sources and Relationships

Revenue from weight-mile taxes, commercial vehicle registrations, and permits provide the primary resources to support this Division. All revenue in excess of the amount required for carrying out the regulatory and safety programs, approximately 89% of revenue collected, is transferred to the State Highway Fund. Over $5.3 million in Federal Funds is projected to be received in the 2007-09 biennium for commercial vehicle safety enforcement efforts under the Motor Carrier Safety Assistance Program (MCSAP). MCTD coordinates the work of the Department of State Police (OSP), which receives $1.6 million of the funds each year, as well as city police, county sheriffs, and county weighmasters who work under non-compensated agreements. The MCSAP program requires a 20% state match, but because current program expenditures contribute to the match there is no financial outlay from the state.

Budget Environment

Increased construction activity around the state requires staff to assist in mitigating travel delays. Staff identify key routes and types of loads that may be operating in/around construction projects, provides feedback regarding clearances for freight loads, helps find detours and alternate routes, and timely communicates project impacts to the trucking industry.

Motor carriers based outside the state are required to obtain a permit and file proof of liability insurance, as well as cargo insurance, if necessary. Oregon also issues an Oregon Weight Receipt and Tax Identifier to each truck subject to the weight-mile tax as a means for reporting tax, for tracking miles over Oregon highways, and verification to fuel providers that the truck is exempt from fuel tax. With passage of SAFETEA-LU, states are prohibited from registering interstate carriers, imposing insurance requirements, and requiring the display of any form of commercial motor vehicle identification on or in the vehicle, except the forms specifically named in the SAFETEA-LU act. Oregon's requirements are not allowed. ODOT plans to introduce a legislative concept to address the statutes that are in conflict that will allow Oregon to participate in a new Unified Carrier Registration System for purposes of verifying that carriers are registered and have proof of insurance on file.

Governor's Budget

The Governor's recommended budget of $57.3 million total funds is $5.2 million, or 10%, more than the 2005-07 legislatively approved expenditure level. The budget does not reflect $1.8 million Other Funds expenditure limitation that is included in the legislatively approved expenditure level for costs associated with the compensation plan approved by the Emergency Board. Without regard to the costs associated with the compensation plan, the budget is $7 million, or 13.9%, higher than the legislatively approved expenditure level.

The proposed budget adds $1.6 million Other Funds to cover transaction fees charged by banks on credit card payments. An increase of $873,440 Other Funds reflects an increase in the availability of federal MCSAP funds. 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 $611,877 Other Funds and $127,235 Federal Funds; and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases of $4 million Other Funds and $53,784 Federal Funds.

ODOT – Transportation Development

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	0	0	0	2,000,000
Other Funds	60,408,004	60,973,814	83,750,016	172,492,827
Federal Funds	156,489	186,248	186,248	208,210
Total Funds	**$60,564,493**	**$61,160,062**	**$83,949,523**	**$174,701,037**
Positions	226	214	214	220
FTE	219.03	207.36	207.36	211.40

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 STIP development process. The STIP is updated every two years with ongoing public, local government, and stakeholder involvement. This program area identifies projects using pavement, bridge, and safety condition assessment tools.
- *Technical Assistance and Coordination (6.79 FTE)* is provided to local governments on periodic comprehensive plan reviews, Transportation System Plan reviews, and to Metropolitan Planning Organizations (MPO), and Area Commissions on Transportation (ACT). This program area also maintains data and shares transportation-related information with federal, state, and local agencies through the Technology Transfer Center.
- *Freight Mobility (4.00 FTE)* collects data to support transportation planning, programming, and policy at the local regional statewide and national levels on freight mobility issues. Staff support the Oregon Freight Advisory Committee.
- *Statewide and Regional Studies (70.50 FTE)* guide and support short- and long-range planning for Oregon's transportation system and administer the statewide Planning and Research Program that directs activities funded by the Federal Highway Administration. The Department adheres to a formal long-term process that produces and periodically updates a long-range strategy reported in the Oregon Transportation Plan (OTP). This program area is responsible for the Department's planning activities that focus on five areas of need: urban mobility, rural accessibility, freight transport mobility, safety, and finance. The goals, policies, and proposed actions are translated into specific projects and activities driving toward an integrated transportation system. Specific construction activities are described in the STIP. Other sources of information and criteria for this process are the federal highway funding authorization, federal clean air, water, and energy acts, state benchmarks, and land use planning goals. Analytical services related to facility planning, transportation system studies, public transit services, and traffic analyses support the planning process.
- *Transportation Analysis and Research (109.11 FTE)* provides policy and economic analysis and forecasting, analyzes initiatives and issues, evaluates transportation needs and solutions, conducts strategic planning, researches new technologies, and coordinates opinion surveys. This program area also manages and analyzes transportation data to support planning, construction and maintenance, resource deployment, and funding allocations. Data collection and analysis include the bridge and pavement management systems, crash data, transportation inventory / classification, mapping / geographic information systems services, and traffic counting.

Revenue Sources and Relationships

General planning activities are funded from state and federal highway funds and federal planning grant moneys. Revenue transfers from the highway program, for example, support highway planning, system studies and monitoring, and data gathering.

Budget Environment

ODOT provides funds each year for local government planning activities including Metropolitan Planning Organization plans (MPO), local Transportation System Plans (TSP), and transportation growth management tools. Population growth is outpacing ODOT planners' abilities to fully participate in both state and local planning processes. Based on the 2000 U.S. Census, MPOs have been established in Corvallis and Bend and Transportation Management Areas (TMAs) have been established in Salem / Keizer and Eugene / Springfield. Transportation system analysis is constantly changing as questions are raised involving the interaction between land use, economics, and transportation.

The program focuses workload on expanding planning and policy matters related to the linkage of transportation and land use, local government transportation system plan reviews, and facility plan reviews. Many local Transportation System Plans are over ten years old and in need of updates. Agency staff and resources will be directed to assist local governments in these plans. The recent re-authorization of SAFETEA-LU includes a number of revisions to planning. The final federal rule making will require interpretation and implementation. SAFETEA-LU established the Center for Transportation Studies, and a National University Transportation Center is housed at Portland State University. ODOT has an opportunity to narrow the gap between needs and resources by leveraging funding through the new University Transportation Center.

Increasing emphasis on freight mobility is reflected in the reauthorization of SAFETEA-LU. The Federal Highway Administration has established an Office of Freight Management and, in conjunction with other U.S. Department of Transportation offices, has created a Freight Professional development program to further support activities of freight shippers, carriers, and other stakeholders.

Governor's Budget

The Governor's recommended budget of $174.7 million total funds is $88.7 million, or 108%, more than the 2005-07 legislatively approved expenditure level. The budget does not reflect $22.8 million Other Funds expenditure limitation that is included in the legislatively approved expenditure level for costs associated with Connect Oregon and the compensation plan approved by the Emergency Board. Without regard to the costs associated with the compensation plan, the budget is $113.5 million, or 185.6%, higher than the legislatively approved expenditure level.

The proposed budget adds $2.2 million Other Funds expenditure limitation to reflect anticipated contractor payments for planning projects in the 2007-09 biennium.

The budget proposes the following policy packages:

- Provides $760,892 Other Funds expenditure limitation to develop an automated asset management system and integrate the process of asset management into ODOT business processes and decisions.
- Proposes $1 million Other Funds to provide resources for preliminary analysis of replacing ODOT's integrated "Transportation Information System Database" and "Features Inventory Database" into one consolidated system.
- Increases $277,061 Other Funds expenditure limitation, establishes two positions, and adds hours to existing staff (2.24 FTE) to address increased workload resulting from addition of specific projects in the federal SAFETEA-LU authorization bill.
- Provides $2 million General Fund to fund a study of Oregon's freight and passenger rail system incorporating the relationship between the state rail network to the regional and national transportation system.
- Increases $102 million Other Funds expenditure limitation to provide resources to continue a multi-modal transportation program initiated in 2005-07 through lottery-backed bond proceeds to be used for improvement projects selected by the Oregon Transportation Commission.

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 $1.4 million Other Funds and $1,491 Federal Funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases of $3.6 million Other Funds and $18,705 Federal Funds. A technical adjustment increasing $253,507 total funds and 1.80 FTE realigns a position to more accurately reflect program expenditures.

ODOT – Public Transit Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	17,581,809	19,860,513	19,909.466	20,902,659
Federal Funds	26,737,756	31,031,412	31,063,263	42,280,040
Total Funds	**$44,319,565**	**$50,891,925**	**$50,972,729**	**$63,182,699**
Positions	14	14	14	15
FTE	13.50	13.50	13.50	15.00

Program Description

The Public Transit Division develops, encourages, and supports the use of transit, ridesharing, walking, bicycling, telecommuting, and other alternatives to driving alone. The Division operates six program areas:

- *General Public Transit (4.34 FTE)* provides general public transportation to rural areas, tribal governments, and cities with populations under 50,000. About 80% of its funds are distributed to cities, counties, other government units, and nongovernmental units through special payments.
- *Inter-city Passenger Development (1.00 FTE)* provides information, technical assistance, and management of grant resources for inter-city bus, rail, and air passenger services that are needed to connect Oregon communities. Emphasis is placed on improving connections between transportation modes and improving travel information systems.
- *Special Needs Transportation Services (4.16 FTE)* provides transportation designed to meet the needs of the elderly and people with disabilities. Programs include: 1) the Special Transportation Fund program distributing state cigarette tax, Environmental Quality Improvement Funds (EQIF), and Non-Highway Fuels Tax funds to local governments for transportation services benefiting elderly and disabled people; and 2) the statewide Elderly Persons and Persons with Disabilities Federal Grant Program, which funds the purchase of vehicles and other equipment for special needs transportation. Staff coordinate efforts with other state agencies, providers, and local government agencies to meet client transportation needs. Training and technical assistance are also provided to staff from small city and rural transit systems.
- *Transportation Demand Management/Transportation Options (1.00 FTE)* provides financial and technical support to rideshare programs throughout the state. The section develops policy and promotes alternatives to driving alone such as carpools, park and ride lots, flexible schedules, parking management, and telecommuting. Targeted information is also provided to commuters, business, and pleasure travelers.
- *Public Transportation Planning (1.00 FTE)* provides statewide transit policy and planning technical assistance and coordinates urban transit planning, local system planning, and multi-modal corridor planning.
- *Division Administration (3.50 FTE)* Defines state transit policies and provides leadership and support for the five program areas.

Revenue Sources and Relationships

The Division receives the majority of its funding from federal sources. There are six Federal Transit Administration Programs from which the state receives formula grants:

- Section 5303 – Metropolitan Planning at approximately $2.6 million per biennium.
- Section 5310 – Elderly Persons and Persons with Disabilities Capital Program at approximately $3.8 million per biennium.
- Section 5311 – Rural and Small Urban Areas Program Grants for approximately $16.7 million per biennium.
- Section 5313b – Statewide Transit Planning at approximately $300,000 per biennium.
- Section 5316 – Job Access Reverse Commute for $1.9 million per biennium.
- Section 5317 – New Freedom Program at approximately $1 million per biennium.
- In addition, the Division receives $16 million in flexible Federal Surface Transportation Program (STP) funds to improve transportation for the elderly and disabled ($7 million), to replace urban buses ($2 million), mass transit ($4 million) and for innovative marketing for transportation options ($3 million).

State funds make up the remaining 33% of the Division's revenue. Public Transit is allocated these funds from three main sources:

- Cigarette Tax – $8.54 million per biennium. Includes 3.45% ($0.02 per pack) apportionment of all moneys received by the Department of Revenue from certain cigarette tax revenues.

- DMV Photo ID – $3.8 million per biennium. Includes any excess fees collected from the distribution of ID cards by the DMV over the cost of running the program. This revenue is passed to local governments to support special needs transportation programs.
- Transportation Operating Fund (TOF) Non-Highway Fuels Tax – $6.2 million per biennium. This includes an apportionment of state tax moneys collected from the sale of fuel for motorized non-highway uses such as lawnmowers, chainsaws, wood chippers, etc. These moneys provide federal fund match for Transportation Demand Management, Special Needs Transportation, and Transportation Planning programs.
- In addition, the Division receives about $200,000 per biennium from interest and the sales of surplus vehicles.

Budget Environment

Challenges for the Division include continued innovation and improvements for public transit services for the elderly, people with disabilities, and rural communities for strengthened accessible public transportation. Oregon's population is growing, with the fastest growing segments of the population including our oldest residents. Providing mobility that continues their opportunity to participate independently in the community helps to defer or avoid the higher costs of additional dependence on support services. Rural communities are particularly affected. In the southern coast area, 27% of the population includes seniors above the age of 65 compared to 12% statewide. By 2015, it is estimated that 15% of the population will be over 65. Oregon's urban traffic congestion is becoming more severe. Oregon's land use and environmental policies challenge the transportation community to provide modern transit alternatives for urban commuters.

Since 1992, public transportation ridership in Oregon has grown 60%, affecting urban and rural areas. This is a success story in meeting public policy goals, but has created pressure on local provider budgets. In addition, this industry is vulnerable to the recent challenges of public security concerns and cost of fuel. When fuel costs rise, there are more people in need of an alternate to their auto use, putting demand on the system to increase trip capacity and hours of service. There is no ongoing dedicated source of state funding to support urban transit systems. In 2003, the Legislature authorized $2 million additional support towards the estimated $18 million annual urban fleet replacement costs.

Aging transit fleets throughout the state continue to need support for replacement vehicles, or the state risks losing the capital infrastructure to operate current services. Current estimates indicate there is a gap of $10 million annually to meet this need. Support to preserve the urban fleet helps providers to maintain service levels and protects the existing public investment in these successful systems. Fuel costs and long-term availability are an issue for the transit industry. Another major challenge for public transportation is pressure to upgrade and provide public transit facilities with security features and appropriate bus maintenance structures. Developing state policy and strategies to provide stable state, federal, and local financial support for planned urban transit system improvements will continue to be an issue.

Governor's Budget

The Governor's recommended budget of $63.2 million total funds is $12.2 million, or 24%, more than the 2005-07 legislatively approved expenditure level. The budget does not reflect $80,804 total funds expenditure limitation that is included in the legislatively approved expenditure level for costs associated with the compensation plan approved by the Emergency Board. The budget increases $10.2 million Federal Funds expenditure limitation and one position (1.00 FTE) to address increased workload resulting from increases in funding for transit grant programs through the federal SAFETEA-LU authorization bill.

The remaining changes in the budget reflect applying standard inflation rates for services and supplies and state government service charges of $782,495 Other Funds and $950,438 Federal Funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases of $259,651 Other Funds and $98,190 Federal Funds, and increases 0.50 FTE as a result of an internal realignment of staff.

ODOT – Rail Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	3,914,616	8,626,167	8,626,167	4,575,313
Other Funds	30,849,757	54,239,700	62,493,128	17,045,102
Federal Funds	10,616,688	15,385,786	15,385,786	15,862,746
Total Funds	**$45,381,061**	**$78,251,653**	**$86,505,081**	**$37,483,161**
Positions	25	24	24	24
FTE	25.50	24.50	24.50	24.00

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 (3.00 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 inspect 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 ($20 million) and state ($49.2 million) revenue. Federal revenues include:

- Federal Railroad Administration (FRA) – $15.8 million. Includes both freight and High Speed Rail Corridor projects as made available by Congress. These project specific funds are used for engineering, design, construction, equipment purchases, and contracts.
- Federal Highway-Railroad Grade Crossing Hazard Elimination Funds (Sec. 130) – $4.2 million. Federal as Other Funds used for crossing safety projects.

State revenues include:

- General Fund – $4.5 million. Partially funds one roundtrip train daily between Eugene and Portland, with continuing service to Seattle and Vancouver, British Columbia, funded by the State of Washington.
- Custom License Plate Fees - $4.3 million is proposed to offset General Fund resources to fund one round trip train between Eugene and Portland.
- Rail Gross Revenue Fee – $2.5 million. Paid by Oregon railroads based on their previous year's gross revenue. Funds can only be spent on rail safety and rail crossing regulations.
- Grade Crossing Protections Account (GCPA) – $1.3 million. Generated from driver license and vehicle registration fees. Used for crossing safety regulation and improvement projects at public railroad crossings.
- Transportation Operating Fund (TOF) Non-Highway Fuels Tax – $1.2 million. Helps fund one round trip train between Eugene and Portland.
- Other biennial revenues include $275,000 from interest, $225,000 from Crossing Blockage Penalties, $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.

Governor's Budget

The Governor's recommended budget of $37.5 million total funds is $49 million, or 57%, less than 2005-07 legislatively approved expenditure level. The budget does not reflect $151,478 Other Funds expenditure limitation that is included in the legislatively approved expenditure level for costs associated with the compensation plan approved by the Emergency Board.

The difference is primarily due to the extension of one-time bond proceed expenditures, reducing the budget $50.5 million related to the South Metro Commuter Rail, and carry-over of expenditure limitation for the Industrial Spur program, the Shortline Railroad Rehabilitation program, and Freight Rail System Upgrade supporting the Amtrak Cascades regional passenger rail service between Eugene and Portland. The budget assumes legislative approval of a legislative concept to dedicate the $25 fee collected for customized vehicle registration plates that is currently supporting roadside litter cleanup to the Passenger Rail Program, increasing Other Funds expenditure limitation by $4.3 million and decreasing General Fund support by $4.3 million.

The remaining changes in the budget reflect applying standard inflation rates for services and supplies and state government service charges of $267,411 General Fund, $475,306 Other Funds, and $476,960 Federal Funds, and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases at a reduction of $261,020 Other Funds and 0.50 FTE as a result of an internal realignment of staff.

ODOT – Transportation Safety Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	8,148,283	9,974,740	10,062,161	13,257,879
Federal Funds	10,234,218	13,410,776	13,617,194	13,875,548
Total Funds	**$18,382,501**	**$23,385,516**	**$23,679,355**	**$27,133,427**
Positions	24	24	24	26
FTE	24.00	24.00	24.00	26.00

Program Description

The Transportation Safety Division advocates transportation safety through statewide education, enforcement, and engineering. Major efforts focus on occupant protection, intoxicated driving, speeding, youthful drivers, pedestrians, bicyclists, motorcyclists, and employers. Safety programs are operated through over 550 safety grants and contracts awarded annually to local agencies, non-profit groups, the private sector, and service providers. The grants use state and federal funds to provide statewide public education and information programs, and reimburse public schools that provide Division-approved driver education programs.

Further duties include the responsibility to:

- organize, plan, and conduct a statewide transportation safety program;
- coordinate general activities and programs of the several departments, divisions, or agencies of the state engaged in promoting transportation safety;
- provide transportation safety information and develop other measures of public information;
- cooperate fully with all national, local, public, and private agencies and organizations interested in the promotion of transportation safety;
- serve as a clearinghouse for all transportation safety materials and information used throughout the state;
- cooperate in promoting research, special studies, and analysis of problems concerning transportation safety; and
- make studies and suitable recommendations to the Legislature concerning safety regulations and laws.

Revenue Sources and Relationships

Approximately 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.

Governor's Budget

The Governor's recommended budget of $27.1 million total funds is $3.5 million, or 14.6%, more than the 2005-07 legislatively approved expenditure level. The budget does not reflect $293,839 total funds expenditure limitation that is included in the legislatively approved expenditure level for a federal grant to establish a driving under the influence of intoxicants treatment court in Clackamas County and costs associated with the compensation plan approved by the Emergency Board. Without regard to the costs associated with the compensation plan, the budget is $3.6 million, or 15.3%, higher than the legislatively approved expenditure level.

The budget adds two positions (2.00 FTE) and increases the Other Funds expenditure limitation by $215,145 to increase support for the Driver Education program. The proposal increases the program from one to three positions and will allow monitoring of approximately 35 providers per year to ensure consistency of the training materials, whether they are following established state guidelines, and to ensure the provider is following their own curriculum guidelines. The increase is funded by the Student Driver Training Fund. A technical adjustment to increase $2.4 million Other Funds reflects increased availability of Federal Funds for OSP's Federal Highway Administration's Workzone Grant program. The budget is reduced by $200,000 Federal Funds for one-time costs associated with a grant for the purchase of a mobilized impaired driving processing center for OSP.

The budget reflects applying standard inflation rates for services and supplies and state government service charges of $361,550 Other Funds and $378,811 Federal Funds and includes cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases of $306,441 Other Funds and $135,961 Federal Funds.

ODOT – Board of Maritime Pilots

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	248,350	208,742	216,118	264,365
Other Funds (NL)	25,411	0	0	0
Total Funds	**$273,761**	**$208,742**	**$216,118**	**$264,365**
Positions	1	1	1	1
FTE	1.00	0.71	0.71	1.00

Program Description

The Board of Maritime Pilots is located within the Department of Transportation budget, but is independent of the agency and the Oregon Transportation Commission. The Board is charged with the regulation, including examining, licensing, and investigating 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.

Governor's Budget

The Governor's recommended budget of $264,365 is $48,247, or 22.3%, more than the 2005-07 legislatively approved expenditure level. The budget does not reflect $7,376 Other Funds expenditure limitation that is included in the legislatively approved expenditure level for costs associated with the compensation plan approved by the Emergency Board.

The budget is increased by $42,200 and 0.29 FTE to restore the one support position to full time. The proposed budget assumes an increase in fees to support the additional hours. The budget applies standard inflationary increases for services and supplies and state government service charges of $3,777 Other Funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases of $9,646 Other Funds.

ODOT – Central Services

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	109,366,993	122,494,616	125,914,199	232,529,015
Federal Funds	32,403	56,334	56,334	29,959
Total Funds	**$109,399,396**	**$122,550,950**	**$125,970,533**	**$232,558,974**
Positions	498	490	490	509
FTE	491.82	472.17	472.17	501.46

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 (32.50 FTE)* accomplishes work through two major program areas. Government Relations is primarily responsible for working with the Oregon Legislature, members of the Oregon Congressional delegation, and local government officials; and for analyzing federal and state laws and rules affecting transportation. The Public Affairs and Employee Communications unit provides information on transportation programs and activities to the public and keeps ODOT's workforce informed about developments affecting their jobs.
- *Central Services Administration (2.50 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 (91.00 FTE)* provides the Department with accounting and financial services including accounting, collections, budget, performance measures, and financial analysis.
- *Human Resources (50.25 FTE)* provides technical advice on personnel, safety and training issues, and manages the Department's human resource systems and processes. Human Resource staff work closely with operating divisions to identify options to meet staffing needs and more efficient ways of doing business.
- *Civil Rights (13.00 FTE)* is charged with administering 12 federal and state regulatory Civil Rights programs and handling compliance issues for the Department.
- *Information Systems (232.21 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.
- *Business Services (69.00 FTE)* provides a variety of services to all ODOT programs including purchasing and contract management, records management, reprographic, and photo video operations.

Revenue Sources and Relationships

Central Services is supported by a combination of direct and indirect charges. Direct charges are applied where the service can be accurately measured, such as in computer charges and Highway Fuel Tax accounting. The bulk of the revenues, however, come from indirect charges that are assessed to each division primarily based upon its number of full-time equivalent positions.

Budget Environment

Workload in Central Services is driven by the workload factors affecting the Department as a whole. This includes factors such as the demographic changes in Oregon's population and economy, implementation of federal appropriation legislation, rapidly changing information technology, and efficient delivery of programs.

Governor's Budget

The Governor's recommended budget of $232.6 million total funds is $106.6 million, or 84.6%, more than the 2007-09 legislatively approved expenditure level. The budget does not reflect $3.2 million total funds expenditure limitation that is included in the legislatively approved expenditure level for costs associated with the compensation plan approved by the Emergency Board. Without regard to the costs associated with the compensation plan, the budget is $110 million, or 90%, higher than the legislatively approved expenditure level.

The proposed budget eliminates $227,555 Other Funds related to expenses no longer required with the migration of data processing activities to the State Data Center. The proposed budget reflects an increase of 32.00 FTE and 32 positions from other programs and adds $9 million Other Funds expenditure limitation shifted from services and supplies of other programs as a result of the realignment of resources to more accurately reflect program expenditures. The budget also adds $231,569 Other Fund expenditure limitation to recognize reimbursable expenses such as aerial photography, video production, publications, graphic design, and general reprographic services that are provided to non-ODOT entities.

The budget includes the following policy packages:

- Adds $153,512 Other Funds expenditure limitation and establishes two permanent positions for ongoing technology support for DMV's implementation of SB 640 relating to the use of biometric technology for identification verification in issuing driver licenses and identification cards.
- Increases $1.8 million Other Funds expenditure limitation and establishes four permanent positions and five limited duration positions (4.71 FTE) in the Information Systems unit to assist DMV in complying with the Federal Real ID Act.
- Increases $6.6 million Other Funds expenditure limitation to develop computer software to replace the financial and human resource systems.
- Adds $75.5 million Other Funds expenditure limitation to provide resources from highway user tax revenue bonds, repaid by Highway Trust Funds, for ODOT's Oregon Wireless Interoperable Network (OWIN) and to comply with Federal Communications Commission mandate that all Land Mobile Radio systems complete transition from broadband to narrowband by January 2013.

The proposed budget applies standard inflationary increases for services and supplies and state government service charges of $11 million Other Funds and $901 Federal Funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases of $6 million Other Funds and reduces 8.42 FTE as a result of an internal realignment of staff.

ODOT – Nonlimited

Debt Service and Loan Fund

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds (NL)	181,958,406	17,663,632	17,663,632	17,663,632
Total Funds	**$181,958,406**	**$17,663,632**	**$17,663,632**	**$17,663,632**

Support Services

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds (NL)	37,890,959	0	0	0
Total Funds	**$37,890,959**	**$0**	**$0**	**$0**
Positions	150	0	0	0
FTE	150.00	0.00	0.00	0.00

Operations

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds (NL)	2,069,299	0	0	0
Total Funds	**$2,069,299**	**$0**	**$0**	**$0**
Positions	14	0	0	0
FTE	14.00	0.00	0.00	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.

Revenue Sources and Relationships

- *Oregon Transportation Infrastructure Bank* (OTIB) remains in the Nonlimited classification. 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.
- *Debt Service* in this program relates to highway construction bonds and is paid from the State Highway Fund. The 2005 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 to a new program "Debt Service" to be combined with Lottery Fund debt service expenditures
- *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. The 2005 Legislature determined that the Nonlimited Support Services program and Nonlimited Operations program do not meet the criteria for Nonlimited authority. The Legislature eliminated the programs transferring the positions to the Highway Maintenance Program where expenditure authority is included in the base budget.

Governor's Budget

The Governor's recommended budget for Nonlimited Loan Fund of $17.7 million is proposed at the same level as the 2005-07 legislatively approved budget level.

ODOT –Debt Service

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Lottery Funds	20,903,444	22,162,072	22,819,951	54,777,424
Other Funds	0	147,754,911	147,754,911	211,978,930
Total Funds	**$20,903,444**	**$169,916,983**	**$170,574,862**	**$266,756,354**

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.

Governor's Budget

The Governor's recommended budget of $266.8 million is $96.2 million more than the 2005-07 legislatively approved budget. The budget reflects an increase of $5.5 million Lottery Funds for debt service on the Governor's proposal to fund another $100 million of lottery-backed bonds for improvement projects of multimodal transportation programs. It also reflects an increase of $6.5 million Other Funds expenditure limitation for debt service on a proposal to fund $75 million in highway user tax revenue bonds for ODOT's share of the statewide Oregon Wireless Interoperable Network (OWIN) and to comply with a Federal Communication Commission's mandate that all Land Mobile Radio system complete transition from broadband to narrowband by January 2013.

The proposed budget includes debt service for the following Lottery bonds:

Lottery Debt Service:		
Westside Light Rail	$19,927,285	Final Payment 5/2010
South Metro Commuter Rail	$ 7,079,263	Final Payment 2/2020
Short Line Infrastructure Assistance	$ 811,035	Final Payment 4/2018
Industrial Rail Spur Infrastructure	$ 1,417,845	Final Payment 4/2025
Connect Oregon	$27,172,034	Final Payment 2/2027
Total Lottery Funds Debt Service	**$54,777,424**	

The proposed budget also includes debt service payments for the following highway construction bonds:

Highway User Tax Revenue Bonds:			
Local Streets Network	2004B	$ 5,641,505	Final Payment 11/2019
OTIA I	2002A	$ 22,293,614	Final Payment 11/2026
OTIA I	2004A	$ 7,762,044	Final Payment 11/2019
OTIA III – Local Bridge	2004A	$ 40,943,588	Final Payment 11/2028
OTIA I & II	2005A	$ 1,854,525	Final Payment 11/2019
OTIA III	2005B	$ 2,664,663	Final Payment 22/2020
OTIA (Fixed Bonds)	2006A	$ 44,855,853	Final Payment 11/2031
OTIA (Variable Bonds)	2006B	$ 7,500,168	Final Payment 11/2026
OTIA (Fixed Bonds – Estimated)	2007A	$ 36,185,754	25 years
OTIA (Variable Bonds – Estimated)	2007B	$ 12,802,393	25 years
OTIA (Fixed Bonds – Estimated)	2008A	$ 14,909,871	25 years
OTIA (Variable Bonds – Estimated)	2008B	$ 6,401,197	25 years
OTIA (Fixed Bonds – Estimated)	2008B	$ 6,523,068	25 years
Certificates of Participation (COPs):			
DMV Building Refunding	1997B	$ 1,640,688	Final Payment 11/2019
Total Other Funds Debt Service		**$211,978,930**	

ODOT – Capital Improvements

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	2,507,809	2,590,689	2,590,689	3,171,000
Total Funds	**$2,507,809**	**$2,590,689**	**$2,590,689**	**$3,171,000**

ODOT – Capital Construction

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	2,600,000	2,200,000	2,200,000	11,710,339
Total Funds	**$2,600,000**	**$2,200,000**	**$2,200,000**	**$11,710,339**

Program Description

The Capital Improvements and Capital Construction program provides for new construction, remodeling, or improvements to facilities subject to the oversight of ODOT.

Revenue Sources and Relationships

Capital activities are funded primarily through transfer of State Highway Funds.

Governor's Budget

The Governors recommended budget for Capital Improvement is $3.2 million, which is $0.5 million more than the 2005-07 legislatively approved expenditure level. The increase is the result of shifting resources from the Highway Maintenance program to Capital Improvements and applying the standard inflationary increases for services and supplies and capital outlay. The proposed budget supports 29 identified facility improvement projects.

The Governor's Capital Construction budget is $11.7 million, which is $11.5 million more than the 2005-07 legislatively approved expenditure level. The Governor proposes $5 million Other Funds for design and construction of a new maintenance facility on ODOT owned property in Baker City and finalizing design for upgrading or replacing facilities at the East Portland Maintenance Site. The budget also proposes providing $4.7 million Other Funds for permits and design in anticipation for renovating the ODOT Headquarters Building in Salem to meet health, safety, seismic and efficiency standards. Actual construction will occur during the 2009-11 biennium, if approved.

CONSUMER AND BUSINESS SERVICES

Board of Accountancy – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	1,418,935	1,473,306	1,515,510	1,642,874
Total Funds	**$1,418,935**	**$1,473,306**	**$1,515,510**	**$1,642,874**
Positions	7	7	7	7
FTE	7.00	7.00	7.00	7.00

Agency Overview

The Board of Accountancy is a seven-member citizen board that licenses and regulates public accountants. The Board administers the examination and licenses individual Certified Public Accountants (CPAs) and Public Accountants (PAs), and their firms. The Board is responsible for investigating complaints, renewing licenses, and monitoring the continuing education of its licensees. A staff of seven administers the Board's programs. The Board currently regulates over 8,500 licensees.

Revenue Sources and Relationships

The Board's Other Funds come primarily from business registration fees, biennial licensing fees, and examination fees. The American Institute of Certified Public Accountants changed the examination from twice a year to a year-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 $1,524,225 for the 2007-09 biennium is $119,000 less than budgeted expenditures. Current information from the Board indicates that projected revenues for the 2005-07 biennium will actually exceed $1.6 million.

Budget Environment

Examination applications and membership have stabilized and Board operating costs are more predictable. The Board expects the base of licensees to remain relatively consistent in the near future. Over the past two biennia, fines have increased as have the frequency and complexity of complaint investigations. This in turn has increased the expenditures for independent third party auditors and Attorney General's services.

Governor's Budget

The Governor's recommended budget contains no additions or reductions to Board programs other than an increase of $50,000 for information technology related work to move the Board's licensing on-line. The budget continues all other Board services and reflects the reduced costs for state services that resulted from changes to internal service agency budgets. The Governor's budget projects an ending balance of $770,150, or approximately eleven months of operational expenses.

Board of Chiropractic Examiners – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	890,126	991,183	1,019,000	1,125,027
Total Funds	**$890,126**	**$991,183**	**$1,019,000**	**$1,125,027**
Positions	5	5	5	5
FTE	4.50	4.50	4.50	4.50

Agency Overview

The mission of the Board of Chiropractic Examiners is to protect and benefit the public health and safety, and promote quality in the chiropractic profession. The Board regulates Doctors of Chiropractic and Certified Chiropractic Assistants through examination, licensing, and disciplinary programs. The seven-member board is appointed by the Governor and composed of five chiropractors and two public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from licensing, application, and examination fees. Revenue in 2007-09 is projected to be 2.3% greater than current biennium estimates and the projected ending cash balance of $341,300 equals approximately seven months of operating costs, or 30% of projected revenue.

In February 2006, the agency administratively established a $52 fingerprinting fee to cover the cost of nationwide criminal background checks for new Doctor of Chiropractic applicants. The recommended budget includes a policy package requesting ratification of this new fee. No other fee increases are anticipated in 2007-09.

Budget Environment

The agency has identified four main activities: public protection (42%); licensing (22%); public and professional information (20%); and board support (16%). The licensee base continues to grow at a steady rate. Between January 2005 and August 2006, Doctors of Chiropractic increased 5% and Certified Chiropractic Assistants increased 13%. Licensee growth creates increased licensing and examination workload, as well as the potential for increased complaint investigations. In June 2005, the agency began transitioning to an annual birth month renewal cycle. The renewal cycle change is expected to stabilize cash flow and workload.

Governor's Budget

The Governor's recommended budget is $106,027, or 10%, greater than the 2005-07 legislatively approved level. Over half of the growth (58%) is for two policy packages totaling $61,960 to address anticipated increases in contested case hearings and merchant fees.

The recommended budget also includes personal services cost increases of $20,270 (3%); an Attorney General rate increase of 14% ($15,960); other inflationary increases totaling $7,837; and a revenue-only policy package requesting ratification of the fingerprinting fee.

Board of Clinical Social Workers – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	493,964	567,514	582,042	680,647
Total Funds	**$493,964**	**$567,514**	**$582,042**	**$680,647**
Positions	3	3	3	4
FTE	2.50	2.50	2.50	3.00

Agency Overview

The mission of the Board of Clinical Social Workers is to protect the citizens of Oregon by setting a strong standard of practice and ethics through the regulation of clinical social workers. The Board oversees a voluntary licensing program for individuals who want to use the title "licensed clinical social worker." The Board is responsible for developing and enforcing ethical standards for licensed individuals; investigating complaints; and disciplining licensed individuals who violate ethical standards, Board rules, or state licensing laws. The seven-member board is appointed by the Governor and composed of four licensed clinical social workers and three public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from application and licensing fees. Other miscellaneous sources include late fees and publication sales. Revenue in 2007-09 is projected to be 13% greater than current biennium estimates due to proposed fee increases needed to fund the recommended budget and maintain an adequate ending cash balance. The fee proposal includes a 50% increase in the application fee, a 25% increase in the Clinical Social Work Associate initial certification fee; a 45% increase in the Licensed Clinical Social Worker initial license fee, and a 7% increase in the Licensed Clinical Social Worker renewal fee. Fees were also increased during the 2003-05 and 2005-07 biennia. The 2007-09 projected ending balance of $175,715 equals approximately six months of operating costs, or 25% of projected revenue.

Budget Environment

The agency has identified two main activities: public protection (30%) and licensing (70%). Increased operating costs continue to exceed the revenue generated by a steady growth in licensees.

Governor's Budget

The Governor's recommended budget is $98,605, or 17%, greater than the 2005-07 legislatively approved level. The majority of the growth (59%) is for two policy packages totaling $57,743 and one position (0.50 FTE). The largest package adds $49,743 and one half-time office specialist position to address workload issues and terminate the agency's reliance on temporary staff. The second package adds $8,000 for increased out-of-state travel for board members.

The recommended budget also includes personal services cost increases of $28,544 (9%); an Attorney General rate increase of 14% ($7,360); other inflationary increases totaling $4,958; and four revenue-only policy packages – one ratifying fee increases anticipated in the 2005-07 adopted budget and three requesting new fee increases.

Construction Contractors Board – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	10,315,217	11,821,224	12,141,281	13,646,145
Total Funds	**$10,315,217**	**$11,821,224**	**$12,141,281**	**$13,646,145**
Positions	61	61	61	65
FTE	60.38	60.38	60.38	63.92

Agency Overview

The Construction Contractors Board (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 new contractors meet statutory pre-licensing educational and testing requirements.

Revenue Sources and Relationships

Approximately 97% of Board resources are expected to be received from contractor licensing and renewal fees. Fees are set by adoption of an administrative rule; effective October 1, 2005 the fee for all new and 2-year renewal licenses was reduced from $295 to $260. The remainder of Board revenue will be from miscellaneous fees and civil penalties. Civil penalty collections do not make up a material portion of revenues, as the agency retains only 20% of the collections, with the remainder transferred to the General Fund. In the past three biennia the amount transferred to the General Fund ranged from $222,762 in 1999-2001 to $468,640 in 2003-05. Transfers of civil penalty collections for the 2005-07 biennium are estimated to be approximately $438,443.

Budget Environment

Essential Construction Contractors Board responsibilities continue to be licensing, enforcement, complaint resolution, and consumer and contractor education. Licensing volume has fluctuated over the past four biennia for various reasons, including the implementation of a business competency test for new contractor applicants in July 2000, a recession that touched Oregon in 2001, and a post-recession construction boom. In July 2000, there were approximately 45,500 licensees, by July 2002 there were 41,700, and July 2006 saw approximately 44,000 licensees. Whether this trend will continue upward through the 2007-09 biennium is unclear. Although the December 2006 forecast by the Oregon Office of Economic Analysis suggests that construction jobs will increase by 10% in 2006, the growth rate will decline by 1.2% in 2007 and increase by 1.3% in 2008. New housing starts have slowed, but the repair and remodeling market for contractors remains active; public works projects are underway or planned in jurisdictions throughout the state. Since the Board licenses business entities, not individuals, it is not certain that the increase in construction jobs translates to a direct increase in licensed contractors, since the jobs could be filled by contractors' employees.

The Board started the 2005-07 biennium with a beginning balance higher than what was anticipated, and more than the six-months of operations revenue that the Legislative Assembly recommended. The October 2005 fee reduction occurred because of an increased rate of licensing and renewal activity. The proposed 2007-09 budget assumes a beginning balance of $4.9 million, which is 59% higher than the beginning balance included in the Board's 2005-07 legislatively adopted budget. Economic volatility in particular continues 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. The 2007-09 budget is based on two assumptions: an average of 385 new licenses will be issued per month, and 80% of contractors whose licenses expire during the biennium will renew.

Allocation of agency resources over the past few biennia has been affected by several factors: 1) increased use of computer-based technology in business processes, and use of the Internet to provide consumer and contractor information; 2) program changes made by legislation that was not introduced on behalf of the agency; 3) goals and expectations of the Legislative Assembly, the public, and stakeholders in meeting performance measures developed for accountability in delivering on the agency's mission; 4) the number and type of enforcement actions pursued by the Board; and 5) the number and complexity of complaints received for dispute resolution services. In the latter case, complaints decreased by approximately 47% between fiscal years 2001-02 and

2005-06 after new requirements were implemented for filing complaints, including a 30-day pre-notice to the contractor and a filing fee paid by the complainant. As a result, the agency shifted three positions from Dispute Resolution Services to the Enforcement program to provide more targeted regulatory investigations, following the July 1, 2006 expiration of the Board's enforcement program using contracted investigators. There is also litigation pending against the agency that may result in costs that would need to be addressed.

Governor's Budget

The Governor's recommended budget is $13,646,145, or 12.3% greater than the 2005-07 legislatively approved level. The majority of the growth (63%) is in five policy packages. The budget adds four positions (4.00 FTE): two limited duration investigator-mediator positions, one limited duration position to coordinate education section activities and materials, and one limited duration position dedicated to collection of civil penalties and money due from contractors to respondents through Dispute Resolution Section processes. Two current positions are reclassified. Personal services expenditures from the packages total $426,787.

Other budget increases are for investigator-mediator staff training ($16,000), in-state travel to cover eight additional regional enforcement "sweeps" ($40,000) and Attorney General costs from additional cases ($32,000), funding for education program publications and presentations ($162,000), and information technology hardware and software replacements ($165,478). The budget reflects standard inflation and agency price list adjustments, however the total for these expenditures is virtually unchanged from the 2005-07 legislatively approved level. The projected ending balance of $3.76 million is approximately six and one-half months of operating revenue, which is within a reasonable range.

Department of Consumer and Business Services (DCBS) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	162,243,778	177,519,614	184,204,305	200,526,723
Other Funds (NL)	334,334,972	442,487,607	443,287,607	448,267,375
Total Funds	**$496,578,750**	**$620,007,221**	**$627,491,912**	**$648,794,098**
Positions	1,076	1,083	1,083	1,079
FTE	1,063.32	1,068.47	1,068.47	1,067.42

Agency Overview

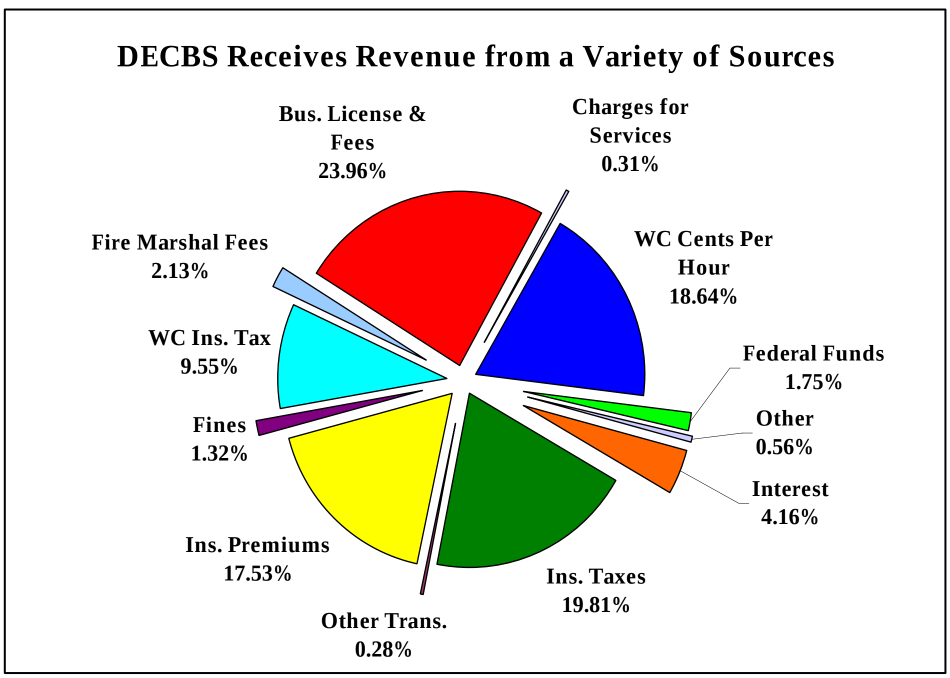
The Department of Consumer and Business Services (DCBS) is organized into four broad program areas that include central administration and three separate consumer-related regulatory functions:

- Shared Services (formerly 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.

Nonlimited Accounts include the Workers' Benefit Fund, Nonlimited reserves and payments for workers' compensation, Funeral and Cemetery Consumer Protection Trust Fund for payments of claims for prearranged funeral and endowment care defaults, and the Oregon Medical Insurance Pool third-party administrator and claim payments.

Revenue Sources and Relationships

Over 500 dedicated fees, assessments, and charges support the operation of the DCBS. The total revenue in the Governor's budget, including policy packages, is projected at $890.2 million. Approximately $181.3 million of that revenue will be transferred to the General Fund. In addition, the Department is responsible for the management of a number of dedicated accounts within four separate operating funds: the Consumer and Business Services Fund; the Workers' Benefit Fund; the Funeral and Cemetery Consumer Protection Trust Fund; and the Oregon Medical Insurance Pool. The pie chart illustrates the variety of revenue sources, as described in detail in the narrative below:



- The Consumer and Business Services Fund is the operating fund for the Department. Revenue sources include the Workers' Compensation Premium Assessment, which supports the workers' compensation-related programs of the Department, business licenses, and assessments and fees that support Building Codes, insurance, finance, and consumer services programs.

- The Workers' Benefit Fund is financed through the Workers' Compensation Cents per Hour assessments paid one-half by employers and one-half by workers. The Workers' Compensation Premium Assessment rate for calendar year 2007 will be 4.6% for insured employers, a drop of 0.9 percentage points from the calendar year 2006 rate of 5.5%. Self-insured employer groups will also see a decrease of 0.9 percentage points from the previous assessment rate of 5.7% for a new assessment rate of 4.8%. This is a 16% reduction in the cost for both insured and self-insured employers. 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, two years of no increase, followed by 3 years of reductions, equaling a 57.4% cut in these costs since 1990 and resulting in cumulative savings of $11.5 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 was set at 6.8% for 2005. As noted above, the rate for insured employers in calendar year 2007 will be 4.6%, a drop of 0.9 percentage points from the calendar year 2006 rate of 5.5%. The assessment rate for self-insured employer groups will be 4.8% in 2007, a decrease of 0.9 percentage points from the previous assessment rate of 5.7%.
- 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 reflected reduced revenue.
- Insurance Taxes 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.

Budget Environment

Workload is driven by factors such as the demographic changes in Oregon's population, the economic climate, changes in business practices including increased use of rapidly changing information technology, and health care needs and reform. This workload has also included, in recent years, absorbing administrative responsibility for a number of agencies, including Building Codes and duties relating to titling and registration of manufactured structures.

The 2005 Legislature approved a budget of $620.8 million total funds, and 1,068.47 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 OMIP program, based on revised Family Health Insurance Assistance Program (FHIAP) estimates.

The 2005-07 budget was 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.

Governor's Budget

The Governor's recommended budget is an increase of $17.8 million Other Funds, and $4.9 million Nonlimited Other Funds, and a decrease of 4 positions (1.05 FTE) from the 2005-07 legislatively approved budget. These adjustments include standard inflation, state government service charges, employee compensation, and policy packages. E-Permitting, which has $4.6 million Other Funds and 13 positions (9.50 FTE), is a roll-out of the statewide regulatory reform and streamlining efforts that the agency has led since 2003. The project involves the implementation of a statewide program that will enable 132 local jurisdictions to participate in electronic construction plan review, permitting, and inspections. The budget also includes a policy package that transfers $25 million in revenue to fund the Governor's planned use of automobile insurance assessments for Department of State Police operations, and would fund DCBS costs related to this program.

The policy packages will be described in detail in the program areas.

DCBS – Shared Services

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	32,959,551	31,354,359	32,445,245	36,770,131
Other Funds (NL)	134,942	260,290	260,290	257,956
Total Funds	**$33,094,493**	**$31,614,649**	**$32,705,535**	**$37,028,087**
Positions	195	169	169	174
FTE	192.13	166.67	166.67	169.67

Program Description

Shared Services provides direction, leadership, and support services to the diverse divisions, offices, and boards within the Department. In addition, the Office of Regulatory Streamlining was established in the Director's Office under Executive Order 03-01 to facilitate state government's efforts to simplify business regulations. The office serves as a clearinghouse for best practices and resources related to streamlining, 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 63% of Division expenditures and establishes DCBS information technology strategy and standards. The unit collects, stores, processes, analyzes, and reports agency information.
- Fiscal and Business Services accounts for 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 1% 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.
- Human Resources is 8% of Division expenditures, and provides human resources support to the agency.

Revenue Sources and Relationships

The Division is primarily funded with Other Funds from revenue transfers within the Department's dedicated funds. Federal Funds of $217,025 from the U.S. Bureau of Labor Statistics and matching funds from Workers' Compensation Premium Assessments fund an annual survey of work-related and fatal injuries. The Department expends Federal Funds as Other Funds.

Budget Environment

Workload in the 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. The Division monitors agency workload and statistics and is working on outcome-measurement reporting.

Governor's Budget

The Governor's recommended budget is an increase of $4.3 million Other Funds and 5 positions (3.00 FTE) above the 2005-07 legislatively approved budget, including standard adjustments for compensation and inflation. The budget includes a portion of E-Permitting at $3.9 million Other Funds and 9 positions (6.00 FTE) to implement a statewide program that will enable 132 local jurisdictions to participate in electronic construction plan review, permitting, and inspections. DCBS plans to purchase a permitting and plan review system, and to phase in the system over a 10-year period. Staffing includes operations and policy analysts, information systems specialists, a research analyst, and a program administrator and support staff. The balance of this package is funded in the Building Codes program. This is a ten-year project that will be funded from a 4% surcharge on all permits sold in Oregon effective January 1, 2008. Through a separate policy bill, DCBS will be requesting authority to assess up to a 5% surcharge on all permits.

DCBS – Workers' Compensation Board

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	16,603,671	17,730,904	18,355,621	18,993,433
Total Funds	**$16,603,671**	**$17,730,904**	**$18,355,621**	**$18,993,433**
Positions	95	100	100	94
FTE	95.00	97.67	97.67	94.00

Program Description

The Workers' Compensation Board is responsible for adjudicating contested Workers' Compensation cases and Oregon Occupational Health and Safety Administration (OR-OSHA) citations, notices, and orders, and for reviewing administrative orders on appeal. The Board 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 Workers' Compensation Insurance Taxes. These taxes, assessed at 4.6% 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 22.50 FTE since 1995-97 (7.50 in 1997-99, 12.00 in 1999-2001, 1.00 in 2001-03, and 2.00 in 2003-05) with a corresponding reduction in the growth of program expenditures. The 2005-07 budget had 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 reflected the cost of substantive legislation that required that workers' compensation hearings be held no later than 120 days 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.

Governor's Budget

The Governor's recommended budget is an increase of $631,812 Other Funds and a decrease of 6 positions (3.67 FTE) from the 2005-07 legislatively approved budget. The reduction in positions reflects the phase-in of the expedited workers' compensation hearing requirement. Adjustments include standard inflation, state government service charges, and employee compensation.

DCBS – Workers' Compensation Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	30,571,995	36,378,737	37,906,713	41,123,955
Other Funds (NL)	2,753,205	3,357,709	3,357,709	3,506,903
Total Funds	**$33,325,200**	**$39,736,446**	**$41,264,422**	**$44,630,858**
Positions	233	264	264	261
FTE	232.50	260.13	260.13	258.00

Program Description

The Workers' Compensation Division administers and enforces the provisions of the workers' compensation insurance coverage law and provides some education and consultative services. The Injured Worker Ombudsman receives, investigates, and resolves workers' compensation complaints. The Small Business Ombudsman assists small businesses in obtaining workers' compensation coverage, intervenes in premium determination problems, and provides educational programs to small businesses.

The Division has five program areas. The Division budget is operationally consolidated, but the estimated costs are distributed among the programs as follows: administration and policy (8%), dispute resolution (32%), compliance (34%), operations (21%), and Workers' Compensation Tax (5%).

Revenue Sources and Relationships

The Division is primarily supported with revenues from Workers' Compensation Insurance Taxes. The Division also receives $6.8 million in interest income as well as $0.8 million in other revenue that includes civil penalties on guaranty contracts. Ombudsman programs are funded with $1.9 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 non-complying employers. The Division's budget and position authority was increased to deal with requirements of the reform. An audit of the functions of the Division conducted in 1998 found that caseload and workload standards, and other performance standards, were appropriate, and that the program was dealing with its workload appropriately.

In 1999-2001, the Evaluation Unit and the Claims Examiner Certification process were eliminated. Hearing officers were transferred to the jurisdiction of the Employment Department as part of the Office of Administrative Hearings to establish a statewide hearings unit. Since 1996, the number of employers and workers in the state has grown by 10.7% and 6.1%, respectively. The number of accepted disabling claims has declined by 30%. Formal disputes over benefits have declined 21.7% and the number of Preferred Worker contracts has declined 61%.

Governor's Budget

The Governor's recommended budget is an increase of $3.2 million Other Funds, and $149,194 Nonlimited Other Funds, and a decrease of 3 positions (2.13 FTE) from the 2005-07 legislatively approved budget. These adjustments include standard inflation, state government service charges, and employee compensation.

DCBS – Oregon Occupational Safety and Health Administration

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	35,107,228	39,331,764	39,905,006	43,273,266
Total Funds	**$35,107,228**	**$39,331,764**	**$39,905,006**	**$43,273,266**
Positions	229	229	229	225
FTE	228.54	229.00	229.00	225.00

Program Description

The Oregon Occupational Safety and Health Administration (OR-OSHA) protects worker health and safety by administering the Oregon Occupational Safe Employment Act and enforcing the Federal Occupational Safety and Health Rules, under an agreement with Federal Occupational and Safety Health Act (OSHA). The main responsibilities are:

- Enforcement of job safety and health laws to assure safe and healthful working conditions for Oregon workers.
- Provision of technical training for employer and employee groups.
- Consultative safety and health services to private and public employers and employees.
- Promulgation of occupational safety and health regulations.

The Division has four program areas: Consultative Services and Education; Enforcement; Program Support; and Administrative Services. Consultative Services is 37% of Division expenses and provides employers with information on OR-OSHA requirements and conducts site visits to assist employers in identifying and correcting possible violations. Enforcement is 43% of Division expenses, and is responsible for inspecting businesses and identifying violations as well as imposing fines and other penalties for violations. The remaining 20% of Division expenses is attributable to Administration and Support Services, which provides services and support to operations.

Revenue Sources and Relationships

Projected 2005-07 revenue for the Division includes Workers' Compensation Insurance Taxes, $12.8 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 2005, the Division conducted 4,890 health and safety inspections, 2,125 safety and health consultations, and trained 26,253 Oregon workers and employers. The Division expects to conduct worker training, consultative and loss prevention services at approximately 22,000 per year. The number of illnesses or injuries per 100 full time workers decreased from 8.7% in 1994 to 6.8% in 1998 to 5.8% in 2004 (the last year for which data was available). This reduction is a goal of the expanded activities by the Division to provide safety and health training and workplace inspections.

The 2001 Legislature approved a budget that was a reduction of $2,717,231 and 19.00 FTE, to reflect the revenue shortfall from the Workers' Compensation Premium Assessment. This included elimination of the Worksite Redesign Program, with a corresponding reduction of $3 million in the Nonlimited budget, and reductions in the enforcement and consultation programs, including a 1% reduction in out of state travel. The 2005-07 budget was an increase of $920,817 Other Funds, and a decrease of 5 positions (3.83 FTE) from the 2005-07 legislatively approved budget.

Governor's Budget

The Governor's recommended budget is an increase of $3.4 million Other Funds, and a decrease of 4 positions (4.00 FTE) from the 2005-07 legislatively approved budget. Adjustments include standard inflation, state government service charges, and employee compensation.

DCBS – Nonlimited Accounts

Workers Compensation	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds (NL)	787,335	731,122	731,122	722,316
Total Funds	**$787,335**	**$731,122**	**$731,122**	**$722,316**

Workers' Benefit Fund	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds (NL)	182,623,551	199,108,232	199,108,232	184,327,050
Total Funds	**$182,623,551**	**$199,108,232**	**$199,108,232**	**$184,327,050**

OMIP Claims / Third Party Adm	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds (NL)	147,907,884	238,813,101	238,813,101	258,603,150
Total Funds	**$147,907,884**	**$238,813,101**	**$238,813,101**	**$258,603,150**

Program Description

This program area reports Nonlimited expenditures out of the Workers' Benefit Fund, the Oregon Medical Insurance Pool (OMIP), and the Workers Compensation NL Accounts, which consists of the Self-Insured Employer Adjustment Reserve and the Self-Insured Employer Group Adjustment Reserve.

Revenue Sources and Relationships

Nonlimited Workers Compensation revenues include:

- Workers' Compensation Assessments and Contributions (cents-per-hour): the current rate is 2.8 cents per hour, reduced from 4 cents per hour in 2000, with a 1.4-cent deduction from employee wages and an equal deduction from the employer, which is dedicated to reserves in the Workers' Benefit Fund. One-sixteenth (1/16) of one cent is dedicated to the Center for Occupational Disease Research at the Oregon Health and Science University. Funds are also transferred to the Bureau of Labor and Industries to support workers' compensation-related investigations in that agency. The remainder is used for workers' compensation benefits.
- Recovered claims cost from non-complying 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 (now known as the Office of Private Health Partnerships, or OPHP) participation in the state's Medicaid / State Health Insurance Program (SHIP) waiver agreements. The agreements allowed OPHP to receive federal match for FHIAP enrollees. Based on the influx of federal dollars, OPHP was able to plan substantial enrollment expansion, which would have included a significant increase to the OMIP population who is served through FHIAP. The initial expansion growth was to bring the FHIAP population to 25,000 members, which would have had a very significant impact on the OMIP population through the agency's Individual subsidy program. OMIP enrollment grew to approximately 14,000 members by the end of 2003-05, and 13,500 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 142%. This is a change to previously lower loss ratios, and more closely reflects the current national experience of 200%. The budget also contains a prudent reserve for extraordinary costs, such as multiple organ transplants, which could affect total expenditures. The OMIP caseload has increased from 6,500 in 1999-2001 to 15,477 in June 2006, primarily as a result of the implementation of the Family Health Insurance Assistance Program (FHIAP). The increase in Nonlimited expenditures reflects that caseload growth.

Governor's Budget

The Governor's recommended budget is a net increase of just over $5 million in the Nonlimited Other Funds in the Nonlimited Accounts, including an increase of $19.8 million in OMIP Claims/Third Party Expenditures based on a projected 2007-09 enrollment increases to over 15,000 and a decrease of $14.8 million in the Workers Benefit Fund resulting from a decrease in the assessment necessary to support the direct payment of benefits to injured workers, while maintaining a prudent fund balance.

DCBS – Insurance

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	14,063,280	15,548,053	16,998,922	18,129,287
Total Funds	**$14,063,280**	**$15,548,053**	**$16,998,922**	**$18,129,287**
Positions	92	93	93	94
FTE	91.00	92.00	92.00	92.50

Program Description

The Insurance Division protects the insurance-buying public by evaluating the financial soundness of insurance companies, the availability and cost of insurance, and the equitable treatment of 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 business license fees, insurance premium assessments, interest earnings, and investment returns. Revenue estimates for 2003-05 included legislative approval of a fee increase from $1,300 to $1,500 for Certificate of Authority annual renewal. The Division receives a federal grant in the amount of $898,617 from the Health Care Financing Administration, which funds a portion of the Oregon Senior Health Insurance Benefits Assistance Program (SHIBA). For 2003-05, after paying operating expenses, $162 million in insurance premium taxes, fines, and interest earnings was transferred to the General Fund for general governmental purposes. In addition, $15.4 million from assessments on fire insurance premiums was transferred to the State Police Fire Marshal program. This transfer is projected at $17.3 million in 2007-09.

Budget Environment

Increases in the complexity of insurance regulations, the demand for disaster insurance, and an aging Oregon population are significant workload factors for the Insurance Division. Information technology has helped the Division to manage this workload.

Governor's Budget

The Governor's recommended budget is an increase of $1.1 million Other Funds and a net increase of 1 position (0.50 FTE) from the 2005-07 legislatively approved budget. Adjustments include standard inflation, state government service charges, and employee compensation, and two policy packages:

- Senior Health Insurance Benefits Assistance program (SHIBA) Transfer, at $825,346 Other Funds and 2 positions (1.50 FTE) to meet workload demands arising from Medicare Part D and complex issues related to coverage and open enrollment. The funding is derived from a transfer of $825,346 General Fund from the Senior Services program in the Department of Human Services.
- 24-Hour Patrol Operations, with a $25 million Other Funds revenue transfer. This package assumes approval of the Governor's planned use of automobile insurance assessments to fund Department of State Police operations, and would fund DCBS costs related to this program.

DCBS – Finance and Corporate Securities

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	9,610,590	10,715,946	11,128,020	11,908,046
Other Funds (NL)	5,645	50,000	50,000	50,000
Total Funds	**$9,616,235**	**$10,765,946**	**$11,178,020**	**$11,958,046**
Positions	64	64	64	64
FTE	64.00	64.00	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 65% of the budget and regulates state-chartered banks, credit unions, savings and loan associations, and related businesses. Corporate Securities is 35% 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 $32.3 million in revenue from annual assessments on financial institution assets and from securities licensing, registration, and examination fees. The Division receives $944,571 from interest earnings. HB 3656, enacted in 2003, raised securities licensing and registration fees for the first time since 1967-1969 to the midpoint of such fees charged by all states. This has increased the biennial transfer to the General Fund from $2,961,493 million in 2001-03 to a projected $19.2 million for 2007-2009.

Budget Environment

A number of factors influence the workload and performance of DFCS. Federal law changes, specifically the passage of the 1999 Gramm-Leach-Bliley Financial Modernization Act, removed barriers to merging financial service providers. Continued expansion of consumer finance businesses (such as payday loans and title loans) creates a greater demand for oversight. Licensed securities broker-dealers are growing in number, the finance and securities field is becoming more globalized, and the use of the Internet for transactions is increasing. All of these changes increase the difficulty of oversight functions and require the Division to continually review program policy. DFCS is addressing these issues through an increase in education and cross training, enhancements in technology, and implementation of state and local partnerships.

In 2005, DFCS oversaw 3,755 registered securities, 117,108 licensed brokers/dealers and salespersons, and 1,314 investment advisor firms. The Securities section conducted 178 securities investigations, took 88 administrative actions, and made 7 criminal referrals. In 2005, DFCS also oversaw 33 state chartered banks, 3 state chartered trust companies, and 23 credit unions with assets worth over $8.4 billion. There were also 631 consumer finance and short-term lenders, 1,116 licensed mortgage bankers/brokers, 648 registered collection agencies, and 47 licensed pawnbrokers.

The 2001 Legislature approved an increase of increase of $1.3 million and 2.99 FTE compared to 1999-2001 estimated expenditures to increase oversight and protection services in the Mortgage Lender program and the transfer of oversight and regulation of pre-need funeral trusts from the Secretary of State to DCBS.

Governor's Budget

The Governor's recommended budget is an increase of $780,026 Other Funds from the 2005-07 legislatively approved budget. Adjustments include standard inflation, state government service charges, employee compensation, and a policy package. At $126,524 and one Financial Examiner position (1.00 FTE), one package allows the licensing and regulation of check cashers to protect consumers. The package would be funded through licensing fees for check cashing operations.

DCBS – Oregon Medical Insurance Pool Administration

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	1,146,370	1,395,307	1,457,095	1,930,187
Total Funds	**$1,146,370**	**$1,395,307**	**$1,457,095**	**$1,930,187**
Positions	8	8	8	9
FTE	8.00	8.00	8.00	9.00

Program Description

The Oregon Medical Insurance Pool (OMIP) is a component of the Oregon Health Plan and ensures access to major medical insurance coverage for Oregon residents who otherwise are unable to obtain medical insurance for health reasons. Portability coverage is also available for eligible individuals. OMIP promotes access to health coverage and administers a third-party administrator contract. A board of directors, consisting of seven citizen members, guides OMIP policy. The OMIP shares its administrator and some staff through an intergovernmental agreement with OPHP.

Revenue Sources and Relationships

OMIP collects assessments from health insurers (generally twice a year, on an as-needed basis depending on expenditure estimates) and collects individual insurance premiums from insured parties. Other Funds revenues include interest earnings. Nonlimited revenues of approximately $258.6 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 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.

Operating expenses for the program continue to remain near 4.6% of program expenditures, resulting in 95.4% of OMIP's budget directly funding health-care expenditures for OMIP enrollees. Enrollee monthly premiums fund about 69% of OMIP expenditures. OMIP assesses Oregon health insurers and stop loss carriers, based on the Oregon residents that they insure, to fund approximately 30%. The remaining 1% of revenue comes from miscellaneous sources, including interest and drug rebates. Premiums are increasing at a rate slightly higher than medical-claim expenditures, making premiums a larger part of total revenue in the 2005-07 biennium than in 2003-05. In 2007-09, OMIP enrollment is projected to exceed 13,000.

Governor's Budget

The Governor's recommended budget is an increase of $473,092 Other Funds and an increase of 1 position (1.00 FTE) from the 2005-07 legislatively approved budget. Adjustments include standard inflation, state government service charges, and employee compensation.

DCBS – Building Codes

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	21,469,393	24,304,258	25,216,278	27,543,248
Other Funds (NL)	122,410	167,153	967,153	800,000
Total Funds	**$21,591,803**	**$24,471,411**	**$26,183,431**	**$28,343,248**
Positions	155	151	151	153
FTE	147.15	146.00	146.00	150.25

Program Description

The Division has statutory authority for the enforcement of laws and codes related to structures and dwellings; manufactured structures; RV parks and tourist facilities; plumbing; elevators; amusement rides; electrical safety;

and boilers and pressure vessels. With assistance from six boards, it develops, adopts, and interprets state wide building codes for residential and commercial construction; oversees the fabrication, installation and repair of boilers and pressure vessels; issues trade professional licenses and construction and operating permits; investigates license and code violations; and provides continuing education for licensees. The Division conducts inspections of recreational vehicles, manufactured homes, and prefabricated structures and components and annually inspects operating elevators. The Division tests and certifies construction inspectors and tests and licenses plumbers and electricians.

In 1999, the Legislature established a tri-county Building Industry Service Board (Washington, Clackamas, and Multnomah Counties) and provided the Division with 3.50 FTE to administer this Board.

Revenue Sources and Relationships

The Division's revenues include:

- $36.3 million from fees for licenses, inspections, and permits, as well as surcharges on fees levied by state and local jurisdictions;
- $264,618 in Federal Funds (expended as Other Funds) to provide consumer assistance to individuals with complaints about manufactured homes and EPA funds for energy efficient manufactured homes certification;
- $943,062 from fines; and
- $2,327,531 in other revenue, including interest earnings.

Budget Environment

By law, the Division is required to provide building codes regulation in areas where the local jurisdictions do not want to provide such service. As the provider of last resort, the Division serves 9% of the population, collects 2% of the fees, and is responsible for 55% of the geographic area in Oregon. HB 2153, passed by the 2001 Legislature, required local jurisdictions to participate in compliance activities. The Division expects most jurisdictions to continue use of the state for processing cases resulting in a projected 21.2% increase in the number of compliance cases.

Governor's Budget

The Governor's recommended budget is an increase of $2.3 million Other Funds and 2 positions (4.25 FTE) from the 2005-07 legislatively approved budget. Adjustments include standard inflation, state government service charges, and employee compensation, and a portion of E-Permitting, at $728,066 Other Funds and 4 positions (3.50 FTE). The package is described in detail in the Shared Services program.

DCBS – Office of Minority, Women and Emerging Small Business

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	711,700	760,286	791,405	855,170
Total Funds	**$711,700**	**$760,286**	**$791,405**	**$855,170**
Positions	5	5	5	5
FTE	5.00	5.00	5.00	5.00

Program Description

The Office of Minority, Women, and Emerging Small Business (OMWESB) certifies small businesses for targeted economic opportunity programs. The Disadvantaged Business Enterprise program aids firms seeking to contract with recipients of federal transportation funds. A business participating in the Minority Business Enterprise or Women Business Enterprise program is certified to contract with state, county, city, and local jurisdictions. The race and gender-neutral Emerging Small Business program certifies small businesses for work on specially designated emerging small business projects. OMWESB maintains an on-line directory of firms certified in these programs. The Office also provides public education on the certification programs and serves as a referral point for information on small businesses.

Revenue Sources and Relationships

The Office receives Other Funds revenue from the Department of Transportation (ODOT) for business certification for federally funded projects and from the Department of Administrative Services (DAS) for assessments to state agencies for certification and outreach services. In 2007-09, OMWESB expects to receive

$637,955 from ODOT, which is 45% of the Office’s funding. The remaining 55% ($792,438) will come from DAS assessments. Funding transferred to the Governor’s Advocate’s Office is anticipated to be $546,000 in 2007-09.

Budget Environment

OMWESB concentrates its efforts on the certification and re-certification process. Effective December 1, 2000, certifications became valid for three years, instead of one. Easing the paperwork burden on certified agencies allows the Office more time to focus on education, directory maintenance, and referral services. In the 2004-05 fiscal year, OMWESB certified 537 new applications and recertified 401 applications.

Governor’s Budget

The Governor’s recommended budget is an increase of $63,765 Other Funds from the 2005-07 legislatively approved budget. Adjustments include standard inflation, state government service charges, and employee compensation.

Board of Licensed Professional Counselors and Therapists – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	498,467	550,168	563,656	742,102
Total Funds	**$498,467**	**$550,168**	**$563,656**	**$742,102**
Positions	3	3	3	4
FTE	2.00	2.00	2.00	3.00

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." The Board also registers interns who 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 in 2007-09 is projected to be 24% greater than current biennium estimates. The agency anticipates continued growth in licensees; no fee increases are planned. The projected ending cash balance of $220,313 equals approximately seven months of operating costs, or 30% of projected revenue.

Budget Environment

The agency has identified three main activities: licensing (48%); consumer protection (38%); and administration (14%). Over the last two years, initial licenses have increased 33% and license renewals have increased 23%. These trends are expected to continue in 2007-09, which will have a direct impact on licensing and consumer protection workloads.

Governor's Budget

The Governor's recommended budget is $178,446, or 32%, greater than the 2005-07legislatively approved level. The majority of the growth (89%) is for seven policy packages totaling $158,495 and one position (1.00 FTE). The largest package adds $100,142 and one position (1.00 FTE) to address anticipated workload growth. The remaining packages include increased travel to double the number of board meetings and attend national conferences; increased contract investigator services; additional office space; replacement of computers and printers; and increased support from the Department of Administrative Services Information Resource Management Division.

The recommended budget also includes personal services cost increases of $5,083 (2%); an Attorney General rate increase of 14% ($9,986); and other inflationary increases totaling $4,882.

Board of Dentistry – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	1,498,398	1,710,028	1,757,952	1,870,184
Total Funds	**$1,498,398**	**$1,710,028**	**$1,757,952**	**$1,870,184**
Positions	7	7	7	7
FTE	7.00	7.00	7.00	7.00

Agency Overview

The mission of the Board of Dentistry is to assure that the citizens of the state receive the highest possible quality oral health care. The Board regulates the practice of dentistry and dental hygiene through examination, licensing, and disciplinary programs. The Board also establishes standards for the administration of anesthesia in dental offices; determines dental procedures that may be delegated to dental assistants; and establishes standards for training and certification of dental assistants. The nine-member board is appointed by the Governor and composed of six dentists, two dental hygienists, and one public member.

Revenue Sources and Relationships

The agency is funded by revenue generated from application, renewal, and permit fees. Other miscellaneous sources include fines for late renewals, civil penalties, and the sale of mailing lists and copies of public records. Revenue in 2007-09 is not expected to exceed current biennium estimates and the projected ending cash balance of $576,332 equals approximately seven months of operating costs, or 35% of projected revenue.

Budget Environment

The agency has identified three main activities: examination and licensing (13%); enforcement and monitoring (46%); and administration (41%). The growth in licensees has remained relatively flat since 2002, while the anesthesia permits and the compliant backlog continue to decline.

Governor's Budget

The Governor's recommended budget is $112,232, or 6%, greater than the 2005-07 legislatively approved level. The recommended budget includes personal services cost increases of $63,354 (6%); an Attorney General rate increase of 14% ($22,983); a 32% increase in State Government Service Charges ($9,555); and other inflationary increases totaling $16,340. There are no policy packages.

Board of Examiners of Licensed Dieticians – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	49,947	69,264	73,747	78,616
Total Funds	**$49,947**	**$69,264**	**$73,747**	**$78,616**
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 and interest income. Revenue in 2007-09 is not expected to exceed current biennium estimates and the projected ending cash balance of $56,199 equals approximately 17 months of operating costs, or 80% of projected revenue.

Budget Environment

The agency has an estimated 400 licensees and has averaged one complaint per year since 2000.

Governor's Budget

The Governor's recommended budget is $4,869, or 7%, greater than the 2005-07 legislatively approved level. The recommended budget includes personal services cost increases of $1,045 (3%); a 31% increase in State Government Services Charges ($3,301) and other inflationary increases totaling $523. There are no policy packages.

Health Licensing Agency – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	4,444,249	4,992,324	5,139,112	6,082,884
Total Funds	**$4,444,249**	**$4,992,324**	**$5,139,112**	**$6,082,884**
Positions	27	27	27	32
FTE	27.00	27.00	27.00	31.40

Agency Overview

The Health Licensing Agency is a consumer protection agency providing centralized regulatory oversight for the following health-related professions:

- Athletic Training
- Body Piercing
- Cosmetology
- Denture Technology
- Electrology
- Environmental Health
- Hearing Aid Specialist
- Midwifery, Direct Entry
- Permanent Color Technician
- Respiratory Therapy
- Tattoo Artist

The agency regulates these professions through examination, licensing, inspection, and disciplinary programs. The boards and councils for the respective professions are responsible for establishing educational and professional scope of practice requirements.

Revenue Sources and Relationships

The agency is funded by revenue generated from application, examination, and license fees. Other miscellaneous sources include civil penalties, late fees, and the sale of supplies. Revenue in 2007-09 is projected to be 8% higher than current biennium estimates and the projected ending cash balance of $1.1 million equals approximately four months of operating costs, or 19% of projected revenue.

The Governor's recommended budget includes a proposal to establish a uniform fee structure for all of the regulated professions. In theory, fees for each profession should be set to recover the estimated cost of regulating that profession. The total cost of regulating all of the professions is represented by the agency's budget. Instead of establishing fees based on true-product cost, the uniform fee proposal (described as a "regulatory streamlining endeavor") creates a licensing fee "pool." Under the uniform fee structure, the cosmetology profession will provide an estimated 95% of the agency's revenue – compared to 75% under the existing fee structure.

Budget Environment

The agency has identified four main activities: licensing (17%); enforcement and complaint investigation (30%); fiscal services (19%); and administrative services (35%). The agency reports a continued reduction in complaints, an increasing facility inspection backlog, and continued growth in licensing records maintained.

Governor's Budget

The Governor's recommended budget is $943,772, or 18%, greater than the 2005-07 legislatively approved level. The majority of the growth (82%) is for three policy packages totaling $775,292 and five positions (4.40 FTE). The largest package adds $473,543 and five positions (4.40 FTE) to address increased licensing and facility inspection workloads. The other two packages provide for information technology initiatives ($295,000) and the reclassification of two positions ($6,749). In addition, there are three revenue-only policy packages – two of which request ratification of fee increases anticipated in the 2005-07 adopted budget and the third implements the proposed uniform fee structure.

The recommended budget also includes personal services cost increases of $210,787 (6%); an Attorney General rate increase of 14% ($10,044); a 35% reduction in State Government Service Charges (-$78,920); other inflationary increases totaling $54,411; and the net phase-out of 2005-07 one-time costs (-$27,842).

Bureau of Labor and Industries (BOLI) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	11,029,548	11,320,999	11,708,250	12,592,154
Other Funds	4,376,519	5,528,430	6,167,486	6,390,413
Federal Funds	1,112,723	1,352,321	1,409,131	1,520,108
Other Funds (NL)	2,454,946	2,268,160	2,287,276	2,338,473
Total Funds	**$18,973,736**	**$20,469,910**	**$21,572,143**	**$22,841,148**
Positions	110	110	111	111
FTE	106.26	108.00	108.38	110.50

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 General Fund. The Bureau will receive an estimated $3.6 million in Other Funds revenues from a fractional percentage (0.03%) of the unemployment taxes paid by employers each year, which 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. The Wage Security Fund will also receive approximately $475,000 from interest earnings and recovery of payments from defaulting employers. The Prevailing Wage Rate program receives $1.8 million in assessments on public works construction contracts; Technical Assistance Fees will generate $1.7 million; contract services with the Department of Consumer and Business Services (DCBS) and several Oregon cities will produce over $982,000; and miscellaneous fees and receipts will provide an estimated $413,500. BOLI contracts with the Equal Employment Opportunity Commission (EEOC) and receives $1.32 million in Federal Funds under this contract and a small amount of funds from the Veterans' Administration (VA). The EEOC funds partially support the costs for civil rights enforcement where federal and state jurisdictions overlap. The VA funding is through a contract with the Apprenticeship and Training Division for approving apprenticeship and on-the-job training programs for veterans.

Budget Environment

The staffing levels were reduced by 32% over the past 12 years, from 159.02 FTE in 1993-95 to the 2005-07 level of 108.00 FTE. The Governor's budget recommendation is 110.50 FTE. Budget reductions occurred at the same time that the Oregon workforce was increasing by approximately 225,000 employees, and when the number and complexity of laws that the agency enforces was also increasing. The budget for the Bureau was essentially flat between 1999-2001 and 2001-03, with gradual increases occurring in the 2003-05 and 2005-07 biennia. The Bureau has dealt with the loss of staffing, and with resources that do not keep pace with inflation, by closing offices, seeking efficiencies in operations, and reducing services. The reduced service levels mean that the Bureau is struggling to meet some of its performance targets.

The workload is primarily driven by the number of complaints received relating to wages and hours worked; terms and conditions of employment; and civil rights in employment, public accommodations, housing and career schools. Issues related to Prevailing Wage Rate, particularly on public-private partnership projects have been a major source of workload growth. Prevailing wage rate investigations fluctuate with changes in Oregon's economy. Apprenticeship registration generally reflects trends in the labor market. These registrations are increasing in 2006.

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; and advocating for the establishment of new apprenticeship programs.

Governor's Budget

The Governor's recommended budget is an increase of $883,904 General Fund, $222,927 Other Funds, and $110,977 Federal Funds (a total increase of 5.9%) over the 2005-07 legislatively approved budget, including policy packages and standard adjustments for inflation, state government service charges, and employee compensation. Due to adjustments in the essential budget, there is no net increase in position authority, but total FTE increased by 2.12 FTE. The budget includes a policy package of $117,191 General Fund and 1 position (1.00 FTE) to restore wage claim and farm labor enforcement and a policy package of $117,191 Other Funds and 1 position (1.00 FTE) in the Prevailing Wage Rate that makes the limited duration position established by the Emergency Board permanent. In addition, the budget includes a new initiative entitled the "Apprenticeship Integration Initiative" at a cost of $102,845 General Fund and $100,000 Other Funds and 1 position (1.00 FTE). This initiative is described in the Apprenticeship and Training program section (below) and is designed to help to encourage public-private training opportunities in apprenticeship trades.

BOLI – Commissioner's Office and Program Support Services

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	3,335,146	3,377,506	3,485,222	3,634,502
Other Funds	1,697,885	1,992,878	2,060,686	2,093,083
Federal Funds	124,185	215,400	223,985	248,857
Total Funds	**$5,157,216**	**$5,585,784**	**$5,769,893**	**$5,976,442**
Positions	27	28	28	27
FTE	26.50	27.50	27.50	27.00

Program Description

The Commissioner's Office and Program Support Services Unit provides overall policy direction and management for the Bureau. The program units are:

- *Commissioner's Office* (4.00 FTE) – This unit combines administration, strategic planning, legal policy, public information, and intergovernmental relations into one activity area.
- *Business Services* (9.00 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 61% 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 over $1.6 million. 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

The overall workload for the agency has remained approximately the same despite a 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. 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 are staffed by the new position, and from the sale of new versions of the Employer Handbooks.

Governor's Budget

The Governor's recommended budget is an increase of $206,549 All Funds compared to the 2005-07 approved budget, including standard adjustments for inflation, state government service charges, and employee compensation. The budget is 0.50 FTE below the 2005-07 approved budget because of a staff reorganization plan.

BOLI – Civil Rights

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	2,420,754	2,512,151	2,598,979	2,712,201
Other Funds	825,280	926,808	970,956	1,036,419
Federal Funds	901,968	1,060,413	1,105,972	1,187,455
Total Funds	**$4,148,002**	**$4,499,372**	**$4,675,907**	**$4,936,075**
Positions	31	31	31	31
FTE	30.00	30.00	30.00	30.50

Program Description

The Civil Rights Division enforces laws that prohibit unlawful discrimination in employment, housing, public accommodation, and career schools. These protections are provided on the basis of: race/color, national origin, sex, religion, 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. 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 $982,000 from OR-OSHA, the Injured Worker Benefit Fund, and small amount of funds from the cities of Beaverton, Bend, Corvallis, Eugene, Lincoln City, Salem, Portland, and Multnomah and Benton Counties for services provided under contract. The workers' compensation Injured Worker Benefit Fund in DCBS provides the majority of these funds ($620,000) to investigate allegations of discrimination against injured workers. Approximately $100,000 in Other Funds miscellaneous revenues will be generated from providing public record copies. The EEOC work-share reimbursement of $540 per case provides $1.32 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 27,044 inquiries in Fiscal Year 2005, and investigates over 2,000 cases per year. Most of these cases relate to discrimination in employment. 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 Fiscal Year 2006, approximately 60% of the civil rights investigations were completed within 180 days, although the statutes allow the agency up to a year to complete the investigations.

Funding for investigation of discrimination complaints against injured workers was shifted from the General Fund to the Injured 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.

Governor's Budget

The Governor's recommended budget is an increase of $113,222 General Fund, $65,463 Other Funds, and $81,483 Federal Funds compared to the 2005-07 approved budget, including standard adjustments for inflation, state government service charges, and employee compensation.

BOLI – Wage and Hour

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	2,964,132	2,914,753	3,013,365	3,427,579
Other Funds	1,853,354	2,608,744	3,135,844	3,160,911
Other Funds (NL)	2,454,946	2,268,160	2,287,276	2,338,473
Total Funds	**$7,272,432**	**$7,791,657**	**$8,436,485**	**$8,926,963**
Positions	34	34	35	35
FTE	32.63	33.50	33.88	35.00

Program Description

The Wage and Hour Division receives claims and complaints from workers involving wages and working conditions, including the minimum wage and overtime, and protects children in the workplace. The Division also enforces regulations pertaining to private employment agencies, conducts surveys and 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 $1.8 million from assessments on public construction contracts for the Prevailing Wage Rate (PWR) program, and $475,000 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 $3.6 million will be received for the Fund in 2007-09 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 relate to unpaid final wages involving businesses that have failed. As noted above, the number of complaints fluctuates with the economy. The remainder involves hours worked and pay rate disputes.

The Bureau notes that the number of General Fund supported staff is not sufficient to process all wage claims in a timely manner. The Labor Commissioner has tried to maintain enforcement of hours worked and pay rate regulations and enforcement of minimum wage claims but the timeliness of investigations has suffered.

The Labor Commissioner had established a goal of completing prevailing wage rate investigations within 90 days. 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 Bureau reported, as directed, to the Joint Legislative Audit Committee (JLAC) on the prevailing wage workload, including individual staff workload. Based on the recommendation of JLAC, the Emergency Board established one limited-duration position based on workload demands. BOLI will also report, as directed by budget note, on the Prevailing Wage Rate Advisory Committee's recommendations on streamlining procedures and reducing the administrative cost for small public works projects.

Governor's Budget

The Governor's recommended budget is an increase of $414,214 General Fund, $25,067 Other Funds and $51,197 Nonlimited Other Funds and no positions (1.12 FTE) above the 2005-07 approved budget, including standard adjustments for inflation, state government service charges, and employee compensation. The budget includes two policy packages:

- $117,191 General Fund and 1 position (1.00 FTE) to restore a wage claim / farm labor enforcement position that was reduced during budget and staff reductions in the 2001-03 and 2003-05 biennia.
- $117,191 Other Funds and 1 position (1.00 FTE) to make the limited duration position established by the Emergency Board permanent.

BOLI – Apprenticeship and Training

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	2,309,516	2,516,589	2,610,684	2,817,872
Other Funds	0	0	0	100,000
Federal Funds	86,570	76,508	79,174	83,796
Total Funds	**$2,396,086**	**$2,593,097**	**$2,689,858**	**$3,001,668**
Positions	18	17	17	18
FTE	17.13	17.00	17.00	18.00

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 General Fund. The Division anticipates receiving a federal grant of over $80,000 from the Veterans' Administration in the 2007-09 biennia for on-the-job training of qualified veterans.

Budget Environment

The Division registered over 2,750 new apprentices in 2006, and maintains a registry of nearly 6,650 apprentices as of July 2006. 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 Division also works with educators and employers to develop youth apprenticeship programs.

The Division conducts compliance reviews for the Oregon State Apprenticeship and Training Council. In Fiscal Year 2006, compliance reviews were completed on 144 of the 180 registered programs. As of July 2006, the Division reported that minority participation was 13.4% and female participation was 5.37%.

Governor's Budget

The Governor's recommended budget is an increase of $207,188 General Fund, a new expenditure of $100,000 Other Funds and an increase of $4,622 Federal Funds compared to the 2005-07 approved budget. These adjustments include standard adjustments for inflation, state government service charges, and employee compensation.

The budget includes $102,845 General Fund and $100,000 Other Funds and 1 position (1.00 FTE) for the Apprenticeship Integration Initiative. The Other Funds will come from the Community Colleges and Workforce Development Department, predominantly from Workforce Investment Act funds. The purpose of this initiative is promotion, outreach, and education work with students, educational institutions, labor groups and employers and to integrate apprenticeship programs with the state workforce development programs. This initiative will begin with one or two pilot projects to involve high school students in learning trades and skills through approved apprenticeship training centers.

Board of Medical Examiners – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	6,315,094	7,054,369	7,267,070	8,691,966
Total Funds	**$6,315,094**	**$7,054,369**	**$7,267,070**	**$8,691,966**
Positions	34	36	36	37
FTE	32.60	34.30	34.30	35.30

Agency Overview

The mission of the Oregon Board of Medical Examiners is to protect the health, safety, and well being of Oregon citizens by regulating the practice of medicine in a manner that promotes quality care. The board is responsible for administering the Medical Practice Act and establishing the rules and regulations pertaining to the practice of medicine in Oregon. The agency licenses Medical Doctors, Doctors of Osteopathy, Podiatric Physicians, Physician Assistants, and Acupuncturists; investigates complaints against licensees and takes disciplinary action when a violation of the Medical Practice Act occurs; monitors licensees who have come under disciplinary action; and works to rehabilitate and educate licensees whenever appropriate. The Board is also responsible for the scope of practice for First Responders and Emergency Medical Technicians. The twelve-member board is appointed by the Governor and composed of seven medical doctors, two doctors of osteopathy, one podiatrist, and two public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from licensure, examination, certification, and registration fees. Other miscellaneous revenue includes the sale of lists and directories, and fines or forfeitures imposed as disciplinary measures. Revenue in 2007-09 is projected to be 3.7% greater than current biennium estimates and the projected ending cash balance of $3.9 million equals approximately 11 months of operating costs, or 53% of projected revenue.

The agency is required by ORS 677.290 to transfer $10 for each in-state registered physician to the Oregon Health and Science University (OHSU) to maintain a medical library. The 2007-09 transfer is estimated to be approximately $200,000.

Budget Environment

The agency has identified five main activities: license services (21%); investigations and compliance (38%); administration (7%); business and technical services (21%); and the Health Professionals Program – dedicated to intervention, rehabilitation, and education for licensees who suffer from substance abuse disorders (13%).

Growth in licensees is projected to be fairly steady at 3% per year, despite a 19% increase in applications between 2004 and 2005. The agency reports an estimated 500 written complaints are received each year – a 17% reduction from the amount reported in 2004. Participation in the Health Professionals Program has increased approximately 4% over the last two years. As of July 2006, there were 92 practitioners being actively monitored and 213 others had either satisfactorily completed the program or had been referred to similar programs in other states.

Governor's Budget

The Governor's recommended budget is $1,424,896, or 20%, greater than the 2005-07 legislatively approved level. The majority of the growth (72%) is for four policy packages totaling $1,026,549 and two positions (1.50 FTE). The largest package adds $493,700 to purchase a new licensing and case management system. The other packages include expansion of the Health Professionals Program to include mental health disorders; increased licensing staff; a 25% increase in the rate paid to physician consultants; an office reconfiguration project; and the establishment of an ongoing public outreach campaign.

The recommended budget also includes personal services cost increases of $228,165 (5%); an Attorney General rate increase of 14% ($63,936); a 21% increase in State Government Service Charges ($28,828); other inflationary increases totaling $68,585; and HB 2490 (2005) implementation costs of $8,833.

Mortuary and Cemetery Board – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	961,296	1,117,605	1,153,567	1,064,292
Total Funds	**$961,296**	**$1,117,605**	**$1,153,567**	**$1,064,292**
Positions	6	6	6	5
FTE	5.75	6.00	6.00	5.00

Agency Overview

The mission of the Oregon Mortuary and Cemetery Board is to protect public health, safety and welfare by fairly and efficiently performing its licensing, inspection, and enforcement duties; by promoting professional behavior and standards in all facets of the Oregon death care industry; and, by maintaining constructive relationships with licensees, those they serve, and others with an interest in the board's activity. The eleven-member board is appointed by the Governor and composed of two funeral service practitioners, one embalmer, three cemetery representatives, one crematory operator, and four public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from application, license, and examination fees; a portion of the death certificate filing fee; civil penalties; and interest income. The agency's current fee structure does not generate enough revenue to support the 2007-09 essential budget level and maintain an adequate ending cash balance. The recommended budget does not include a fee increase.

Budget Environment

The agency regulates individuals and facilities engaged in the care, preparation, processing, transportation, and final disposition of human remains through three main activities: licensing individual death care professionals and the facilities in which they work; performing inspections, complaint investigations, and background investigations on applicants and principals of licensed facilities; and administering the funeral service practitioner and embalmer exams twice a year.

Revenue to support agency operations and maintain an adequate ending cash balance has been on ongoing problem since 2003. The agency has been gradually depleting its cash balance to support operations - despite increasing fees in November 2004. In 2007-09 the combination of the cash balance and projected revenue is not enough to sustain operations. Without a fee increase the agency's only alternative is to reduce expenditures.

Governor's Budget

The Governor's recommended budget is $89,275, or 8%, less than the 2005-07 legislatively approved level. The recommended budget eliminates the agency's licensing specialist position to align the budget with available resources and maintain a minimal ending cash balance of $85,990.

Board of Naturopathic Examiners – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	299,667	382,260	394,365	400,576
Total Funds	**$299,667**	**$382,260**	**$394,365**	**$400,576**
Positions	2	2	2	2
FTE	1.75	2.00	2.00	2.00

Agency Overview

The mission of the Board of Naturopathic Examiners 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, interest income, and the sale of mailing lists and copies of public records. Revenue in 2007-09 is projected to be 18% greater than current biennium estimates and the projected ending cash balance of $265,497 equals approximately 16 months of operating costs, or 58% of projected revenue.

Budget Environment

The agency has identified licensing as its main activity and expects to have an estimated 770 active licensees in 2007-09 – a 10% increase over current biennium estimates.

Governor's Budget

The Governor's recommended budget is $6,211, or 2%, greater than the 2005-07 legislatively approved level. The recommended budget includes one policy package for $10,794 to reclassify the agency's clerical support position. The majority of the reclassification cost is offset by a $9,647 decrease in base personal services costs – the result of the clerical support position being vacant when the budget was developed. The recommended budget also includes an Attorney General rate increase of 14% ($3,717) and other inflationary increases totaling $1,347.

Board of Nursing – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	7,091,311	9,405,198	9,667,662	9,756,845
Total Funds	**$7,091,311**	**$9,405,198**	**$9,667,602**	**$9,756,845**
Positions	43	45	45	44
FTE	42.00	44.25	44.25	41.75

Agency Overview

The mission of the Oregon State Board of Nursing is to safeguard the public's health and well being by providing guidance for, and regulation of, entry into the profession, nursing education, and continuing safe practice. The agency licenses and regulates nurses, nursing assistants, and advanced practice nurses; sets nursing practice standards, guidelines for education programs, and minimum competency levels for entry into the professions; and has the authority to revoke or suspend the license or privilege to practice nursing in the state. The nine-member board is appointed by the Governor and composed of four Registered Nurses, two Licensed Practical Nurses, one Nurse Practitioner, and two public members.

The agency is comprised of four Divisions representing its major programs. The Investigations and Compliance Division investigates complaints regarding violation of the Oregon Nurse Practice Act and recommends disciplinary action to the Board. The Licensing and Certification Division is responsible for all licensing and customer service activities, as well as the training and testing program for certified nursing assistants and certified medication aides. The Practice Consultation and Policy Division reviews nursing education programs; develops policy and rules; and provides specialized expertise with respect to RN/LPN, advanced practice nursing, and nursing assistant program issues. The Central Support Division supports the day-to-day activities of the agency.

Revenue Sources and Relationships

The agency is funded primarily by revenue generated from examination, licensing, and renewal fees charged to registered nurses, licensed practical nurses, nurse practitioners, certified registered nurse anesthetists, clinical nurse specialists, certified nursing assistants, and certified medication aides. The agency also receives Federal Title XVIII (Medicare) and Title XIX (Medicaid) funds through the Department of Human Services (DHS) to fund the Certified Nursing Assistant (CNS) Program. The agency expects to receive approximately $1.5 million from DHS in 2007-09. This revenue source has shown a steady decrease due to lower reimbursement rates from the federal government. This, in combination with higher operating costs, has caused a revenue shortfall for the 2007-09 biennium. The Board has proposed a fee increase to cover the shortfall and provide a minimal ending balance. Revenue projections for 2007-09 include a fingerprinting fee, which is expected to generate approximately $985,500.

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 44,500 registered and licensed practical nurses; 2,770 nurse practitioners, nurse anesthetists, and clinical nurse specialists; and certifies 18,000 nursing assistants (CNA) and medication aides. On average, 700 formal complaints are investigated and 1,500 background investigations are conducted per year. The complaint case backlog has been reduced since early 2005, from approximately 1,800 to 1,600. In 2005, two retired nurse investigators were brought back as temporary employees for six months to focus exclusively on closing cases. In addition, there were two new nurse investigator positions added in 2005 and filled in June 2006. Despite these efforts, the backlog is such that only the most urgent cases (which impact public safety) are in active review, lengthening the time to resolve less urgent cases. 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 two nurse coordinators, provides an alternative to discipline for nurses with substance abuse, physical, or mental health disorders. The number of participants averages around 300.

Governor's Budget

The Governor proposed a budget of $9,756,845 Other Funds, a 0.9% increase from the 2005-07 legislatively approved budget, and 41.75 FTE. The budget projects an ending balance of $671,831 or one and a half months operational expenses. The budget also includes $985,800 in limitation for a fingerprinting fee for new applicants; $662,800 of the amount is from the 2005-07 biennium and has not been used. The Board seeks an additional $194,000 for an anticipated increase in the volume of fingerprints sent to the Department of State Police. This program for background checks has not currently been implemented.

The budget includes $100,000 Other Funds to offset costs of the Certified Nursing Assistants (CNA) program. These funds originate as General Fund in the Department of Human Services' budget and are transferred to the Board of Nursing. The Legislative Fiscal Office is unsure why the funds were not included directly in the Board of Nursing budget. The fees charged to CNA's are currently limited by statute and legislation will need to be introduced for the Board to increase fees charged to CNA's above the current limit. The Board has also proposed a $20 fee increase to the fees charged to registered nurses and licensed practical nurses to cover the projected revenue shortfall and to add additional staff recommended by an outside auditor to help with investigations and compliance.

Board of Examiners of Nursing Home Administrators – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	180,729	201,982	209,162	223,518
Total Funds	**$180,729**	**$201,982**	**$209,162**	**$223,518**
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, interest income, and the sale of mailing lists and copies of public records. Revenue in 2007-09 is projected to be 2% greater than current biennium estimates and the projected ending cash balance of $66,013 equals approximately seven months of operating costs, or 33% of projected revenue.

Budget Environment

The agency has identified two main activities: licensing (91%) and enforcement (9%). There are approximately 360 licensees – of which roughly half are considered inactive. The agency's workload appears fairly stable, with nominal growth projected for 2007-09.

Governor's Budget

The Governor's recommended budget is $14,356, or 7%, greater than the 2005-07 legislatively approved level. The recommended budget includes personal services cost increases of $11,113 (8%); an 11% increase in State Government Service Charges ($1,812); and other inflationary increases totaling $1,431. There are no policy packages.

Occupational Therapy Licensing Board – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	200,096	269,139	276,925	290,133
Total Funds	**$200,096**	**$269,139**	**$276,925**	**$290,133**
Positions	1	1	1	1
FTE	1.25	1.25	1.25	1.25

Agency Overview

The mission of the Occupational Therapy Licensing Board is to protect the public by supervising occupational therapy practice; and to assure safe and ethical delivery of occupational therapy services. The Board sets the standards of practice and examines applicants for licensure, issues licenses to qualified applicants, investigates complaints, and takes appropriate disciplinary action when necessary. The five-member board is appointed by the Governor and composed of three occupational therapists and two public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from license fees and other miscellaneous sources including limited permits, late fees, interest income and the sale of mailing lists and copies of public records. Revenue in 2007-09 is projected to be 12% greater than current biennium estimates and the projected ending cash balance of $331,005 equals approximately 27 months of operating costs, or 100% of projected revenue. The agency will conduct analysis during 2007 to determine whether or not fees should be reduced for the May 2008 biennial renewal cycle.

Budget Environment

The agency has identified four main activities: licensing (40%); continuing education monitoring (10%); compliant investigation (25%); and administration (25%). The agency expects to have an estimated 1,600 licensees in 2007-09 – a 9% increase over current biennium estimates and a 23% increase over 2003-05 actuals. Compliant investigation workload appears relatively stable, averaging six complaints per year for the last three years.

Governor's Budget

The Governor's recommended budget is $13,208, or 5%, greater than the 2005-07 legislatively approved level. The recommended budget includes personal services cost increases of $7,631 (5%); an Attorney General rate increase of 14% ($2,447), a 7% increase in State Government Service Charges ($1,339); and other inflationary increases totaling $1,791. There are no policy packages.

Board of Pharmacy – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	2,977,555	3,604,033	3,714,707	4,134,117
Federal Funds	0	0	50,000	340,000
Total Funds	**$2,977,555**	**$3,604,033**	**$3,764,707**	**$4,474,117**
Positions	16	18	18	22
FTE	16.50	17.50	17.50	20.50

Agency Overview

The mission of the Board of Pharmacy is to promote, preserve, and protect the public health, safety, and welfare by ensuring high standards in the practice of pharmacy and by regulating the quality, manufacture, sale and distribution of drugs. The agency licenses pharmacists by examination or through reciprocity with other states; registers and inspects hospital and retail pharmacies, drug wholesalers and manufacturers, and over-the-counter drug outlets; investigates drug diversion and rule violations; and regulates the quality and distribution of controlled substances, prescription, and over-the-counter drugs within the state. The seven-member board is appointed by the Governor and composed of five pharmacists and two public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from license, registration, and examination fees. Other Funds revenue in 2007-09 is projected to be 18% greater than current biennium estimates and the projected ending cash balance of $988,770 equals approximately six months of operating costs, or 26% of projected revenue. The Governor's recommended budget also includes $340,000 of U.S. Department of Justice grant funds to develop a prescription drug monitoring program.

Budget Environment

The agency has identified five main activities: licensing and examination (18%); compliance (53%); operations (21%); administration (5%); and the Pharmacy Recovery Network – monitoring chemically dependant pharmacists (3%). Although there has been little growth in licensees over the last two years, the agency reports an increase in licensing and compliance workload, due in part to the implementation SB 512 (2005) which requires pharmacy technicians to be licensed and thereby subject to disciplinary action by the Board. In addition, the agency reports that the number and complexity of consumer complaints continues to increase.

Governor's Budget

The Governor's recommended budget is $709,410, or 19%, greater than the 2005-07 legislatively approved level. The majority of the growth (60%) is for two policy packages totaling $425,958 and four positions (3.00 FTE). The largest package adds $300,000 Federal Funds and two positions (2.00 FTE) to develop a prescription drug monitoring program. The second package adds $125,958 Other Funds and two part-time positions (1.00 FTE) to address increased licensing and compliance workload and appropriately classify four positions.

The recommended budget also includes personal services cost increases of $235,682 (9%); an Attorney General rate increase of 14% ($19,866); a 16% increase in State Government Service Charges ($20,645); and other inflationary increases totaling $7,259.

Board of Psychologist Examiners – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	572,351	701,432	720,720	864,027
Total Funds	**$572,351**	**$701,432**	**$720,720**	**$864,027**
Positions	4	3	3	3
FTE	3.00	3.00	3.00	3.00

Agency Overview

The mission of the Board of Psychologist Examiners is to protect the health, safety, and well-being of Oregon citizens by regulating the practice of psychology in a manner that promotes quality care. The Board determines qualifications, examines, and licenses individuals to practice psychology. The Board also investigates alleged violations of the statutes and imposes appropriate sanctions. The seven-member board is appointed by the Governor and composed of five psychologists and two public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from licensing, application, and examination fees. Other miscellaneous sources included civil penalties and publication sales. Revenue in 2007-09 is projected to be 8% less than current biennium estimates and includes a proposed new fee – generating $63,910 – to cover the cost of criminal background checks. The reduction in revenue is primarily the result of the 2006 conversion to a biennial renewal cycle which generated a one-time increase in current biennium revenue. The 2007-09 projected ending cash balance of $351,241 equals approximately 10 months of operating costs, or 45% of projected revenue.

Budget Environment

The agency has identified three main activities: consumer protection (50%); licensing, examination, and continuing education (29%); and board support and administration (21%). The agency reports virtually no change in the annual number of renewals processed or complaints received.

Governor's Budget

The Governor's recommended budget is $143,307, or 20%, greater than the 2005-07 legislatively approved level. Slightly more than half of the growth (52%) is for two policy packages totaling $73,910 that will allow for criminal background checks and "fitness-to-practice" evaluations of licensees and applicants.

The recommended budget also includes personal services cost increases of $36,201 (9%) an Attorney General rate increase of 14% ($14,584); a 31% increase in State Government Service Charges ($13,393); and other inflationary increases totaling $5,219.

Public Utility Commission (PUC) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	30,836,125	33,925,143	33,925,143	36,483,061
Federal Funds	292,416	419,103	419,103	468,265
Other Funds (NL)	103,812,706	108,020,000	108,020,000	108,027,751
Total Funds	**$134,941,247**	**$142,364,246**	**$142,364,246**	**$144,979,077**
Positions	125	125	125	125
FTE	123.56	124.00	124.00	123.50

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% on gross operating revenues.
- *Telecommunications providers* are assessed up to 0.25% on gross intrastate retail sales excluding wholesale revenues. Telecommunication carriers and subscribers are assessed an additional amount to support the Oregon Universal Service Fund (OUSF) and the Residential Service Protection Fund (RSPF).
  - OUSF is supported through an assessment on intrastate revenue (currently 6.5%) which is estimated to generate $100.8 million during the 2007-09 biennium. The estimated ending balance of $15.04 million is equal to between three and three and one-half months of operating expenditures for this fund.
  - RSPF is supported by a surcharge not to exceed $0.35 per month to retail subscribers who have access to relay services. The surcharge was recently reduced from $0.08 per month to $0.05 per month, effective February 1, 2007. Anticipated revenues for the 2007-09 biennium total $9.6 million, and the ending balance for the fund is anticipated to be approximately $2 million, equivalent to about 6 months of operating expenditures for the 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).

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 57%.

Budget Environment

Fees assessed by the PUC against telecommunications is projected to decrease by 4.2% between 2006 and 2011 as customers shift from traditional telephone lines to other technologies such as wireless telephones. The PUC's revenue from the energy rate will grow at a projected rate of about 1% per year, due to growth in the amount of energy consumed. However, the agency reports that additional energy revenue is not enough to completely offset the loss of telecommunications revenue, nor does it keep up with the increased costs the agency has experienced in personal services and charges to the agency for goods and services (DAS assessments). If the current fee structure is left in place, the PUC anticipates that its ending balance will be completely consumed by April 2012, assuming expenditures increase by an average rate of 5.3% per year while revenue drops by 2% per year. To avoid this, the Governor's budget proposes reverting to the electric utility rate structure in use before the passage of SB 1149 in 1997, which would generate $1.4 million in additional revenue. The Governor's recommended budget also includes additional revenue predicated on new charges to telecommunications cooperatives, consumer owned utilities, and cable companies, which do not currently pay a gross revenue fee to the PUC, despite being subject to safety requirements and inspections. Each of these revenue proposals would require the passage of legislation and contain no corresponding programmatic expenditures. They are discussed in more detail below.

PUC – Utility Program

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	8,063,551	8,773,052	8,773,052	9,579,630
Federal Funds	292,416	419,103	419,103	468,265
Other Funds (NL)	103,812,706	108,020,000	108,020,000	108,027,751
Total Funds	**$112,168,673**	**$117,212,155**	**$117,212,155**	**$118,075,646**
Positions	43	43	43	42
FTE	42.06	43.00	43.00	42.00

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 Other Funds.

Governor's Budget

The Governor's recommended budget represents a 0.47% increase in expenditures and a 1.00 decrease in FTE for the Utility Regulation Program from the 2005-07 legislatively approved budget for this program.

The Governor's Budget includes the following policy option packages:

- Utility Fund Gross Revenue - This package is dependent on the passage of legislation. The proposed legislation would reverse the action taken by the 1997 Legislature that converted the rate electric utilities pay the PUC from a percentage of gross revenue to a fee based on the volume of energy moving through the lines owned by the utility. Currently, electric companies pay 0.18 mill ($.00018) per kilowatt hour; this package and legislative concept would convert that rate to a fee based on 0.25% of gross revenue, consistent with the rate paid by electric utilities in 1996-97. This is a revenue only package, with no corresponding programmatic expenditures. The agency reports that its expenses are rising faster than revenue available through the existing volumetric fee model, and that by 2012 fees may be unable to sustain agency operations at current levels if the change is not made. PUC anticipates no opposition to the legislative concept.

- Utilities Safety and Reliability - This package is dependent upon passage of legislation. The proposed legislation would allow the PUC to assess telecommunications cooperatives, consumer-owned utilities, and cable organizations a gross revenue fee of up to 0.02% of their annual revenues. Currently, these entities do not pay utility regulation fees, although PUC estimates that the agency's safety and reliability staff dedicate 52% of their resources to these entities. This is a revenue only package with no corresponding programmatic expenditures; the agency asserts that other functions in the utility regulation program (such as rate and tariff analysis) are subsidizing the safety inspections and review on behalf of non-paying entities. The PUC anticipates that investor owned utilities and telephone companies that are not cooperatives will support the change, while the entities that the commission proposes to charge may find the concept controversial.

- Utility Extension of Public Purpose Charges - This package is dependent upon passage of legislation which would enable the PUC to capture $75,000 of public purpose charges to offset the cost of statutory reports to the Legislature which detail the use of public purpose funds. The cost of reporting is currently being subsidized by utility fees.

PUC – Residential Service Protection Fund

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	8,864,232	9,896,512	9,896,512	10,405,854
Total Funds	**$8,864,232**	**$9,896,512**	**$9,896,512**	**$10,405,854**
Positions	6	5	5	7
FTE	6.50	5.00	5.00	6.50

Program Description

The Residential Service Protection Fund provides telecommunications services for disabled persons, including the hearing- and speech-impaired, and low-income individuals through the following programs:

- *Oregon Telephone Assistance Program (OTAP)* subsidizes local telephone service rates to eligible low-income Oregonians by providing a $13.50 monthly reduction for basic telephone service ($3.50 paid by Oregon, the remainder provided by the federal government).
- *Telecommunication Devices Access Program (TDAP)* provides special communication devices to deaf, hearing and / or speech impaired, or others with disabilities that prevent them from using telephones.
- *Oregon Telecommunications Relay Service (OTRS)* provides a 24-hour-a-day relay service as required by the Americans with Disabilities Act to link hearing-, speech-, and mobility-impaired individuals with non-impaired individuals.
- *Emergency Medical Certificates* protect a customer's ability to make calls if a qualified medical professional states that disconnection would significantly endanger the health of the customer, or if disconnection would put a customer at risk for domestic violence. This program is outlined in the RSPF law, but administered by the Policy and Administration program where its expenditures are covered.

The PUC also coordinates a federal program called "Link Up America" that provides 50% of the line-connection portion of hook-up charges for new residential telephone services to qualifying low-income Oregonians; customers are responsible for the other half of the charge, the telephone, and other costs of acquiring phone service. No state funds are required for "Link Up America."

Governor's Budget

The Governor's recommended budget reflects a 4.86% increase and an additional 1.50 FTE over the 2005-07 legislatively approved budget.

The number of OTAP customers grew by 14,000 between 2003 and March 2006, and is expected to continue to climb due to outreach activities and media campaigns by telephone carriers, as well as streamlined application processes by the PUC. The PUC submitted a legislative concept for the 2007 legislative session which would allow individuals residing in Medicaid supported assisted living facilities with income of less than 135% of the federal poverty level to have access to OTAP benefits. The proposal is not included in the budget because PUC anticipates that the $93,902 anticipated cost of this enhancement would not require additional revenues and expenditures in the RSPF program, as it would be subsidized with savings resulting from technology enhancements that have reduced the cost and minutes used in the TDAP program.

PUC – Policy and Administration Program

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	13,908,342	15,255,579	15,255,579	16,497,577
Total Funds	**$13,908,342**	**$15,255,579**	**$15,255,579**	**$16,497,577**
Positions	76	77	77	76
FTE	75.00	76.00	76.00	75.00

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, addresses issues related to regulation of water utilities, 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.

Governor's Budget

The Governor's recommended budget increases expenditures by 8.1% and decreases FTE by 1.00 from the 2005-07 legislatively approved budget.

Board of Radiologic Technology – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	384,518	467,148	483,289	529,670
Total Funds	**$384,518**	**$467,148**	**$483,289**	**$529,670**
Positions	4	3	3	3
FTE	2.65	3.00	3.00	3.00

Agency Overview

The mission of the Board of Radiologic Technology is to promote, preserve, and protect the public health, safety, and welfare of Oregonians when being exposed to ionizing radiation for the purpose of medical diagnosis or radiation therapy. The Board licenses diagnostic or therapeutic technologists and diagnostic technicians; administers limited permit examinations for radiologic technicians to determine initial competence to practice; approves continuing education offerings to assure continuing competence; and defines and enforces the scope of practice for all licensees. The nine-member board is appointed by the Governor and composed of one radiologist, four radiologic technologists, one radiation therapist, one limited permit holder, and two public members.

Revenue Sources and Relationships

The agency is funded by revenue generated from license, examination, and permit fees. Other miscellaneous sources include fines, interest income, and the sale of mailing lists and copies of public records. Revenue in 2007-09 is not expected to exceed current biennium estimates and the projected ending cash balance of $117,364 equals approximately five months of operating costs, or 25% of projected revenue.

Budget Environment

The agency has identified three main activities: licensing (40%); regulatory compliance (25%); and administration (35%). Over the last two years the number of permanent licensees and permit holders has increased 13% while the number of temporary licensees and permit holders has decreased 78% for an overall decrease in the licensee base of 12%.

Governor's Budget

The Governor's recommended budget is $46,381, or 10%, greater than the 2005-07 legislatively approved level. Slightly more than half of the growth (53%) is for two policy packages totaling $24,646. The largest package adds $15,000 for the one-time costs associated with a legislative concept submitted by the agency to change its name to the Oregon Board of Medical Imaging Technology. The second package adds $9,646 for the implementation of SB 224 (2005) which increased board membership from seven to nine.

The recommended budget also includes personal services cost increases of $17,315 (5.5%), an Attorney General rate increase of 14% ($2,934), and other inflationary increases totaling $1,486.

Real Estate Agency – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	6,162,766	3,874,655	6,922,082	8,322,612
Total Funds	**$6,162,766**	**$3,874,655**	**$6,922,082**	**$8,322,612**
Positions	30	30	30	36
FTE	29.63	18.52	30.27	36.00

Agency Overview

The Real Estate Agency is responsible for the licensing, education, and enforcement of Oregon's real estate laws applicable to brokers, property managers, and real estate marketing organizations; licensing and regulation of escrow agents; and registration and reviews of campground contract brokers, subdivisions, timeshares, and condominium developments. The agency approves courses and develops curriculum requirements for its licensees, administers real estate examinations, audits licensees, and investigates complaints made concerning its licensees and regulated activities. The Real Estate Commissioner, who is appointed by the Governor, administers the agency. The agency supports the Real Estate Board, whose seven industry members and two public members are appointed by the Governor.

Revenue Sources and Relationships

Other Funds revenues are generated through licensing and registration fees and renewals; charges for examinations; the sale of publications and educational seminars; and other services. No fee changes are anticipated for the 2005-07 biennium.

The agency also anticipates collecting approximately $100,000 in civil penalties which are payable to the General Fund.

Budget Environment

During the public hearing phase of the Joint Committee on Ways and Means 2005 budget deliberations, 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. The Legislature approved a 15-month operating budget for the Real Estate Agency and appointed a work group consisting of four legislative members, two members from the Real Estate Board, the Real Estate Commissioner, and one licensee. The work reviewed the role and function of the Real Estate Board, practices by the agency, alternative forms of licensure and regulation, and an internal audit completed by the Department of Administrative Services, and made the following recommendations: Change the role and authority of the Real Estate Board from "advisory" to policy making, so that:

- the Board would make final determinations on contested case disciplinary orders;
- the Board would review the agency's budget and legislative requests;
- the Board would review the duties of the agency to determine whether those functions continue to be appropriate;
- the Board Chair would work with the Commissioner and agency to set board meeting agendas; and
- the Board would recruit for and have input on filling board vacancies.

After the task-force completed its review and recommendations, the Emergency Board granted the agency additional expenditure limitation to enable operations for the remainder of the biennium and address workload concerns in the licensing section of the agency.

The Real Estate Agency proposed a number of new initiatives to address management, structural and workload issues discussed by the task force, which are included in the Governor's recommended budget.

Governor's Budget

The Governor's recommended budget represents a 20.23% increase from the 2005-07 legislatively approved budget. The change is primarily due to the following program enhancements:

- Adding two permanent full-time positions and increasing one part-time position to full-time, to improve customer service and address increases in the number of licensees and land development filings, and to provide additional administrative support for the Real Estate Board ($235,625).

- Adding four additional positions, which will enable the agency to increase the frequency of licensee compliance reviews, develop and provide training opportunities to licensees and agency personnel, and improve agency response to inquiries from licensees and the public ($488,351).
- Providing additional expenditure limitation to continue improvements to web-based services available to licensees, including license renewal, fee payment, and upgrades that allow for easier searching of information available on the site ($171,700).

Board of Examiners for Speech-Language Pathology and Audiology – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	163,379	234,753	245,204	273,732
Total Funds	**$163,379**	**$234,753**	**$245,204**	**$273,732**
Positions	2	2	2	2
FTE	0.85	1.40	1.40	1.40

Agency Overview

The mission of the Board of Examiners for Speech-Language Pathology and Audiology is to protect the public by licensing and regulating the performance of speech-language pathologists, speech-language pathology assistants, and audiologists. The Board adopts rules governing standards of practice, investigates alleged violations and grants, denies, suspends and revokes licenses. The seven-member board is appointed by the Governor and composed of two licensed speech-language pathologists, two licensed audiologists, two public members, and one medical doctor with American Board of Otolaryngology certification.

Revenue Sources and Relationships

The agency is funded by revenue generated from application, license, and certification fees. Other miscellaneous sources include late fees, interest income, and the sale of mailing lists and copies of public records. Revenue in 2007-09 is projected to be 20% greater than current biennium estimates and the projected ending cash balance of $104,874 equals approximately nine months of operating costs, or 35% of projected revenue. Fees increases anticipated in the 2005-07 legislatively adopted budget were implemented in January 2006.

Budget Environment

The agency has identified three main activities: licensing (40%); investigation (25%); and administration (35%). As of July 2006, the agency reports approximately 1,520 licensees. The budget is 74% personal services.

Governor's Budget

The Governor's recommended budget is $28,528, or 12%, greater than the 2005-07 legislatively approved level. The recommended budget adds $9,591 to reclassify the agency's administrative support position and includes base personal services cost increases of $10,449 (6%), a 49% increase in State Government Service Charges ($7,339) and other inflationary increases totaling $1,149.

Board of Tax Practitioners – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	782,394	913,035	935,709	1,075,985
Total Funds	**$782,394**	**$913,035**	**$935,709**	**$1,075,985**
Positions	4	4	4	5
FTE	4.00	4.00	4.00	5.00

Agency Overview

The Board of Tax Practitioners is a seven-member citizen board that protects consumers by ensuring Oregon tax practitioners are competent and ethical in their professional activities. It accomplishes this by licensing and overseeing tax preparers, tax consultants, and tax businesses. Currently, the Board regulates about 2,200 tax consultants, 1,800 tax preparers, and about 1,500 tax businesses per year. It develops initial competency examinations and monitors required continuing education programs for tax preparers. The Board also investigates complaints filed concerning personal tax return services by licensees and unlicensed persons and takes disciplinary action when appropriate. A four-person staff administers Board programs.

Revenue Sources and Relationships

The Board's Other Funds come principally from annual licensing and business registration fees. Fees are also charged for the administration of licensing examinations. Fees are established by rule but are limited by statute. The Board expects to collect $1,107,000 in total revenues from licensing fees, business registration fees, examinations, fines and penalties, pass through revenues for community colleges administration of examinations, and other miscellaneous revenue for the 2007-09 biennium. The Board has proposed a fee increase for the 2007-09 biennium to cover the additional FTE and a technology upgrade. The Board last raised fees in 2001. The fee increase will cover the additional costs and provide a reasonable ending balance to cover salary increases and most any other unforeseen costs.

Budget Environment

The number of professionally prepared income tax returns is expected to increase along with the growth in Oregon's population. Statistics from the Department of Revenue show that about one half of all personal income tax returns are filed with the aid of a Tax Practitioner. The number of tax practitioners and tax businesses is expected to remain the same, or slightly increase, in the 2007-09 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.

Governor's Budget

The Governor's recommended budget provides for continuation of the Board's existing operations and additional resources to allow the technical staff to focus on their areas of expertise instead of clerical functions. One additional position (1.00 FTE), an Office Specialist 1, has been proposed in the Governor's budget to address these clerical duties.

Veterinary Medical Examining Board – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	468,193	512,596	527,928	545,131
Total Funds	**$468,193**	**$512,596**	**$527,928**	**$545,131**
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 in 2007-09 is projected to be 8% greater than current biennium projections. Despite a fee reduction in 2001, the agency's cash balance continues to rise. The 2007-09 projected ending cash balance of $381,503 equals approximately 17 months of operating costs, or 68% of projected revenue.

Budget Environment

The agency has identified two main activities: licensing (90%) and investigations (10%). Over the last two years the number of licensees has increased 11% while the investigation workload has remained relatively stable. The current licensee base includes 1,800 veterinarians, 908 veterinary technicians, 170 euthanasia technicians, and 33 euthanasia facilities.

Governor's Budget

The Governor's recommended budget is $17,203, or 3%, greater than the 2005-07 legislatively approved level. The majority of the growth (80%) is for personal services cost increases of $13,846. The recommended budget also includes an Attorney General rate increase of 14% ($4,579), a 16% decrease in State Government Services Charges ($5,434); and other inflationary increases totaling $4,212. There are no policy packages.

ADMINISTRATION

Department of Administrative Services (DAS) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	1,780,512	9,437,182	9,976,764	20,045,019
Lottery Funds	0	600,000	600,000	0
Other Funds	527,901,822	804,682,348	835,685,356	920,051,165
Federal Funds	316,928	59,000	461,707	0
Other Funds (NL)	260,375,296	104,887,783	142,723,439	185,054,384
Total Funds	**$790,374,558**	**$919,666,313**	**$989,447,266**	**$1,125,150,568**
Positions	910	1,039	1,033	985
FTE	889.76	892.74	902.93	967.54

Totals are different from those in the Governor's budget document due to separate treatment by the Legislative Fiscal Office of: a) Lottery Funds for County Fairs and debt service payments for Lottery Bonds issued on behalf of Oregon Public Broadcasting; and b) General Fund support for Oregon Public Broadcasting.

Agency Overview

The Department of Administrative Services (DAS) is the central administrative agency that supports other agencies of state government and coordinates statewide services. The Department has numerous divisions responsible for a variety of disparate functions. It operates centrally located motor pools; operates and maintains facilities and the state data center; and provides printing, information technology consultation, computer, payroll, and accounting services. The Department distributes federal, lottery, and state funds to cities, counties, and other state agencies. It also collects and distributes mass transit assessments.

Revenue Sources and Relationships

The Department's operating revenue comes primarily from fees charged for services provided to state agencies, statewide assessments, and assessments for debt service on appropriation and pension obligation bonds. The Department establishes rates for these direct services and bills agencies based on usage. Costs of indirect services, such as the services provided by the Director's Office, Budget and Management Division, and Human Resource Services Division are recovered through a "statewide assessment," which is included in all state agencies' budgets as part of the line item expense titled "State Government Service Charges." Although services that are supported by the assessment cannot be directly measured and identified to each agency receiving the service, the Department makes an effort to allocate the assessment equitably. Agencies that benefit from appropriation and pension obligation bonds are assessed their share of debt service and debt management costs. Revenue for Nonlimited Other Funds expenditures comes from agency reimbursements for various costs that are demand driven and not discretionary to DAS (e.g., insurance claims and payments related to health care benefits). State agencies' payments to DAS for those costs are controlled through their budget review and approval process.

Governor's Budget

The Governor's recommended budget reflects yet another departmental reorganization and provides for some program enhancements. The reorganization does away with the old Information Resources Management Division (IRMD), replaces it with the Enterprise Information Strategy and Policy Division (EISPD), and transfers a number of IRMD positions to other divisions within the Department.

The program enhancements are a combination of enhancements to address demand for core services and enhancements for new initiatives. The seeming dichotomy between fewer positions and more full-time-equivalent (FTE) positions results mainly from the phase out of limited duration positions approved in 2005-07 for movement of staff into the new consolidated data center and the increase in full-time-equivalent positions in 2007-09 that reflect a complete biennium of operation of the center. However, there are other position changes throughout the budget and all position changes will be discussed in the analysis of each Office or Division.

It should be noted that 33% ($370.6 million) of the Department's budget is for debt service and debt management costs on appropriation and pension obligation bonds. The increased debt service cost accounts for $44 million of the Other Funds increase in the Department's budget. Appropriation bonds were issued during the 2001-03 biennium to maintain state service levels in the face of reduced revenues. Pension obligation bonds were approved by the voters in 2003. Proceeds from the bonds were used to pay down on the state's unfunded liability to the Public Employees Retirement Fund (PERF). State law requires that the bond proceeds be accounted for separately in the PERF and amortized to reduce annual employer contributions. Because of earnings on the amount deposited from the sale of bonds, contributions into the PERF will be reduced by an additional $144 million for the 2007-09 biennium.

Other significant increases include: $24 million Other Funds for capital construction; $5 million General Fund each for development of a geospatial information system and to support a proposed Oregon Educators Benefit Board. Funding of the Oregon Educators Benefit Board anticipates passage of legislation. Another $45 million Other Funds Nonlimited authority is requested for self insurance payments for health care benefits ($30 million) and other self insured liability costs ($15 million). Increased facilities costs, which include operating costs and all utilities, account for another $10 million Other Funds.

DAS – Office of the Director

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	208,280	226,063	232,587	245,469
Other Funds	3,956,046	4,370,917	4,494,773	4,900,639
Total Funds	**$4,164,326**	**$4,596,980**	**$4,727,360**	**$5,146,108**
Positions	17	18	18	18
FTE	17.00	18.00	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.

Governor's Budget

The Governor's recommended budget has no program enhancements or reductions and provides for the continuation of the Office's existing services. It does, however, reflect the transfer of one analyst position from EISPD and the transfer of one administrative support position to the Budget and Management Division.

DAS – Budget and Management Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	6,766,686	11,273,166	11,531,916	9,660,826
Other Funds (NL)	1,887,574	0	0	0
Total Funds	**$8,654,260**	**$11,273,166**	**$11,531,196**	**$9,660,826**
Positions	35	35	35	34
FTE	34.50	34.50	34.29	33.29

Program Description

The Budget and Management Division establishes and enforces statewide budget standards and monitors agencies to ensure that funds are spent within legal and budgetary constraints. It is responsible for reviewing agency budget requests and developing and tracking the Governor's budget through the legislative process. The Division also helps to coordinate statewide bonded debt programs, including issuance of certificates of participation, tax anticipation notes, 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 ($8.5 million). The balance of the Division's planned expenditures will be funded with carry-forward cash balance from certificates of participation 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.

Governor's Budget

The Governor's recommended budget recognizes the phase out of eight limited duration positions assigned to the ORBITS project and the transfer in of two positions; one administrative assistant position from the Director's Office, and one performance management position from the Operations Division. Additional enhancements will be developed for the ORBITS system during the 2007-09 biennium. The budget includes $1.5 million Other Funds and two limited duration and three permanent positions to finish development of ORBITS and maintain the system into the future.

DAS – State Controllers Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	7,683,122	22,433,648	22,750,361	23,669,159
Other Funds (NL)	13,889,945	0	0	0
Total Funds	**$21,573,067**	**$22,433,648**	**$22,750,361**	**$23,669,159**
Positions	48	49	49	50
FTE	48.00	48.50	48.50	49.50

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 ($12.1 million) and from direct charges for processing warrants and payroll checks/stubs ($7.2 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.

Governor's Budget

The Governor's recommended budget provides for the continuation of existing services of the Division. It includes one analyst position transferred from EISPD.

DAS – Enterprise Information Strategy and Policy Division (formerly IRMD)

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	0	0	0	5,000,000
Other Funds	75,114,704	155,471,495	162,993,085	43,755,549
Other Funds (NL)	97,154,113	0	0	0
Total Funds	**$172,268,817**	**$155,471,495**	**$162,993,085**	**$48,755,549**
Positions	299	267	265	37
FTE	291.16	225.96	223.27	37.00

Program Description

The newly created Enterprise Information Strategy and Policy Division (EISPD) maintains certain policy and statewide information technology oversight functions housed in the former Information Resources Management Division (IRMD). The Division has six separate functional areas:

- *Administration* provides administrative support for the Division. It coordinates and oversees business functions and is headed by the state's Chief Information Officer.
- *Enterprise Security Office* is responsible for identifying the state's information security needs. It is responsible for statewide information security policies and practices.
- *IT Investment Policy and Planning* develops and implements state information technology strategies, rules, policies, standards, and processes. It provides support to the Chief Information Officer and information technology related governance bodies, such as the state's Information Resources Management Council.
- *Geospatial Enterprise Office* provides statewide geographic information systems (GIS) coordination for Oregon government (state and local), to support enterprise-wide planning and decision-making.
- *E-government* manages the contract with the third party vendor to provide e-government support. E-government helps state agenies move information, forms, and payment processes to the Internet to provide services to citizens.
- *Business Continuity Planning* works with state agencies to develop a coordinated business continuity strategy.

Revenue Sources and Relationships

The Division receives its revenues from assessments of state agencies and charges for direct services. Agencies are assessed for the Division's role in enterprise planning and policy ($1.5 million), E-government support ($8.6 million), quality assurance ($0.8 million), enterprise security ($17.8 million), business continuity planning ($0.6 million), and maintenance of a centralized Geographic Information System ($1.8 million). Charges for direct services are estimated to be $11.8 million. These revenues support the Division's budget, including debt service on the issuance of certificates of participation for enterprise security. The budget includes General Fund of $5 million for an enhancement to the Geospatial Enterprise Office.

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 more of that of strategic statewide technology policy and oversight. The budget reflects the current administration's effort to place back office support functions in operating divisions and statewide enterprise information technology strategy and policy in another.

Governor's Budget

The Governor's recommended budget recognizes the administrative phase out of seven positions and the elimination of 59 positions as part of the data center consolidation. The Department's reorganization of the former IRMD resulted in the transfer of 155 positions within the Department and elimination of ten other positions.

The budget also includes $5 million General Fund and three positions to begin development of a new state GIS utility dubbed "navigatOR." Total project costs are estimated at $180 million over a ten year period. However, the state's share of the cost is estimated at $30 million over the first six years. The balance of the system development cost "would be generated from federal and private sector investment."

DAS – State Data Center

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	4,335,704	99,414,508	101,213,354	157,698,017
Total Funds	**$4,335,704**	**$99,414,508**	**$101,213,354**	**$157,698,017**
Positions	0	165	149	159
FTE	0.00	67.92	76.10	159.00

Program Description

The State Data Center now provides 24/7 core computer service and operational support for twelve state agencies.

Revenue Sources and Relationships

The Center's revenues 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 have been financed by the sale of certificates of participation. Debt service requirements will be included in the revenue structure.

Budget Environment

As operations of the data center stabilize and mature, operational efficiencies are expected from standardization of hardware and software applications. Staffing for the data center in 2005-07 followed the budgetary convention of funding all new positions at the second step of their position classification. Actual hiring resulted in bringing in a great number of experienced state employees. As a result, they were hired at steps much higher than the budgeted second step.

Governor's Budget

The Governor's recommended budget continues the operations of the data center and recognizes the transfer in of ten positions from EISPD. These positions support voice services for state agencies that will now be provided by the data center. Software licensing costs budgeted in the twelve agencies and paid by them in 2005-07 are now included in the budget for the data center. The budget also includes an additional $7.4 million to deal with the actual versus budgeted personnel costs stemming from the convention of funding all new positions at the lower step.

DAS – Public Employees Benefit Board

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	0	0	0	4,950,228
Other Funds	4,018,341	6,116,430	6,227,971	6,945,411
Other Funds (NL)	4,563,042	21,340,455	55,340,455	85,832,835
Total Funds	**$8,581,383**	**$27,456,885**	**$61,568,426**	**$97,728,474**
Positions	17	17	19	37
FTE	16.83	16.83	18.16	31.74

Program Description

The Public Employees Benefit Board contracts for and administers medical and dental insurance programs for state employees and their dependents, representing over 114,000 Oregonians. The Board also selects and administers life and disability insurance coverage for eligible state employees. A major part of the Board's responsibility is developing benefit packages to meet the needs of state government and its employees, and preparing benefits information and answering inquiries from employees and their dependents about coverage.

Revenue Sources and Relationships

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 money was placed in a separate account pending the outcome of legal claims filed for a portion of the money. The Court of Appeals has determined that Oregon Health and Science University is entitled to a portion of the money and has remanded the case to circuit court to determine the exact amount. Until that determination is made, the money continues to earn interest in the separate account which now amounts to $25.3 million. The Nonlimited Other Funds portion of the budget request is predominantly for health care costs that PEBB self insures.

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.

Governor's Budget

The Governor's recommended budget phases out two limited duration positions that were administratively established during the biennium. Those two limited duration positions were established to address workload issues. The Governor's recommended budget includes enhancements to add two permanent positions and provide other additional funding to address operational and board needs as well as one that anticipates passage of legislation.

One position is created to maintain the PEBB web-based benefits program. Total cost of this enhancement is $328,000 Other Funds, which includes funding for professional IT services. Other Funds of $215,000 is also provided for one permanent position and medical consulting services to support the PEBB board. Another $1,089,000 Other Funds is provided for consulting and other services for the board. The services would monitor performance and outcomes of health programs, provide support and advice to state agencies with wellness programs, and development of evidence-based approaches to evaluate treatments and programs and support development of an electronic health information infrastructure and exchange system.

One enhancement anticipates passage of a bill that would create a new Oregon Educators Benefit Board. It provides $5 million General Fund and 18 positions for board operations. The newly created board would establish and administer, for state school districts, a standardized health care benefits plan much like that administered for state agencies by PEBB.

DAS – Human Resource Services Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	9,293,394	13,892,072	14,291,517	16,445,327
Other Funds (NL)	2,037,533	0	0	0
Total Funds	**$11,330,927**	**$13,892,072**	**$14,291,517**	**$16,445,327**
Positions	57	59	62	62
FTE	55.63	58.50	59.84	60.00

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 ($16.3 million) of Executive Branch state government agencies excluding the Department of Higher Education. Legislative and Judicial Branch agencies and the Lottery Commission pay a reduced assessment to use the centralized employee database.

Approximately $1.7 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. The Division intends to meet this challenge by ensuring that it delivers good service at a reasonable cost.

Governor's Budget

The Governor's recommended budget phases out three administratively established limited duration positions. The budget has one enhancement that adds three limited duration positions and $1.6 million Other Funds to begin development of a new state human resources information system. The Statewide Financial Management System Master Plan, published in 1991, included a human resources component. The accounting component of the plan is in place and the budget component will be completed when ORBITS is fully developed in 2007-09. The Department is now beginning to look at a new human resources component. This undertaking will be funded largely with certificates of participation ($1.3 million) and from the HRSD assessment to state agencies ($300,000). The Department will coordinate this work with the work the Department of Transportation will undertake for its human resource information system.

DAS – Facilities Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	27,632,117	72,192,656	43,426,672	87,257,078
Other Funds (NL)	38,997,273	0	3,835,656	0
Total Funds	**$66,629,390**	**$72,192,656**	**$77,264,328**	**$87,257,078**
Positions	206	210	212	214
FTE	203.75	205.53	205.74	210.67

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. Due to a higher than expected ending cash balance, the uniform rent rate for office space in 2007-09 remains the same ($1.32 per square foot) as the 2005-07 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. The Division also receives $1.2 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 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.

Governor's Budget

The Governor's recommended budget continues the Division's operations with two enhancements. The budget recognizes the elimination of three positions through administrative actions. It also continues the two positions authorized by the Emergency Board to provide facilities construction expertise to the Department of Human Services (DHS) for the new state hospital facilities and adds five more positions and $395,000 Other Funds expenditure limitation as additional support to DHS for the hospital facilities. The five new positions will be phased in as activity on the new facilities warrants. Additional Other Funds expenditure limitation is provided for legal and professional services needed for sales of real property ($500,000) and for increased cost of power provided from “green resources” ($200,000).

DAS – State Services Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor’s Recommended
General Fund	259,426	595,313	1,053,070	739,183
Other Funds	47,629,812	63,241,706	78,960,183	131,696,974
Other Funds (NL)	84,631,154	68,294,877	68,294,877	83,359,000
Total Funds	**$132,520,392**	**$132,131,896**	**$148,308,130**	**$215,795,157**
Positions	139	142	140	255
FTE	134.76	141.92	138.88	254.00

Program Description

The State Services Division was originally formed by the merger of the Risk Management Division and the Procurement, Fleet, and Surplus Services Division. 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 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. Another departmental reorganization now places the Printing and Distribution function that was formerly with IRMD within the State Services Division.

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 ($122.3 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 $29 million higher than for the 2005-07 biennium, due largely to increasing Workers’ Compensation claims costs ($20.5 million). Property and liability insurance costs increased $8.5 million. 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 $7.2 million, which is based on volume of transactions and number of agency positions. An additional $5.9 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 $40.6 million for the 2007-09 biennium.

State and Federal Surplus Property operations together generate revenue from service fees. For state surplus items, the fees ($2.8 million) are based on the value of the items sold for state agencies disposing of the surplus property. For federal surplus property, the service fees ($2.2 million) are charged to agencies acquiring the property through the Division based on the value of the federal surplus property acquired.

Printing and Distribution is financed by charges for printing and mailing services ($53.9 million) and a statewide assessment for shuttle mail service ($2.9 million).

Budget Environment

The amount and types of property owned, the number of employees and their work, and the types of programs agencies have all contribute to the need for risk management services and products, principally insurance. How well agencies manage their risk elements directly impacts their risk management costs. Demand for services drives the budget of the fleet operations, purchasing, surplus property, and printing and distribution services.

Governor's Budget

The Governor's recommended budget recognizes the elimination of two positions to fund other personnel actions and the transfer of one position from the Operations Division. It also eliminates nine limited duration positions (four in Risk Management for BM 37 claims, and five in State Procurement for purchasing initiatives). However, a number of enhancements included in the budget add positions to deal with continuing workload issues in three specific areas.

Work on BM 37 claims continues and five limited duration positions and $739,000 General Fund is provided for that purpose. Nine permanent positions and $2.4 million Other Funds are included for Printing and Distribution workload increases resulting from a shift in printing from ODOT and DHS because of the data center consolidation. These positions have been eliminated in the ODOT and DHS budgets. To address workload issues in the State Procurement Office, 11 permanent positions are established, funded in part by eliminating five positions in the Fleet Program. The net effect is six new positions and an increase in Other Funds of $1.2 million.

DAS – Operations Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	13,969	0	0	0
Other Funds	7,293,109	8,948,010	9,292,610	20,106,299
Total Funds	**$7,307,078**	**$8,948,010**	**$9,292,610**	**$20,106,299**
Positions	69	58	59	95
FTE	68.50	56.58	57.72	93.88

Program Description

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. As part of the latest departmental reorganization, help desk and technical support personnel were transferred from EISPD. Help desk support is limited to DAS personnel only. The technical support is for DAS' central business systems, which includes applications such as ORBITS and the state payroll system.

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.

Governor's Budget

The Governor's recommended budget recognizes the elimination of two administratively established limited duration positions. It also reflects the departmental reorganization and resulting transfer out of one position to the State Services Division, one to the Budget and Management Division, and the transfer in of 40 positions from EISPD. The budget continues all services at the Department's essential budget level with no enhancements.

DAS – Office for Oregon Health Policy and Research

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	1,298,837	1,381,850	1,402,409	2,261,316
Other Funds	3,987,084	3,526,903	4,100,077	3,014,538
Federal Funds	316,928	59,000	461,707	0
Total Funds	**$5,602,849**	**$4,967,753**	**$5,964,193**	**$5,275,854**
Positions	20	17	22	22
FTE	16.63	16.75	19.80	18.71

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 came 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. The Legislature provides expenditure authority for Federal Funds when federal grants are received. No federal grant funds are carried over from the 2005-07 biennium.

Governor's Budget

The Governor's recommended budget essentially continues existing operations but makes a number of structural changes to the Office's budget. It also adds staff and funding for the Oregon Prescription Drug Program.

Six limited duration positions are eliminated as part of normal budget development. Two limited duration positions are eliminated because of expected revenue shortfalls. Two permanent positions and $786,000 Other Funds are provided to continue the collection and compilation of inpatient and outpatient and ambulatory surgical discharge data and continue work under the Attorney General's Consumer and Prescriber Grant project. Funding for these activities were approved during the interim by the Emergency Board and the budget continues those efforts through the biennium. Three positions and $435,000 General Fund are provided to restore and continue healthcare analysis and policy review activities previously funded through a variety of Other Fund sources.

Three positions and $739,000 General Fund are provided to expand the Oregon Prescription Drug Program activities. One position was provided by the Legislature in 2005. The passage of Ballot Measure 44 in November 2006 is expected to expand the pool of individuals eligible to participate and the budget adds staff to accommodate the increased activity and workload.

DAS – Oregon Progress Board

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	0	409,956	464,698	448,823
Other Funds	867,367	400,000	400,000	412,400
Total Funds	**$867,367**	**$809,956**	**$864,698**	**$861,223**
Positions	3	2	3	2
FTE	3.00	1.75	2.63	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, but restored by the 2005 Legislature. The Board receives Other Funds revenue from private grants, donations, and honorariums for speaking.

Budget Environment

As the Legislature focuses more on performance measures and program outcomes, the activities of the Oregon Progress Board and staff have helped state agencies sharpen their performance measures and outcome metrics. The Legislature has continued to provide General Fund and Other Funds support.

Governor's Budget

The Governor's recommended budget eliminates one administratively established limited duration position and continues the operations of the Board at its essential budget level with no enhancements.

DAS – Capital Improvements

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	3,213,742	5,092,557	5,092,557	5,704,549
Total Funds	**$3,213,742**	**$5,092,557**	**$5,092,557**	**$5,704,549**

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.

Governor's Budget

The Governor's recommended budget includes a number of new projects totaling slightly more than $4.6 million and $600,000 of improvements carried over from the 2005-07 biennium.

DAS – Capital Construction

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	70,742,002	10,272,000	12,872,000	37,472,551
Total Funds	**$70,742,002**	**$10,272,000**	**$12,872,000**	**$37,472,551**

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 ($11.5 million), and from the issuance of certificates of participation ($26 million).

Governor's Budget

The Governor's recommended budget includes funding for twelve specific projects, some of which are continuations of projects authorized and begun in the prior biennia. There is one large project, an additional parking structure on the Capitol Mall. The eleven other projects are fairly small, ranging in cost from $250,000 to $4.5 million. Also included is $250,000 for general planning needs.

DAS – COP Issuance Costs for Capital Construction Projects

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	0	1,064,248	1,064,248	685,283
Other Funds (NL)	541,496	0	0	0
Total Funds	**$541,496**	**$1,064,248**	**$1,064,248**	**$685,283**

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.

Governor's Budget

The Governor's recommended budget reflects expected issuance costs for new certificates of participation to be issued during the 2007-09 biennium.

DAS – Miscellaneous Distributions

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Lottery Funds	0	600,000	600,000	0
Other Funds (NL)	14,654,792	15,252,451	15,252,451	15,862,549
Total Funds	**$14,654,792**	**$15,852,451**	**$15,852,451**	**$15,862,549**

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 state government. The $600,000 Lottery Funds for 2005-07 was for a one-time forgivable loan to the Oregon Association of Nurseries for agricultural transportation pursuant to SB 5520 (2005).

Governor's Budget

The Governor's recommended budget reflects anticipated Mass Transit Assessment collections and distribution based on budgeted employment numbers.

DAS – Special Governmental Payments

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	0	6,824,000	6,824,000	6,400,000
Other Funds	255,368,362	326,972,032	326,972,032	370,626,565
Other Funds (NL)	2,018,374	0	0	0
Total Funds	**$257,386,736**	**$333,796,032**	**$333,796,032**	**$377,026,565**

Program Description

This is a catch-all category that reports payments not directly related to the mission of the Department of Administrative Services.

Governor's Budget

The Governor's recommended budget 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. The new Oregon Public Service Retirement Plan (OPSRP), effective August 2003, separates the rates for general service and police / fire. As the accounting systems improve and more persons fall under OPSRP, this settlement amount should go down.

The Other Funds are for debt service and debt management costs on the Pension Obligation Bonds ($258 million), which were approved by the voters in a special election, and debt service on Appropriation Bonds issued to balance the 2001-03 budget ($112.6 million). The source of funding for the Appropriation Bond debt service is proceeds from the Tobacco Master Settlement Agreement.

Advocacy Commissions Office – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	0	333,203	349,197	401,916
Other Funds	871,910	184,672	184,672	103,785
Total Funds	**$871,910**	**$517,875**	**$533,869**	**$505,701**
Positions	6	4	4	2
FTE	6.00	2.18	2.18	2.00

Agency Overview

The Oregon Advocacy Commissions Office was established in 2005 (SB 359) to provide administrative support to the Commission on Asian Affairs, the Commission on Black Affairs, the Commission on Hispanic Affairs, and the Commission for Women. The commissions serve as liaisons between the minority communities and government entities and work to establish economic, social, legal, and political equality in Oregon. The agency assists the commissions in monitoring existing programs and legislation designed to meet the needs of minority populations and helps in identifying and researching problem areas and issues affecting minority communities.

Revenue Sources and Relationships

Agency operations are funded with General Fund. The only other revenue source is donation funds (estimated to be $120,000 in 2007-09). Donation funds are dedicated by statute to the commission to which the donation was made and can only be used by the agency for the purpose for which the donation was made.

Budget Environment

The agency is still in its infancy - the Administrator position was not filled until August 14, 2006. The agency's operating budget is 71% personal services and 29% services and supplies. Expenditure authority for the donations funds ($103,785) is budgeted in the services and supplies category.

Governor's Budget

The Governor's recommended budget is $28,168, or 5%, and two positions (0.18 FTE) less than the 2005-07 legislatively approved level. General Fund increased 15% ($52,719) and Other Funds decreased 44% ($80,887). The General Fund growth includes personal services cost increases of $40,801 and inflationary increases totaling $11,918. The Other Funds and position reductions reflect the transfer of the Communities in Partnership to Stop Violence Against Women and Children program to the Department of Human Services in September 2005.

Employment Relations Board (ERB) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	1,307,322	1,401,242	1,449,920	1,661,913
Other Funds	1,315,550	1,383,118	1,427,990	1,619,712
Total Funds	**$2,622,872**	**$2,784,360**	**2,877,910**	**$3,281,625**
Positions	14	12	12	13
FTE	12.17	12.00	12.00	13.00

Agency Overview

The mission of the Employment Relations Board (ERB) is to resolve disputes concerning labor relations for an estimated 3,000 employers and 250,000 employees in public and private employment in the state. The agency is responsible for administering specific portions of Oregon law: the Public Employee Collective Bargaining Act, which governs collective bargaining in state and local government; the State Personnel Relations Law, which creates appeal rights for non-union state employees who believe they were treated unfairly in the workplace; and the private sector labor-management relations law, which addresses collective bargaining for private sector employers who are not covered by federal law. ERB last handled a private sector case in 2002.

To accomplish this mission, the agency provides the following specific services:

- Conciliation and mediation services provided by three mediators who make themselves available to travel throughout the state to attempt to resolve bargaining disputes, contract grievances, unfair labor practices, and representation matters, including conducting elections to determine whether employee groups will form a labor union. This unit also provides a list of qualified local labor arbitrators and training in dispute resolution.
- Hearing and deciding unfair labor practice complaints, personnel appeals, and contested representation elections handled by two administrative law judges. The administrative law judges issue recommended decisions which the parties can appeal to the Labor Relations Board.
- The Labor Relations Board is a three member panel appointed by the Governor and approved by the Senate which acts as the state's "labor appeal court" for labor and management disputes within state government. The Board issues final orders and administers the labor laws that cover private sector employees that are exempt from the National Labor Relations Act.

The 2005-07 legislatively adopted budget provided for 12.00 full-time equivalent positions (four of which were legal and administrative support staff).

Revenue Sources and Relationships

The Employment Relations Board generates the majority of its Other Funds revenue through an assessment to state agencies based on the number of covered employees, including employees from the Legislative and Judicial branches and temporary employees. ERB also receives fees for the following services: contract mediation fees to local governments ($1,000, born equally by the employer and the labor organization involved); grievance and Unfair Labor Practice fees ($500, again split between employer and labor); interest based bargaining training fees (up to $2,500); and filing fees for Unfair Labor Practice complaints ($250) and answers ($100). The agency also charges fees for hard copies of documents, many of which are available on-line at no cost.

The Governor's recommended budget includes a number of fee increases which support essential service levels, and to partially fund a policy option package which establishes an additional full-time administrative law judge position. The fees proposed to be increased are as follows:

Fee Type	Current Amount	Proposed Fee	Increase	Year of Last Increase	Rationale
State Assessment	$1.35 per employee, per month	$1.50 per employee, per month	$0.15	2001	Finance Administrative Law Judge.
Arbitrator Panel Fees	NA	$50 to file / request listing; $100 if actually listed	New Fee	NA	Offset cost of administering arbitrator lists; additional travel costs for mediators.
Answer Filing Fee	$100 per answer	$250 per answer	$150	Established in 1995	Equalizes the cost of complaints and answers. The funds will be used to partially finance an additional administrative law judge position.

Together, the fee increases are expected to generate $24,700 in additional revenue. The Governor's budget also establishes a separate account for ERB to which all fee revenue will be deposited and available for administrative expenses incurred by the Board. ERB fees currently go into the Oregon Department of Administrative Services Operating Fund. The Governor's budget assumes that $20,455 in interest from the new account would accrue to the agency, and that $1.33 million will be generated from the increase in state agency assessments.

ERB receives General Fund revenue to support labor relations functions conducted on behalf of local governments. The agency requested an increase in General Fund support of $88,363 for the 2007-09 biennium to fund 50% of the additional administrative law judge position. This request was approved in the Governor's recommended budget and will help to meet workload demands generated by increasingly complex cases and existing case backlogs. The total General Fund amount included in the Governor's recommended budget is $1.67 million.

The Governor's budget for ERB has an ending balance equivalent to just under two months of agency operating expenditures.

Budget Environment

In the early 1990s, ERB had over 200 cases filed each fiscal year. Since FY 1995, the average number of cases filed per fiscal year has been 133. The agency has failed to meet its performance targets for timely processing and resolution of cases consistently since 2004, which corresponds to the biennium in which the number of permanent administrative law judges was reduced from three to two, due to funding constraints.

The number of cases filed pertaining to local government labor relations, work for whom has been supported by General Fund appropriations, has exceeded the number of cases filed for state government labor relations. State government cases are supported by an assessment on state agencies commensurate with the number of agency employees. The 2003 Legislature directed ERB to develop a funding mechanism that was consistent with the workload requirements 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. The workgroup narrowly approved a recommendation for new and increased fees, provided the costs are born equally by employers and employees, if General Fund support proved to be insufficient.

Also during 2003-05, an audit of ERB was conducted by the Department of Administrative Services (DAS), and identified several areas for improvement, including the need for research tools, equipment, training, better time management, segregation of administrative duties, and classification reviews. ERB has addressed a number of the issues identified, and the Board has made significant progress toward resolving older cases on its docket. However, the cases requiring the attention of administrative law judges are taking longer to hear and resolve, creating a growing backlog and resultant delays.

Governor's Budget

Historically, the agency's budget was divided into a State Government Labor Relations program and a Local Government Labor Relations program. In preparation for 2007-09, ERB worked with the Department of Administrative Services to implement a new accounting and program structure, which divides the agency into four programs as follows: Administration, Mediation, Hearings, and Elections, reflecting the activities of the agency rather than the consumers of the services. Program level comparisons between the 2005-07 legislatively approved budget and the 2007-09 Governor's recommended budget are not particularly helpful since the program and accounting structure has changed so significantly. Agency-wide, however, the Governor's recommended budget represents a 14% increase over the legislatively approved budget, and includes funding and position authority for an additional administrative law judge (1.00 FTE) funded through a combination of fee increases and additional General Fund dollars. The Governor's budget increases General Fund support for the agency by 14.6%.

ERB – Administration

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	0	0	0	1,023,426
Other Funds	0	0	0	611,874
Total Funds	**$0**	**$0**	**$0**	**$1,635,300**
Positions	0	0	0	5
FTE	0.00	0.00	0.00	5.00

Program Description

The three-member Employment Relations Board acts as a "labor appeal court" for labor and management disputes within state and local governments. The Board is appointed by the Governor and is responsible for issuing final agency orders in declaratory rulings, contested case adjudications of unfair labor practice complaints, representation matters, and appeals from state personnel actions. The Board Chair acts as the agency's administrator. The chair is assisted by an office administrator, and this program unit includes not only the activities of the Board mentioned above, but also the day-to-day administration of the agency, including budgeting, payroll, information technology, reporting, administrative rules, supervision of staff, etc.

Governor's Budget

The Governor's recommended budget provides detail to reflect changes in the agency's accounting and program structures. However, historical information is not available at this same detail level and is only available on an agency-wide basis.

ERB – Mediation and Conciliation Services

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	0	0	0	279,405
Other Funds	0	0	0	495,121
Total Funds	**$0**	**$0**	**$0**	**$774,526**
Positions	0	0	0	4
FTE	0.00	0.00	0.00	3.50

Program Description

The Conciliation Services Office is comprised of the State Conciliator, two mediators and a part-time (0.50 FTE) support position, and is responsible for the following:

- Providing mediation and conciliation services to resolve a variety of disputes, including those related to collective bargaining, contract grievances, unfair labor practice allegations, State Personnel Labor Relations Law appeals, and representation matters.
- Training in methods of alternative dispute resolution, collective bargaining, labor-management cooperation, and related issues.
- Maintaining a list of qualified arbitrators and providing related services and information. This includes processing arbitrator applications; handling questions from arbitrators and parties; responding to concerns

and complaints from and about panel members; a biannual review of panel member selection rates; suspension or removal of arbitrators; processing requests for arbitration panels; maintaining a library of arbitration awards; and publishing interest arbitration awards on the ERB website. The program also participates in and sponsors a biennial ERB Panel Member Conference and sends out information to panel members on case law and legislative changes.

Governor's Budget

The Governor's recommended budget provides detail to reflect changes in the agency's accounting and program structures. However, historical information is not available at this same detail level and is only available on an agency-wide basis. The Governor's budget proposes new fees for application and listing of qualified arbitrators, which are expected to generate $11,500 for the 2007-09 biennium. The Governor proposes adding the fees into the ending balance of this program with no corresponding programmatic expenditure. Total expenditures are $279,405 GF, $495,121 OF, and 3.50 FTE for this program.

ERB – Hearings

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	0	0	0	302,216
Other Funds	0	0	0	507,217
Total Funds	**$0**	**$0**	**$0**	**$809,433**
Positions	0	0	0	4
FTE	0.00	0.00	0.00	4.00

Program Description

The Hearings Office is comprised of two Administrative Law Judges and one support staff. The Administrative Law Judges hear all unfair labor practice complaints filed by state and local government labor or management representatives, hear all state personnel appeals, and hear representation matters referred by the Elections Coordinator that require a contested case hearing. Following the hearings, the Administrative Law Judges issue recommended decisions which the parties can appeal to the Employment Relations Board.

Governor's Budget

The Governor's recommended budget provides detail to reflect changes in the agency's accounting and program structures. However, historical information is not available at this same detail level and is only available on an agency-wide basis.

The Governor's budget adds an additional administrative law judge position (1.00 FTE) with $88,363 additional GF for this position into this program to address the backlog in contested case hearings and meet agency targets associated with hearing and deciding cases. Revenue from a proposed increase in the fees to file an answer to a labor complaint is expected to generate $13,200 OF for the biennium, and interest income generated from a separate agency account for ERB is expected to generate $20,455 OF in 2007-09; both would be used to support a portion of the cost of the additional ALJ position. The total Governor's recommended budget for this program is $302,216 GF, $507,217 OF and 4.00 FTE.

ERB – Elections

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	0	0	0	56,866
Other Funds	0	0	0	5,500
Total Funds	**$0**	**$0**	**$0**	**$62,366**
FTE	0.00	0.00	0.00	0.50

Program Description

The Elections program is staffed by a part-time (0.50 FTE) position who is responsible for conducting elections regarding employee union representation and certifying the results. The program also processes petitions involving union representation and composition of bargaining units. The agency reports that these activity levels have remained relatively constant since the 2001-2003 biennium, and expects workload to be comparable in 2007-09.

Governor's Budget

The Governor's recommended budget provides detail to reflect changes in the agency's accounting and program structures. However, historical information is not available at this same detail level and is only available on an agency-wide basis.

Government Standards and Practices Commission – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	572,817	634,757	653,700	927,210
Other Funds	2,111	3,285	3,285	3,368
Total Funds	**$574,928**	**$638,042**	**$656,985**	**$930,578**
Positions	3	3	3	5
FTE	2.80	3.00	3.00	5.00

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 consists of seven volunteer members; four members are appointed by the Governor upon recommendation by legislative leaders and three directly by the Governor. All members are confirmed by the Senate. No more than four members can be from the same political party and the law limits members to a single four-year term. The Commission is required by law to meet specific timelines for the conduct of investigations. The Commission also educates public officials and lobbyists on the provisions of the Government 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. The amount of revenue from these sources is estimated at approximately $3,400 for 2007-09, down by 50% from actual receipts in the late 1990s. 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 $75,000 in fines and forfeitures in 2007-09. The Commission's 2005-07 legislatively approved budget projected fine and forfeiture revenues to the state of $60,000; through November 2006, more than $88,000 has been actually collected.

Budget Environment

The most significant factor affecting the Commission over the past six years 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. In 2003, the Commission delayed taking immediate action on 14 requests for complaint investigation due to the lack of investigative resources; through November 2006, 8 requests for complaint investigation were delayed from immediate initiation due to the lack of budgeted 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 22 in 2006 (through November). This situation is addressed in the recommended budget with a policy package to add a full-time trainer position.

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 200,000 public officials subject to Commission jurisdiction, with the vast majority serving at the local government level. On average, only approximately 15% of the Commission's caseload originates from state government; 43% of the cases come from cities and counties, with the remaining 42% from school districts, special districts, and other local jurisdictions. The Commission, however, receives no direct revenues from local government entities for their combined 85% share of the Commission's workload. The 2005 Legislature appropriated $240,000 to the Oregon Law Commission to conduct a comprehensive review of the state's ethics laws and financing options and to prepare recommendations for change to the 2007 Legislature.

Governor's Budget

The 2007-09 Governor's recommended budget for the Commission is $930,578 total funds, which represents a 41.6% increase from the 2005-07 legislatively approved level. The recommended budget adds two new positions, an office support position and a trainer position, and reclasses an existing office support position to a technical compliance specialist level. In addition, the recommended budget includes a policy package to provide resources for conducting a study of implementing an electronic filing system for the processing of documents required to be submitted to the agency.

The reclassed position will be able to take over responsibilities for compliance issues related to lobbyist registration and expenditure reporting and to the filing of the Statement of Economic Interest, required to be filed annually by certain public officials. The new office support position would be responsible for the day-to-day operational activities associated with answering telephones, processing mail, preparing routine correspondence, and similar functions. The total cost of this package is $102,657 General Fund. The agency is required by statute to provide a program of continuing education for public officials and lobbyists. The responsibilities for this activity have primarily fallen on the executive director position, which has restricted the agency's ability to maximize training opportunities. The addition of a full-time trainer position is expected to relieve the executive director of this responsibility, thereby freeing up additional time for investigative work and other agency head duties on the part of the executive director. The cost of this package is $124,539 General Fund. The electronic filing study is recommended to be funded with $10,000 General Fund.

The recommended staffing additions would return the agency to 5.00 FTE, the highest level since the 1995-97 biennium. As in previous biennia, the budget does not include funding for extraordinary legal costs resulting from contested cases.

Office of the Governor – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	8,125,041	7,905,686	8,161,919	10,915,109
Lottery Funds	576,536	1,722,608	1,771,546	1,855,054
Other Funds	1,270,087	1,137,334	1,182,352	1,120,460
Federal Funds	50,323	129,143	140,634	0
Total Funds	**$10,021,987**	**$10,894,771**	**$11,256,451**	**$13,890,623**
Positions	47	46	46	49
FTE	45.46	45.50	45.50	48.50

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 program area policy advisors, a State Affirmative Action Officer, a Citizen's Representative Office, a Minority, Women and Emerging Small Business Advocate, and provides clerical support for appointing members to boards and commissions. The Office also includes the Office of Rural Policy which was created by Executive Order. Two activities with statewide impact also are located in the Office of the Governor: the state's Economic Revitalization Team and the Arrest and Return program.

Revenue Sources and Relationships

The Office of the Governor is supported mainly by General Fund. Lottery Funds are for the Economic Revitalization Team (ERT). Other Funds includes revenue transfers from the Departments of Administrative Services and Consumer and Business Services. These transfers finance the Affirmative Action and Minority, Women and Emerging Small Business (MWESB) programs. The Affirmative Action program is funded from the transfer of a Department of Administrative Services Human Resource Services Division assessment estimated at $550,000 for the biennium. The MWESB program is funded from assessments on agencies that have capital construction funded in their budgets and also receives funds from sponsoring conferences. Revenues from these sources are estimated at $546,000. The Federal Funds were from a grant for the Office of Rural Policy. The grant is finished and no Federal Funds are expected in the 2007-09 biennium.

Budget Environment

The budget is driven by the number of staff and programs operated out of the Governor's Office. With the exception of the Economic Revitalization Team, which was transferred to the Office of the Governor in 2003, no new programs have been placed in the Governor's Office in recent biennia. Federal Funds are no longer available to support the Office of Rural Policy.

Governor's Budget

The Governor's recommended budget of $13.9 million total funds is a 23.4% increase over the 2005-07 legislatively approved budget. The Governor's budget continues existing programs and activities, including the Office of Rural Policy and includes several enhancements. Fund shifts and enhancements caused the General Fund portion of the budget to increase by 28% over the General Fund provided for 2005-07.

The Governor's recommended budget shifts funding for the Office of Rural Policy from Other and Federal Funds to the General Fund ($398,000). It restores General Fund for National Governors' Association Dues ($297,500) that had been cut during the recession in 2001-03. It also adds General Fund for one staff and office space in Washington D.C. ($479,000); and General Fund for two additional policy staff for the economic development area ($340,000). The budget provides General Fund for technology upgrades for the office ($431,000); new furniture and fixtures to remodel office space ($250,000); and additional air travel ($161,000).

Oregon State Library (OSL) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	2,584,772	2,911,314	2,911,314	3,358,907
Other Funds	5,946,514	6,569,000	6,569,000	6,843,722
Federal Funds	3,917,623	4,630,839	4,630,839	4,588,922
Total Funds	**$12,448,909**	**$14,111,153**	**$14,111,153**	**$14,791,551**
Positions	45	44	44	44
FTE	43.47	42.47	42.47	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 of expenditures that support state agencies; donations; and reimbursements from local libraries for their portion of costs associated with database licensing.

The State Library Donation Fund includes a collection of donations and bequests, most of which are restricted for a specific use. The largest portions of the Donation Fund are attributable to the Talking Book and Braille Services (TBABS) Donation Fund, and the TBABS Endowment Fund. ORS 357.015(6) gives the Library board of trustees authority to "have control of, use and administer the State Library Donation Fund for the benefit of the State Library, except that every gift, devise or bequest for a specific purpose shall be administered according to its terms." The trustees have adopted a policy of using TBABS Donation Funds for TBABS program enhancements (not regular operating funding), and have opted to reinvest interest earnings from the Endowment Fund back into the Endowment Fund to make it larger. The combined ending balance for the TBABS Donation and Endowment Funds for 2007-09 is projected to be $818,653.

The library 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

Because state assessment funds are statutorily restricted for services that benefit state agencies, the 2005 House Special Committee on Budget directed the Library to find a source of revenue other than state agency assessment dollars to pay rent costs associated with the Talking Book and Braille collection. The Library outsourced fulfillment of Braille materials to the Utah State Library, freeing up sufficient space to eliminate the rent cost subsidy. Of all the collections available to blind and print-disabled Oregonians, the Braille collection was disproportionately large compared to the number of patrons requesting these materials. The vacant shelf space has been allocated to the Government Research and Electronic Services Program, and is being used for purposes that are appropriately charged to the revenue source.

There is a possibility that the need for library stack space will decrease over time as collections are consolidated or digitized.

Governor's Budget

The Governor's recommended budget represents a 4.2% increase over the 2005-07 legislatively approved budget, primarily due to an increase in General Fund support for the Ready to Read grant program to local libraries.

OSL – Administration

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	4,015	256,454	256,454	283,905
Other Funds	1,057,969	762,181	762,181	828,027
Federal Funds	0	106,767	106,767	123,270
Total Funds	**$1,061,984**	**$1,125,402**	**$1,125,402**	**$1,235,202**
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.

Governor's Budget

The Governor's recommended budget increases total funding for the Administration program by 7.45% over the 2005-07 legislatively approved budget. Current services are maintained with no enhancements to the program.

OSL – Library Development

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	1,369,674	1,399,938	1,399,938	1,674,715
Other Funds	354,956	1,021,446	1,021,446	864,506
Federal Funds	3,917,623	4,524,072	4,524,072	4,465,652
Total Funds	**$5,642,253**	**$6,945,456**	**$6,945,456**	**$7,004,873**
Positions	6	6	6	6
FTE	5.50	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, facilitating school and local library access to a variety of electronic databases, and consultation and dissemination of information on youth services, library statistics, and documenting challenges to library materials.

Governor's Budget

The Governor's recommended budget reflects one-time adjustments associated with the phase-out of a one-time grant from the Gates Foundation (- $185,120), and a reduction in Federal Funds reflecting an anticipated reduction in Federal LSTA grant funds (-$92,178). The Governor's budget also provides $286,900 in additional General Fund to increase the Ready to Read grant program to local libraries to $1 per child and provide a minimum grant level of $1,000 for all libraries, regardless of program size. This package restores the program to 1999-2001 levels; the rate since 2002-03 (special session reductions) has been $0.84 per child. The Governor's budget represents a 19.6% General Fund increase over the 2005-07 legislatively approved budget for this program and is less than a 1% total funds increase over the 2005-07 legislatively approved budget.

OSL – Talking Book and Braille Services

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	1,211,083	1,254,922	1,254,922	1,400,287
Other Funds	205,979	306,646	306,646	249,024
Total Funds	**$1,417,062**	**$1,561,568**	**$1,561,568**	**$1,649,311**
Positions	10	9	9	9
FTE	10.25	9.50	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.

Governor's Budget

The Governor's recommended budget represents an 11.58% increase in General Fund over the 2005-07 legislatively adopted budget due to adjustments related to inflation and state government service charges, and a reduction in Other Funds due to reductions in facilities rental costs associated with the TBABS program. The total funds difference for this program is 5.6% more than the legislatively approved budget.

OSL – Government Research and Electronic Services

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	4,327,610	4,478,727	4,478,727	4,902,165
Total Funds	**$4,327,610**	**$4,478,727**	**$4,478,727**	**$4,902,165**
Positions	23	23	23	23
FTE	22.09	21.84	21.84	21.84

Program Description

Government Research and Electronic Services (GRES) provides research assistance to state government; develops and maintains the State Library collection, the OSL's on-line information services, and the Oregon.gov search engine; and coordinates a database of periodical holdings of Oregon libraries. In addition, the general public obtains special information concerning state government publications, Oregon history, and genealogy through a partnership with the Willamette Valley Genealogical Society.

Governor's Budget

The Governor's recommended budget reflects a 6.6% increase over the 2005-07 legislatively approved budget. An increase in facilities rent was allocated to this program to correspond with the additional shelf space transferred from the Talking Book and Braille Services program.

Oregon Liquor Control Commission (OLCC) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	85,798,639	98,875,123	107,649,115	123,988,091
Other Funds (NL)	4,420,240	0	0	0
Total Funds	**$90,218,879**	**$98,875,123**	**$107,649,115**	**$123,988,091**
Positions	213	218	224	238
FTE	205.61	211.27	215.02	229.68

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 ($30.9 million for 2007-09) are first allocated for payments to the Mental Health Alcoholism and Drug Services Account ($15.2 million), and $494,000 is assumed to be transferred to the Wine Advisory Board. The remaining privilege tax revenues, along with all other revenues (primarily from liquor sales), are first used to pay contracted liquor agents and to finance Commission operations (including liquor purchases). Under current law, the excess balance ($321 million in the 2007-09 biennium) is apportioned to the state General Fund (56%), and to city (34%) and county (10%) general funds. The 2007-09 Governor's recommended budget projects gross sales of $852.3 million, with $180 million transferring to the General Fund.

OLCC projects that per capita consumption of distilled spirits and case sales volume will increase slightly, continuing a trend established over the past ten years. The combination of population growth, greater customer demand for premium, higher-priced products, a slight shift in preference away from beer and wine to distilled spirits for some consumers, and rising wholesale liquor prices will cause a 15.5% increase in total dollar liquor sales from the 2005-07 estimated sales of $738 million. The Commission estimates that increased liquor revenues will come from inflation in product cost and increasing preference for premium products. Per capita annual consumption is assumed to be about 22.7 gallons per person for malt beverages and 3.27 gallons per person for wine. This will be accompanied by an annual 1.4% increase in population through 2010.

Even though Other Funds revenues support OLCC operations, the agency's expenditures directly affect the General Fund. Per current law, each dollar spent by the Commission represents 56 cents in liquor revenues that will not go into the state's General Fund, and 44 cents that will not go to local governments. For this reason, an appropriate balance is sought between keeping operating costs as low as possible and making expenditures that are necessary to enhance the generation of revenue while maintaining a controlled distribution environment.

Budget Environment

Enforcing the state's liquor laws requires a variety of approaches to assist individual licensees, as well as the general community, in understanding the laws and regulations governing the proper and lawful operation of a licensed liquor establishment. Underage drinking, illegal alcohol, and sales to minors continue to be the highest compliance issues.

As Oregon continues to experience increases in total population and tourists, service permits and outlets licensed to sell alcoholic beverages have increased. Sales have consistently exceeded initial projections, continuing a growth trend in which liquor sales have increased by $379.4 million since 1995-97. The additional demand and additional variety of products available to consumers resulted in storage capacity issues for the agency, and the need for additional distribution center personnel to keep up with customer demand. To address the capacity issues, the OLCC requested $8.2 million in additional expenditure limitation to purchase additional warehouse space and upgrade distribution operations, which was projected to meet storage needs for the next 10-15 years. The Emergency Board approved the request in December 2006.

Demand has also grown for customer-convenient retail locations to serve more complex, densely populated communities. At the same time, prime retail locations' price per square foot rent has grown more expensive. The 2005 Legislature directed the OLCC to evaluate the formula used to compensate liquor agents, and recommend whether a change in the formula is warranted. The results of the study will be presented to the 2007 Joint Committee on Ways and Means.

Governor's Budget

The 2007-09 Governor's recommended budget of $123.99 million represents a 4% increase over the legislatively approved budget of $119.3 million. The Governor's budget includes policy packages of $15.9 million and 15 additional positions. Sixty-one percent of the total budget, or $75.7 million is attributable to the amount needed to maintain the average liquor agents' compensation rate of 8.88% of sales. The Governor's budget includes 9 additional positions for the distribution center, and 10 positions to enhance investigation and enforcement efforts; this is the first increase in personnel in the public safety services program since the 2001-2003 biennium (although those increases were eliminated in subsequent special sessions of the Legislature). Another $450,000 in expenditure limitation for information technology efforts has been rolled over into the 2007-09 Governor's budget, due to timing issues and delays in implementing technology initiatives approved in the 2005-07 biennium.

The Governor's budget proposes a significant change in revenue distribution, dedicating 2% of gross liquor sales revenues for alcohol and drug substance abuse prevention and addictions treatment. Approximately $17 million in revenue – before OLCC expenditures – will be transferred to the Department of Human Services, who will then allocate special payments to local treatment providers. This package will divert revenue that would otherwise go to the state General Fund(- $9.5 million), and shared revenue distributions to cities (- $5.8 million) and counties (- $2.4 million).

OLCC – Distilled Spirits

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	6,880,943	11,172,245	13,116,575	15,908,231
Other Funds (NL)	4,420,240	0	0	0
Total Funds	**$11,301,183**	**$11,172,245**	**$13,116,575**	**$15,908,231**
Positions	55	58	64	66
FTE	51.85	54.42	58.17	62.42

Program Description

Responsibilities of the Distilled Spirits program all relate to liquor sales and distribution. As a "control state," Oregon has granted the Commission sole authority to sell distilled spirits by the bottle. OLCC's current average markup based on the current sales mix is approximately 102%, which generates funds to finance its expenses and to produce revenue for state and local government general funds. There are two divisions within the Program:

- *Wholesale Services* responsibilities include analyzing trends in customer buying and new product availability; purchasing and securely warehousing the liquor; arranging for the shipment of products to the state's retail liquor stores; and settling claims for damaged or defective goods. The Division ensures adequate liquor inventories and a varied selection to satisfy consumer demand.
- *Retail Services* oversees operation of the statewide retail liquor store system, which consists of 243 retail outlets run by contract agents. Funding for agents' compensation is in a separate program, although it is related to the Retail Services Division of the Distilled Spirits program.

Budget Environment

OLCC has added five new stores in the Portland metropolitan and Bend regions since 2003. Three of the stores opened 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.

At an appearance before the Emergency Board in April 2006, the OLCC requested six additional limited duration positions and associated equipment so that the distribution center could meet additional demand for OLCC products, as well as expenditure limitation to replenish overtime and holiday personal services costs related to sales in excess of projections. The Emergency Board approved the request.

Governor's Budget

The 2007-09 Governor's recommended budget of $15.9 million Other Funds and 66 positions (62.42 FTE) for the Distilled Spirits program is $204,885 or 1.3% more than the 2005-07 legislatively approved level. The Governor's budget includes an enhancement package to convert the 6 limited duration liquor distribution workers approved by the Emergency Board to permanent positions and add an additional three positions to meet the escalation in consumer demand by assuring timely handling and shipping of liquor store orders. Also included in the enhancement package are reclassifications of two positions based on a review of duties by the Department of Administrative Services' (DAS) Human Resource Services Division, and one-time equipment expenditures related to the distribution center.

OLCC – Public Safety Services

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	13,541,526	13,075,035	13,075,035	17,668,953
Total Funds	**$13,541,526**	**$13,075,035**	**$13,075,035**	**$17,668,953**
Positions	101	93	93	112
FTE	97.91	91.00	91.00	107.91

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 three divisions:

- *License Services* Division investigates and processes license applications for annual and temporary licenses and alcohol service permits, handles renewal applications, and oversees server education providers.
- *Enforcement and Compliance Services* Division operates 10 regional offices throughout the state. Staff in those offices conduct license investigations, respond to complaints, investigate liquor law violations, and work with licensees and local communities to ensure compliance with liquor laws and resolve problems created by licensed businesses or their patrons.
- *Administrative Policy and Process Services* is responsible for reviewing investigative reports and related preparations for contested case hearings; and developing, reviewing, and amending administrative rules.

Budget Environment

The top priority for the Public Safety Services program is preventing underage drinking, reflecting that alcohol continues to be a major contributor in the four leading causes of death among teens and is linked to other crimes. OLCC continues to be challenged by its licensing application process, which takes an average of 117 days to complete, despite legislatively approved technology enhancements to the licensing system intended to speed the licensing application process and obviate the need for additional licensing personnel. OLCC reports that its licensing and enforcement staff are struggling to keep up with responsibilities associated with over 9,800 licensed businesses, a number which has increased 55% since 1990. The total number of licensees is around 11,400, and includes businesses that sell alcohol, distilleries, servers, wineries, and breweries.

Governor's Budget

The Governor's recommended budget reclassifies six regional field manager positions at a cost of $51,882, based on a review of duties by DAS Human Resource Services Division. In addition, five permaent, full-time Liquor Control Inspectors and three permanent, part-time Office Specialist 2 positions are added for a total of 6.50 FTE at a cost of $912,841. The Governor's budget for the Public Safety Services Program totals $17.7 million, a 29.3% increase from the 2005-07 legislatively approved level.

OLCC – Administration and Support Services

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	11,483,391	17,139,739	17,139,739	14,365,824
Total Funds	**$11,483,391**	**$17,139,739**	**$17,139,739**	**$14,365,824**
Positions	57	67	67	60
FTE	55.85	65.85	65.85	59.35

Program Description

The Administration and Support Services program consists of the following divisions:

- *Administration* includes human resources and is responsible for ensuring that the goals of the agency are implemented and that policy as articulated by the Commission is carried out.
- *Management Consulting Services* was organized in 2005-07 to centrally coordinate and provide services, such as internal auditing, performance measurement, research and analysis, staff training, and coordinating input from stakeholders.
- *Administrative Services* handles activities such as purchasing, contracting, motor pool, facilities maintenance, and mail.
- *Communications* is responsible for internal and external agency communications, including print and electronic materials.
- *Financial Services* develops and implements systems that provide fiscal accountability for Commission operations, produces and maintains fiscal records, and develops and monitors execution of the agency's budget.
- *Information Services* develops and supports electronic data systems for staff ranging from desk top PCs to distribution center inventory control applications.

Budget Environment

The agency is in the process of implementing technology improvements to streamline licensing processes and manage increases in product sales and the number of licensees.

Governor's Budget

Some information technology improvements approved for the 2005-07 biennium are underway, and some aspects are behind the original implementation schedule. As a result, $440,000 in 2005-07 expenditure limitation was "rolled over" into the Governor's budget to complete the "My License" information technology package, intended to foster on-line renewals and associated payments of licenses. In addition, $10,164 is included to reclassify the position of Information Technology Director from a Principal Executive Manager D to a Principal Executive Manager E, based on a review conducted by DAS Human Resources Services Division. Other increases from the 2005-07 legislatively adopted budget are attributable to increases in the amount DAS assesses for its information management division (which is working closely with OLCC in implementing its technology initiatives), and for increases in vehicle rates.

OLCC – Store Operating Expenses

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	53,696,413	57,284,338	64,114,000	75,685,000
Total Funds	**$53,696,413**	**$57,284,338**	**$64,114,000**	**$75,685,000**

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 7.95% of all monthly consumer sales (up from 7.15% in 2001-03); and 6.20% of all monthly dispenser sales (up from 5.58% in 2001-03); plus up to $118 monthly for deferred compensation if matched by the agent.
- *Exclusive stores*: based on six sales classifications – 14.25% of the first $10,000 of monthly sales for annual sales up to $210,000 and five compensation bases ranging from $1,660 to $2,700 per month for sales between $210,000 to more than $1.65 million per year; plus 7.55% of all monthly consumer sales (up from 7.15% in 2001-03); 5.89% of all monthly dispenser sales (up from 5.58% in 2001-03); plus up to $150 monthly for deferred compensation to the extent matched by the agent.

The average compensation rate of 8.88% of forecasted liquor sales for the biennium established by the Legislature results in an expenditure limitation in the Governor's budget of $75.7 million based on projected sales. Agents' compensation increases when consumption or price increase. OLCC typically requests an increase in the expenditure limitation from the Emergency Board if actual sales exceed forecasted amounts, and they did so twice in 2006. 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 has made 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." The Legislature directed the OLCC to conduct a study of agents' compensation, which should be completed and available to inform agency budget discussions in 2007.

Governor's Budget

The Governor's recommended budget assumes continuing the average compensation rate of 8.88% of sales.

OLCC – Capital Improvements and Construction

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	196,366	203,766	203,766	360,083
Total Funds	**$196,366**	**$203,766**	**$203,766**	**$360,083**

Program Description

The Capital Improvement program reflects Commission costs of major deferred maintenance and improvements to Commission facilities. The Commission owns an office and distribution center complex in Milwaukie, which ships all bottled distilled liquor and houses most agency personnel. The Emergency Board approved additional expenditure limitation of over $8 million to allow OLCC to purchase a warehouse adjacent to its distribution center, and make improvements to both facilities.

Budget Environment

In the past, 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. The new warehouse will meet the agency's projected space needs to meet consumer demand for additional variety and volume of products for another 10-15 years, and replaces short-term solutions the agency was prepared to request in its budget.

Governor's Budget

The Governor's recommended budget includes $150,000 in expenditure limitation to enable the agency to tear down and remove an out-of-service water tower on OLCC property that has been deemed a safety hazard.

Public Employees Retirement System (PERS) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	79,935,333	81,703,709	84,092,743	87,976,297
Other Funds (NL)	5,215,042,382	5,646,765,074	5,646,765,074	6,286,947,122
Total Funds	**$5,294,977,715**	**$5,728,468,783**	**$5,730,857,017**	**$6,374,923,419**
Positions	420	380	406	403
FTE	366.36	379.00	390.92	401.63

Agency Overview

The Public Employees Retirement System (PERS) administers the retirement system that covers employees of state agencies; public school districts; and most cities, counties, and special districts in Oregon. PERS also administers a voluntary deferred compensation program for the state and some local governmental units. It is responsible for all fiduciary activities performed on behalf of system members. This includes receipt of contributions into the retirement trust and deferred compensation trust funds, retirement counseling, retirement benefit determination, and retirement benefit payment. It is not responsible for investment of retirement system or deferred compensation plan assets. The Oregon Investment Council manages the investment of retirement system assets. Deferred compensation plan assets are managed by private fund managers. The five-member Public Employees Retirement Board has broad authority for operation of the programs. Day-to-day operations are carried out by the Board-appointed Director and agency staff.

PERS – Tiers 1 and 2 Plan

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds (NL)	5,214,655,206	5,641,669,074	5,641,669,074	6,232,224,146
Total Funds	**$5,214,655,206**	**$5,641,669,074**	**$5,641,669,074**	**$6,232,224,146**

Program Description

The Tiers 1 and 2 Plan program accounts for account balance refunds and retirement benefit payments ($5.9 billion); health insurance premiums and subsidy payments ($267 million); and third party health insurance plan administrator costs ($5.3 million). This program is now a closed program (no new members can be added to the Tiers 1 and 2 plans) because of PERS reform legislation passed during the 2003 legislative session. Tier 1 plan members are employees that were hired before January 1, 1996. The 1995 Legislature established a different level of benefits for employees hired on or after January 1, 1996. These employees are known as Tier 2 plan members. Direct administrative costs of this program are budgeted under PERS Operations below. The administrative costs are funded by revenue transfers from this program to the Operations program where legislative oversight and control is provided through the budget process.

Revenue Sources and Relationships

The Other Funds revenue is mainly from employer contributions to the retirement system ($2.5 billion) and retirement trust fund investment earnings ($10.4 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.

Governor's Budget

The Governor's recommended budget provides for payment of refunds, health insurance, retirement benefits, and health plan third party administrator costs expected during the biennium.

PERS – Oregon Public Service Retirement Plan

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds (NL)	387,176	5,096,000	5,096,000	54,722,976
Total Funds	**$387,176**	**$5,096,000**	**$5,096,000**	**$54,722,976**

Program Description

The 2003 Legislature established a new Oregon Public Service Retirement Plan (OPSRP) with yet a different benefit structure for employees hired after August 28, 2003. OPSRP provides for an employer funded retirement benefit and a mandatory employee contribution of 6% of salary and wages into an Individual Retirement Program (IAP) account. The same legislation redirected Tier 1 and Tier 2 member employee contributions into IAP accounts beginning January 1, 2004. The OPSRP program accounts for IAP third-party administrator costs ($4.2 million) and anticipated payments out of members' individual accounts ($50.5 million). The other administrative costs of this program are budgeted under PERS Operations below. Those administrative costs are funded by revenue transfers from this program to the Operations program where legislative oversight and control is provided through the budget process.

Revenue Sources and Relationships

The Other Funds revenue is mainly from employer and employee contributions to the retirement system ($986 million) and retirement trust fund investment earnings ($52 million). Employer contribution rates are established by the Public Employees Retirement Board based upon advice from its consulting actuary.

Governor's Budget

The Governor's recommended budget provides for third party administrator costs and payments to members leaving the system.

PERS – Operations

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved *	2007-09 Governor's Recommended
Other Funds	76,371,874	75,982,759	78,371,793	82,267,097
Total Funds	**$76,371,874**	**$75,982,759**	**$78,371,793**	**$82,267,097**
Positions	420	380	406	403
FTE	366.36	379.00	390.92	401.63

***** *The 2005-07 legislatively approved budget for Operations includes limited duration positions PERS was allowed to administratively establish during the biennium.*

Program Description

The Operations program is responsible for the administrative costs of maintenance of employer and employee accounts, processing of retirements, determination of disability retirement benefits, and payment of retirement benefits. It also administers group health insurance plans for retirees and the federally mandated Social Security Administration program. Additionally, the Operations program administers deferred compensation programs for state employees and employees of local governmental units. Operations activities have been divided into six separate divisions.

Central Administration provides the central direction, planning, and leadership for the PERS organization. It consists of the Director, Deputy Director, Human Resources, and Internal Audits. Additionally, the deferred compensation and health insurance programs are located in Central Administration.

	2003-05 Actual	2005-07 Leg. Adopted	2005-07 Leg. Approved	2007-09 Governor's Rec.
Other Funds	8,157,426	4,764,814	4,219,763	4,760,748
Positions	25	25	27	27
FTE	22.99	24.40	27.00	27.00

Benefit Payments is primarily responsible the calculation and issuance of retiree benefits. Other responsibilities include processing divorce orders, disability claims, death benefits, and benefit adjustments. The Division is also responsible for making a number of adjustments to Tier 1 member account balances. The recalculations are required by court decisions that: a) the Board erred in its allocation of 1999 fund earnings to Tier 1 member accounts, and b) invalidated a portion of the 2003 PERS reform legislation.

	2003-05 Actual	2005-07 Leg. Adopted	2005-07 Leg. Approved	2007-09 Governor's Rec.
Other Funds	7,064,566	11,566,533	11,953,826	13,126,186
Positions	103	102	107	107
FTE	84.13	102.00	103.79	107.00

Fiscal Services provides most business and central support services to the other agency divisions. This includes financial reporting, coordination of actuarial information, accounting, trust tax compliance, and fiscal operation functions such as procurement, cash receipts and disbursements, payroll, budget, and cost allocation. Other responsibilities include shipping and receiving, building management, and mail services.

	2003-05 Actual	2005-07 Leg. Adopted	2005-07 Leg. Approved	2007-09 Governor's Rec.
Other Funds	10,316,987	10,017,234	10,727,483	11,999,376
Positions	45	43	46	45
FTE	39.63	43.00	44.75	44.75

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.

	2003-05 Actual	2005-07 Leg. Adopted	2005-07 Leg. Approved	2007-09 Governor's Rec.
Other Funds	35,045,542	34,740,332	35,379,853	34,319,484
Positions	107	99	103	100
FTE	99.62	99.00	98.00	100.00

Policy, Planning, and Legislative Analysis is responsible for fiscal and administrative policy coordination, legal services management, contested case hearings, administrative and business rules, and legislative analysis. It is also responsible for the Social Security Administration program for Oregon's public employers.

	2003-05 Actual	2005-07 Leg. Adopted	2005-07 Leg. Approved	2007-09 Governor's Rec.
Other Funds	5,598,212	3,881,862	3,961,994	4,035,844
Positions	19	16	14	14
FTE	16.25	15.50	13.50	13.50

Customer Services oversees employer reporting, maintains member employment and account information, and provides employee member counseling, education, and communications services for the Tier 1 and 2 plans and the Oregon Public Service Retirement Plan.

	2003-05 Actual	2005-07 Leg. Adopted	2005-07 Leg. Approved	2007-09 Governor's Rec.
Other Funds	10,189,141	11,011,984	12,128,874	14,025,459
Positions	121	95	109	110
FTE	103.74	95.10	103.88	109.38

Revenue Sources and Relationships

The Operations program revenue is mainly from revenue transfers received from the Tiers 1 and 2 and OPSRP programs ($75.3 million). Additionally, revenue to support the deferred compensation program is from a charge of 0.08 of 1% on deferred compensation trust fund assets ($1.4 million). Revenue from charges for IAP administrative costs is estimated to be $6.1 million. Revenues also are from other administrative fees assessed on participants and employers for social security administration activities and other miscellaneous non-customary services ($400,000).

Budget Environment

PERS Operations continue to be 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 installed to service the new Oregon Public Services Retirement Plan. Individual accounts had to be set up for more than 153,000 active members, and employers were required to change their PERS reporting to accommodate the new *jClarety* system. Additionally, Supreme Court decisions handed down in 2005 on PERS reform legislation and a settlement of a lower court decision on the Board 1999 earnings crediting decision have required PERS to recalculate account balances of Tier 1 members, active, inactive, and retired. The Legislature has provided PERS with a number of limited duration positions over the years to deal with transition issues. Also, PERS was allowed to administratively establish 28 positions in 2006 to deal with the workload caused by the Supreme Court decisions and settlement agreement.

The Board had defined the 2005-07 biennium as the biennium of transition – from the chaos of the post-reform legislation during the 2003-05 biennium, to that of a stable, cost effective state agency operation. However, the transition continues through the 2007-09 biennium. PERS points to the Supreme Court decisions, and the resulting workload created therefrom, as the chief reason for the longer transition timeline.

Governor's Budget

The Governor's recommended budget provides staff and Other Funds expenditure limitation enhancements requested by PERS to continue on the course it has charted for itself, at the pace it has set for itself. The budget documents suggest that PERS now expects to accomplish the Board's goal of stabilized operations by the end of the 2007-09 biennium. Final conversion of RIMS to the new *jClarety* system is projected for November 2009.

The Legislature has consistently provided a significant number of limited duration positions for PERS to address its temporary workload needs in its 2003-05 and 2005-07 budgets. The Governor's recommended budget continues to provide additional resources for its temporary workload needs through the 2007-09 biennium. It also establishes a number of new permanent positions to address ongoing workload issues. It does recognize the administrative phase out of two positions (1.75 FTE).

Work originally planned on the RIMS conversion during 2005-07 has been pushed back as PERS devoted resources to deal with the Supreme Court decisions. As a result, $4.4 million of expenditure limitation for RIMS conversion has been carried over into the 2007-09 budget and is part of the $13.5 million and six limited duration positions (6.00 FTE) requested to continue the conversion project. The budget includes $6.3 million and 57 limited duration positions (57.00 FTE) to finish Tier 1 benefit recalculations and initiate overpayment recovery required by the Supreme Court decisions and settlement agreement. It also includes $9.5 million, 39 limited duration positions (39.00 FTE), and 37 permanent positions (37.00 FTE) to address transitional and permanent workload issues. Additionally, the budget includes an additional $1 million for outside legal counsel costs.

PERS – Debt Service

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	3,563,459	5,720,950	5,720,950	5,709,200
Total Funds	**$3,563,459**	**$5,720,950**	**$5,720,950**	**$5,709,200**

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).

Governor’s Budget

The Governor’s recommended budget provides expenditure limitation necessary to pay the required debt service.

Racing Commission – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	4,945,952	4,253,696	5,039,488	4,704,272
Total Funds	**$4,945,952**	**$4,253,696**	**$5,039,488**	**$4,704,272**
Positions	23	16	17	16
FTE	17.50	12.98	13.42	14.52

Agency Overview

The Oregon Racing Commission regulates all aspects of the pari-mutuel industry in Oregon. The Commission oversees horse racing at Portland Meadows Racetrack and at 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 promoting horse racing in Oregon while ensuring the integrity of the sport as well as the safety of the contestants, public, and animals. Regulatory activities of the Commission include licensing, inspections, and investigations of irregularities.

Revenue Sources and Relationships

Revenues are derived from the state share of wagering receipts, license fees, and licensee fines. All fee revenues received are used for Commission expenses. Any Commission revenues in excess of expenses and maintenance of a prudent ending balance are transferred to the General Fund. The state's share of total bets made at horse racing tracks and on simulcast horse races is 1%. 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%, with a cap on how much any one Hub will pay during a fiscal year. Of the taxes collected, one-third is transferred to the General Fund. The remaining two-thirds is deposited in the Racing Development Fund to be used by the Commission for "the benefit of the Oregon pari-mutuel racing industry." This money has been used in the past to enhance race purses, make safety improvements at race meet sites, provide jockey incentives, and promote thoroughbred breeding. The Commission also collects a license fee of $200 per operating day from Hubs. Revenue from the pari-mutuel tax on Hub wagers has been steadily increasing.

Budget Environment

Live racing in Oregon is in an era of uncertainty. The company that offered live greyhound racing at Multnomah Greyhound Park ended operations in December 2005 which caused significant reductions in the 2005-07 legislatively adopted budget. No live greyhound racing is expected to occur during the 2007-09 biennium. The Oregon horse racing industry has also been challenged due to competing forms of gambling, including the addition of slot machine style gaming by the state and the possibility of two tribal casinos opening within an 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 2005-07 biennium, a seventh Hub began operations. The 2007-09 budget assumes all seven 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.

Governor's Budget

The Governor's recommended budget is about 11% higher than the 2005-07 legislatively adopted levels. The Governor's recommended budget level is lower than the 2005-07 legislatively approved budget because it did not includ an increase in expenditures from the Racing Development Fund that was approved by the

Emergency Board at its December 2006 meeting. It is likely the Governor's budget underestimated revenue from Hubs since no accommodation for the higher revenues that the Emergency Board addressed in December are included in the recommended levels of spending. At this same meeting, the Emergency Board approved the establishment of a second veterinarian position to address increased workload and increased a part-time veterinary tech position to full-time to address increased medical testing caused by the Commission's adoption of uniform medication rules. The Governor's budget continues these position actions in the 2007-09 biennium at a cost of $269,009 Other Funds. The budget also eliminates a part-time race worker position (0.20 FTE), the funding for which was used for an administratively approved reclassification of an Executive Support Specialist 2 position to a Program Analyst 2. The Governor's budget includes an ending balance that would support approximately two months of operating expenses, which is on the low end of what is usually considered a sufficient operating reserve.

Department of Revenue (DOR) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	114,586,226	132,677,797	137,502,762	149,961,692
Other Funds	33,166,231	29,238,461	30,697,742	34,053,182
Other Funds (NL)	202,180	224,358	224,358	231,313
Total Funds	**$147,954,637**	**$162,140,616**	**$168,424,862**	**$184,246,187**
Positions	1,057	1,094	1,094	1,066
FTE	976.15	1,004.91	1,004.91	985.62

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.

The following table displays sources and amounts of estimated Other Funds revenues for 2007-09:

SOURCE	2007-09 ESTIMATED
Cigarette and Other Tobacco Tax Collections	$ 7,300,000
State Agency Collections	$ 9,400,000
Assessor Funding Program	$ 4,500,000
Employer-Employee Taxes (primarily Tri-Met and Lane Districts)	$ 5,200,000
Senior and Disabled Citizens' Property Tax Deferral	$ 1,200,000
ORMAP	$ 3,500,000
Others	$ 3,000,000
TOTAL REVENUES	**$ 34,100,000**

Budget Environment

The Department projects modest population and economic growth for the 2007-09 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.

Governor's Budget

The Governor's recommended budget reflects a reduction in staffing that was necessary for the Department to absorb an unspecified $3 million General Fund reduction to its 2005-07 budget. The Legislature left it up to the Department to determine how to deal with the reduction. The reduction was accomplished by leaving positions vacant. The 2007-09 budget reflects the elimination of 41 positions (40.15 FTE) to continue the impact of that reduction. Additionally, due to administrative actions, 24 positions (4.54 FTE) were phased out.

The budget also completes the adjustments necessary to reflect the proper funding allocation between General Fund and Other Funds. In 2003, the Legislature replaced $25 million General Fund support with anticipated Other Funds that would come from increased cigarette and tobacco tax receipts. Those receipts did not materialize and the Emergency Board and Legislature provided supplemental General Fund support during the 2003-05 biennium to keep the Department operating. Adjustments to restore the General Fund (and reduce the Other Funds) were made in 2005. Subsequently, additional adjustments in the amount of $1.1 million General Fund were found to be needed and the Governor's recommended budget includes that technical adjustment as a fund shift from Other Funds to General Fund.

A number of enhancements to the Department's budget are also recommended. Some of the enhancements anticipate passage of legislation. These enhancements add 37 positions (32.15 FTE), $3 million General Fund, and $5.4 million Other Funds to the Department's budget. The budget also reduced General Fund support for the Elderly Rental Assistance program by $500,000. These adjustments are discussed more thoroughly in the respective Sections' and Divisions' analyses.

DOR – Executive Section

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	2,449,371	3,080,879	3,174,118	3,480,353
Other Funds	449,375	271,030	278,110	394,989
Total Funds	**$2,898,746**	**$3,351,909**	**$3,452,228**	**$3,875,342**
Positions	18	17	17	16
FTE	18.00	16.01	16.01	15.13

Program Description

The Executive Section is responsible for overall administration of the agency and for coordinating the agency's legislative, rulemaking, communications, and internal audit functions.

Governor's Budget

The Governor's recommended budget maintains the activities of the Executive Section. It administratively phased out one part-time communications position and changed one assistant position to part-time to accommodate the budget reduction of 2005.

DOR – General Services Section

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	12,113,551	2,768,377	2,768,377	5,365,508
Other Funds	1,107,132	421,739	421,739	466,198
Total Funds	**$13,220,683**	**$3,190,116**	**$3,190,116**	**$5,831,706**

Program Description

The General Services Section is used to budget for a portion of expected central agency costs for postage, legal expenses, and other expenditures that tend to vary from biennium to biennium between operating divisions. For internal budgetary purposes, the flow of tax revenues are accounted for in this section.

Governor's Budget

The Governor's recommended budget maintains the Department's essential budget level for certain expected costs.

DOR – Administrative Services Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	36,508,279	42,368,190	44,009,718	48,262,444
Other Funds	6,518,708	4,407,181	4,636,368	6,147,459
Total Funds	**$43,026,987**	**$46,775,371**	**$48,646,086**	**$54,409,903**
Positions	332	359	359	347
FTE	276.51	304.68	304.68	295.62

Program Description

The Administrative Services Division (formerly called 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, 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. Additionally, changes in other divisions impact the demand for services of its other support functions.

Governor's Budget

The Governor's recommended budget reflects the elimination of eight positions resulting from moving data center operations to the new state data center and five other positions through other administrative actions. It also reflects the elimination of nine vacant positions to accommodate the budget reduction of 2005.

The budget adds two positions to support electronic taxpayer filings. Electronic filing support previously was provided by the Department of Administrative Services (DAS) and paid by the Personal Tax and Compliance Division. The $313,000 cost of internal staff is slightly less than the DAS cost. The budget includes $341,000 General Fund and $34,000 Other Funds to lease and purchase new payment processing equipment. Three positions and $300,000 General Fund and $6,000 Other Funds are added to verify eligibility of taxpayers filing for refundable tax credits. Additionally, $155,000 Other Funds is provided to continue compliance and collection efforts on sales of untaxed cigarette and tobacco products to Oregon residents by out-of-state sellers. Initial funding for this activity (known as "Jenkins Act Tobacco Enforcement") was approved by the Emergency Board during the interim. The budget adds four positions and $802,000 General Fund and $89,000 Other Funds to begin an Electronic Document Management (imaging) System. Development of the system will begin with the Corporate Tax program in 2007-09 and continue with the Personal Income Tax program in 2009-11. Other tax programs will be addressed in 2011-13. Additionally, the budget adds one position to address the workload associated with a proposed increase in the corporate minimum tax. The budget anticipates passage of legislation that would increase the tax.

DOR – Property Tax Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	9,621,617	18,878,456	19,401,017	20,322,964
Other Funds	9,930,772	9,366,501	9,520,812	10,038,992
Total Funds	**$19,552,389**	**$28,244,957**	**$28,921,829**	**$30,361,956**
Positions	137	128	128	123
FTE	133.77	124.71	124.71	120.21

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 billion); appraising all utility, transmission, communication, and transportation properties (currently valued at $13.8 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 $3 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.

Governor's Budget

The Governor's recommended budget reflects the elimination of five positions to accommodate the 2005 budget reduction. The budget has no other program enhancements or reductions.

DOR – Personal Tax and Compliance Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	35,950,332	45,831,626	47,901,551	50,301,300
Other Funds	3,669,204	1,414,853	1,569,004	1,689,320
Total Funds	**$39,619,536**	**$47,246,479**	**$49,470,555**	**$51,990,620**
Positions	376	399	399	382
FTE	360.21	379.89	379.89	369.46

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 about 1.7 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.

Governor's Budget

The Governor's recommended budget eliminates 26 positions in order to accommodate the 2005 budget reduction and recognize a shift of costs from personal services to services and supplies. It also reduces the budget by $307,000 General Fund and $6,000 Other Funds to reflect the transfer of support for the electronic taxpayer filing to the Administrative Services Division. Other Funds are increased $104,000 for this Division's work on Jenkins Act Tobacco Enforcement. Additionally, the budget includes nine positions and $1.1 million General Fund and $21,000 Other Funds to verify eligibility of taxpayers filing for refundable tax credits.

DOR – Business Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	10,119,634	11,750,268	12,247,710	14,729,122
Other Funds	11,491,040	13,357,157	14,271,709	15,316,224
Total Funds	**$21,610,674**	**$25,107,425**	**$26,519,419**	**$30,045,346**
Positions	194	191	191	198
FTE	187.66	179.62	179.62	185.20

Program Description

The Business Division administers several tax programs, including corporate income and excise taxes, the employer withholding tax, the transit payroll and self-employment taxes, the fiduciary, inheritance, and cigarette taxes, and other agency accounts and special programs. Responsibilities include auditing tax returns and collecting delinquent taxes and other delinquent accounts. The Division also provides debt collection services for state and local agencies and for state and municipal courts in all 36 counties.

Budget Environment

Collection of the state's past due accounts has been a legislative concern, and the Division has an important role in this activity. Currently, the Division is collecting on 197,000 accounts owed to 273 state offices and agencies. The number of delinquent accounts is expected to increase. The Division is using more automation to help handle workload growth. Other state agencies have also identified 144,000 delinquent accounts for collection through the automated refund offset program within this Division.

This Division also collects revenues from cigarette tax stamps and taxes on other tobacco products. The 2001 Legislature provided additional staff and funding for a Tobacco Task Force that included personnel from the Department of State Police and the Department of Justice. Funding for that Task Force is authorized to come from Other Funds taxes collected on cigarette and other tobacco taxes. That funding authorization expires on December 31, 2007. Nine positions are phased out effective December 31, 2007, but are restored through an enhancement in the Governor's recommended budget.

Governor's Budget

The Governor's recommended budget eliminates one position to accommodate the 2005 budget reduction. It also restores the nine Tobacco Task Force positions (and $3.3 million Other Funds) scheduled to be eliminated December 31, 2007. However, the funding of these positions is contingent upon passage of legislation that would repeal the December 31, 2007 sunset date for use of cigarette and tobacco tax collections to fund the Task Force. That legislation requires a majority vote in both chambers.

The budget also includes nine other positions and $1.8 million General Fund for tax collection efforts that anticipate passage of two tax increases. Legislation will be introduced to increase the corporate minimum tax and to increase the cigarette tax. Three positions and $400,000 General Fund are budgeted to deal with the increase in the corporate minimum tax. Six positions and $1.4 million General Fund is included to deal with the increase in the cigarette tax. Passage of these tax increases will require a 3/5 majority vote in both chambers.

DOR – Multistate Tax Commission

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds (Nonlimited)	202,180	224,358	224,358	231,313
Total Funds	**$202,180**	**$224,358**	**$224,358**	**$231,313**

Program Description

Through the Department of Revenue, Oregon is a member of the Multistate Tax Commission, which is composed of 40 states that have joined together to promote uniformity in state taxation of corporate income. Dues to the Commission are proportional to the amount of tax revenue each state collects. The budget reflects the Nonlimited expenditures for these dues.

Budget Environment

The Commission expects to maintain its current level of services to members.

Governor's Budget

The Governor's recommended budget is the state's expected assessment for operational expenses of the Multistate Tax Commission.

DOR – Elderly Rental Assistance

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	7,823,442	8,000,000	8,000,000	7,500,000
Total Funds	**$7,823,442**	**$8,000,000**	**$8,000,000**	**$7,500,000**

Program Description

The Elderly Rental Assistance program provides direct tax relief to elderly, low-income renters. Benefits are based on income levels and the amount of rent, fuel, and utilities paid. The benefits are available to renters age 58 or over with household incomes under $10,000, 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

This program has experienced a steady decline in payments to renters over the last several biennia. In part, this has been because, as the Oregon economy improved, fewer individuals met the program's eligibility criteria (which are not indexed to inflation). Payments are expected to level off as the decline in payments to renters is being offset by payments to local governments for tax-exempt housing for the elderly.

Governor's Budget

The Governor's recommended budget is the amount of benefits expected to be paid during the 2007-09 biennium, which is $500,000, or 6%, less than the amount appropriated for 2005-07. The amount is less than has been paid out in the past due to the fact that fewer people meet the eligibility criteria.

DOR – Senior Citizens' and Disabled Citizens' Property Tax Deferral

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
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 7,800 accounts. The Disabled Citizens' component of the program has about 630 participants. At June 30, 2006 over $116 million is owed to the state under the programs. 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. The General Fund makes up any shortfall in the program. Currently, it is self-supporting and no shortfall is anticipated this biennium.

The Legislature, in 2005, determined that excess cash in the account should be used to fund assistance to seniors through Oregon Project Independence. As a result, beginning July 1, 2007, the Department annually, on November 30th, will determine the balance in the account. Any amount in excess of the greater of 35% of the amounts paid to counties for deferred taxes in November, or $5 million will be transferred to Oregon Project Independence.

Governor's Budget

The Governor's recommended 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. The budget anticipates that $16.6 million will be transferred to Oregon Project Independence during the 2007-09 biennium.

Secretary of State (SOS) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	13,024,284	9,639,608	11,462,627	11,614,930
Other Funds	29,005,381	33,345,432	34,324,182	39,712,282
Federal Funds	10,085,707	5,151,161	9,293,472	9,158,195
Other Funds (NL)	91,914	0	0	0
Total Funds	**$52,207,286**	**$48,136,201**	**$55,080,281**	**$60,485,407**
Positions	205	203	203	208
FTE	204.50	198.08	202.46	207.50

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 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 $17.7 million will be transferred to the General Fund in the 2007-09 biennium. The Secretary may only retain a cash balance that is equivalent to two months of operating expenditures for the Corporation Division. Voters' pamphlet and election filing fees and penalties collected by the Elections Division are also deposited into the General Fund rather than directly supporting the agency's budget.
- *Sale of publications*, including the annual Oregon Administrative Rules Compilation, the monthly Oregon Bulletin which provides updates to the Compilation, and the Oregon Blue Book, generate revenues for the Archives Division.
- *Internal transfers* are made to the Executive Office, Business Services, Information Systems, and Personnel Resources Divisions by the Audits and Corporations Divisions for a proportionate share of administrative costs.
- *Miscellaneous* document and copier charges are also collected by the Archives and Elections Divisions. Prior to the 2005-07 biennium, these funds were spent as Nonlimited Other Funds.

In past biennia, Federal Funds revenues were received primarily under the Help America Vote Act (HAVA). For the 2007-09 biennium, the HAVA program will expend existing Federal Funds revenues already received by the state. There is no need for General Fund for the state's matching portion of these funds.

Budget Environment

The Secretary of State is a separately elected, constitutional office, and as such, has not been subject to the Governor's budget review. SB 1101 (2005) modified the statutes relating to the Governor's budget development and allotment system to include the Secretary of State and the State Treasurer in those processes.

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.

SOS – Executive Office

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	375,703	287,758	295,499	295,065
Other Funds	813,954	1,086,945	1,121,322	1,222,879
Total Funds	**$1,189,657**	**$1,374,703**	**$1,416,821**	**$1,517,944**
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.

Governor's Budget

The Governor's recommended budget for the Executive Office represents a 7.1% increase over the 2005-07 legislatively approved budget. Current services are maintained with standard inflation being the only increase to the budget.

SOS – Archives Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	3,438,890	3,424,697	3,514,288	3,602,754
Other Funds	1,398,013	2,280,204	2,314,796	2,445,885
Other Funds (NL)	54,218	0	0	0
Total Funds	**$4,891,121**	**$5,704,901**	**$5,829,084**	**$6,048,639**
Positions	22	22	22	23
FTE	22.00	22.00	22.00	23.00

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.

Governor's Budget

The Governor's recommended budget for the Archives Division represents a 3.8% increase over the 2005-07 legislatively approved budget. The Governor's budget includes maintenance of current services, reclassification of four existing positions, establishment of a new position to provide support to local governments on their public record issues, and funding for a Data Records Center, archives, and storage study.

SOS – Audits Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	12,174,133	12,959,302	13,420,142	15,115,794
Total Funds	**$12,174,133**	**$12,959,302**	**$13,420,142**	**$15,115,794**
Positions	76	72	72	75
FTE	76.00	72.00	72.00	75.00

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.

Governor's Budget

The Governor's recommended budget for the Audits Division represents a 12.6% increase over the 2005-07 legislatively approved budget. The Governor's budget includes maintenance of current services, a reclass of an existing position, and establishes three new auditor positions (3.00 FTE) to conduct school district performance audits.

SOS – Business Services Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	321,600	283,368	291,684	321,347
Other Funds	2,146,909	2,427,534	2,513,216	2,879,066
Total Funds	**$2,468,509**	**$2,710,902**	**$2,804,900**	**$3,200,413**
Positions	16	16	16	17
FTE	16.00	16.00	16.00	17.00

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.

Governor's Budget

The Governor's recommended budget for the Business Services Division represents a 14.1% increase over the 2005-07 legislatively approved budget. The Governor's budget includes maintenance of current services, the reclassification of two accounting positions, and the establishment of a new budget analyst position (1.00 FTE).

SOS – Corporation Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	6,488,901	6,796,176	7,000,739	7,684,754
Total Funds	**$6,488,901**	**$6,796,176**	**$7,000,739**	**$7,684,754**
Positions	37	37	37	39
FTE	36.50	36.42	36.42	38.50

Program Description

The Corporation Division is responsible for three major programs: 1) Business Registry – the filing of business names; 2) Uniform Commercial Code - the filing of secured transactions; and 3) Notary Public – commissioning and regulating notaries.

Governor's Budget

The Governor's recommended budget for the Corporation Division represents a 9.8% increase over the 2005-07 legislatively approved budget. Current services are maintained in addition to the reclassification of an existing position, the establishment of an office specialist position (1.00 FTE), and the establishment of two positions (2.00 FTE) to deal with identity theft and fraud issues.

SOS – Elections Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	7,771,797	3,810,090	5,486,790	6,178,379
Other Funds	0	119,748	119,748	123,458
Other Funds (NL)	37,696	0	0	0
Total Funds	**$7,809,493**	**$3,929,838**	**$5,606,538**	**$6,301,837**
Positions	18	15	15	16
FTE	18.00	15.00	15.00	16.00

Program Description

The Elections Division administers state and federal elections laws, provides training to county and city election officials, political party representatives, and candidates; publishes statewide voter's pamphlets; and administers the filing and verification of initiative, referendum, and recall petitions.

Governor's Budget

The Governor's recommended budget for the Elections Division represents a 12.4% increase from the 2005-07 legislatively approved budget. There is a fairly large increase in risk management premiums being charged by the Department of Administrative Services. The Governor's budget also establishes a new office specialist position (1.00 FTE).

SOS – Information Systems Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	1,065,250	1,076,869	1,115,841	1,150,381
Other Funds	5,566,573	6,493,654	6,634,494	9,676,449
Federal Funds	0	0	0	1,920,000
Total Funds	**$6,631,823**	**$7,570,523**	**$7,750,335**	**$12,746,830**
Positions	25	25	25	24
FTE	25.00	25.00	25.00	24.00

Program Description

The Information Systems Division provides centralized information technology services including database administration, Internet development, and application development and maintenance for the agency.

Governor's Budget

The Governor's recommended budget for the Information Systems Division represents a 64.5% increase from the 2005-07 legislatively approved budget. The increases include the modification of two limited duration positions into permanent positions, $1.2 million Other Funds for the continuation of E-business projects, $1,920,000 Federal Funds for the continuation of the Elections Business System, $85,000 Other Funds to enable the use of the Deposit Interface System, and $1.5 million Other Funds to implement an Electronic Records Management System and Center.

SOS – Personnel Resources Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	51,044	56,826	58,525	67,004
Other Funds	362,775	481,869	499,725	563,997
Total Funds	**$413,819**	**$538,695**	**$558,250**	**$631,001**
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.

Governor's Budget

The Governor's recommended budget for the Personnel Resources Division represents a 13% increase over the 2005-07 legislatively approved budget. Current services are maintained as well as the reclassification of two positions.

SOS – Help America Vote Act

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	0	700,000	700,000	0
Other Funds	0	700,000	700,000	0
Federal Funds	10,085,707	5,151,161	9,293,472	7,238,195
Total Funds	**$10,085,707**	**$6,551,161**	**$10,693,472**	**$7,238,195**
Positions	0	7	7	5
FTE	0.00	2.66	7.04	5.00

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.

Governor's Budget

The Governor's recommended budget for the Help America Vote Act represents a 32.3% decrease from the 2005-07 legislatively approved budget. No General Fund is being requested and all projects will be funded with existing federal funds. All funding for projects are considered one-time, so all funding for the program is included in a policy option package. The package includes $7,238,195 Federal Funds and the continuation of four limited duration positions (4.00 FTE) to continue to meet the ongoing HAVA requirements and program needs.

Treasurer of State (Treasurer) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	17,110,593	23,272,285	23,844,759	31,779,191
Other Funds (NL)	5,656,477	3,500,000	3,500,000	4,001,000
Total Funds	**$22,767,070**	**$26,772,285**	**$27,344,759**	**$35,780,191**
Positions	75	75	75	91
FTE	74.10	74.60	74.60	83.10

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. The Treasurer's budget anticipates passage of a law that would transfer responsibility for disposing of unclaimed property from the Department of State Lands to the Treasurer.

Treasurer – Treasury Services

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	16,350,867	21,080,823	21,639,627	27,947,934
Other Funds (NL)	5,656,477	3,500,000	3,500,000	3,500,000
Total Funds	**$22,007,344**	**$24,580,823**	**$25,139,627**	**$31,447,934**
Positions	73	73	73	77
FTE	72.10	72.60	72.60	75.10

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; *Banking* 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. The Treasurer has included the proposed transfer of Unclaimed Property responsibility under the Treasury Services Program. The Legislative Fiscal Office does not agree with this approach and, therefore, Unclaimed Property is discussed as a separate program below.

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 1% on the Oregon Short Term Fund and up to 0.25 of 1% on other investments managed. Revenue from these charges is estimated to be $17.4 million. Other revenues include charges to banks that use the Treasurer as a collateral pool manager, estimated at $124,000; 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 $3.1 million; and charges to state agencies for banking services, estimated at $6 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 Nonlimited 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 has relied heavily on automation to service this growth, without a corresponding growth in personnel.

Governor's Budget

The Governor's recommended budget recognizes a staffing change made during the 2005-07 biennium. That change added one half-time position, and reduced one full-time position to half-time. No change in FTE resulted, simply the addition of one position. Funding is also provided for the relocation of Treasury staff from existing space in the Labor and Industries Building in order to continue to have staff located together ($2.1 million). The funding anticipates the statutory transfer of the Unclaimed Property staff from the Department of State Lands.

The budget also adds two positions (2.00 FTE) in the Investment Division and one position (1.00 FTE) in the Debt Management Division. It further reclassifies three positions, two in the Debt Management Division and one internal auditor position. The reclassifications are designed to align the classifications with actual job responsibilities. Total cost for the additional staff and reclassifications is $1.2 million Other Funds.

Treasurer – Oregon 529 College Savings Network

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	759,726	2,191,462	2,205,132	2,131,373
Total Funds	**$759,726**	**$2,191,462**	**$2,205,132**	**$2,131,373**
Positions	2	2	2	2
FTE	2.00	2.00	2.00	2.00

Program Description

The Oregon 529 College Savings Network administers a savings program designed to encourage people 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%). 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.

Budget Environment

The program was initiated during the 1999-2001 biennium and now has 98,000 participant accounts, totaling more than $660 million. The Treasurer expects the program to continue to grow during the 2007-09 biennium.

Governor's Budget

The Governor's recommended budget continues the program at its current level. It also includes $28,000 for its portion of capital outlay and services and supplies that are expected if staff are moved into new quarters as a result of the transfer of the Unclaimed Property program.

Treasurer – Unclaimed Property

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
Other Funds	0	0	0	1,699,884
Other Funds (NL)	0	0	0	501,000
Total Funds	**$0**	**$0**	**$0**	**$2,200,884**
Positions	0	0	0	12
FTE	0	0	0	6.00

Program Description

This program will manage forfeited and unclaimed property. The Unclaimed Property program is proposed to be transferred from the Department of State Lands to the Treasurer of State during the 2007-09 biennium.

Transfer of the program will require legislation and draft legislation to that effect will be introduced. It is expected that the legislation would transfer the activities effective July 1, 2008.

Revenue Sources and Relationships

The proposed legislation would create an Unclaimed Property Account in the Common School Fund. Unclaimed property would be deposited into the account. Moneys in the account would be continuously appropriated to the Treasurer for payment of amounts to rightful owners of unclaimed property and payment of Treasurer's expenses of the program.

Budget Environment

Currently, the Unclaimed Property accounts for about $200 million (20%) of the Common School Fund. Earnings have been sufficient to pay the administrative expenses of the program. Further, gross receipts into the account have exceeded claims and administrative costs for the past six years and the account continues to grow.

Governor's Budget

The Governor's recommended budget anticipates passage of legislation that transfers this responsibility to the Treasurer. It provides for personal services, service and supplies and capital outlays directly associated with the personnel transferred. It does not provide for any allocation of overhead such as state service charges or assessments from various state agencies. Nonlimited Other Funds expenditure limitation is for contingent fees paid to out of state vendors who locate, and cause to be transferred, unclaimed property to Oregon.

The Governor's recommended budget places the program in the Treasury Services Program area. The Legislative Fiscal Office believes that the operations relating to Unclaimed Property differ markedly from Treasury Services which provide banking, investment, and debt management services to state and local governments. Different laws, revenue sources, and stakeholder groups impact this program and it is, therefore, presented separately.

LEGISLATIVE BRANCH

Legislative Branch (LEG) – Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended *
General Fund	53,914,879	61,786,370	67,088,682	70,524,483
Other Funds	2,852,384	5,795,510	6,838,917	4,745,451
Other Funds (NL)	1,422,544	1,572,116	1,607990	1,573,061
Total Funds	**58,189,807**	**69,153,996**	**75,535,589**	**76,842,995**
Positions	684	685	686	688
FTE	394.70	393.36	393.90	396.92

* *Historically, the Governor's recommended budget has either accommodated the entire agency request for agencies exempt from the Governor's budget review (Legislative and Judicial Branches, State Treasurer, and Secretary of State) or made an adjustment based on a calculated average of overall reductions made to agencies in the Executive Branch. In the 2007-09 recommended budget, there is a positive adjustment of $932,914 above the agency request level (including policy packages) to reflect this calculation, effectively allowing the Legislative Branch to continue all current activities in 2007-09 and accommodate an additional increase of $3.6 million General Fund, or approximately 10%, above the 2005-07 legislatively approved budget.*

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.

Governor's Budget

The Governor's recommended budget is sufficient to fund the agency request budget of $69.6 million General Fund, $75.9 total funds. The Governor's budget also includes an additional $971,293 General Fund above the agency request level for the Legislative Branch ($3.6 million General Fund above the essential budget level). This is an adjustment to allow for the same average amount of increase the Governor has recommended for Executive Branch agencies.

LEG – Legislative Assembly

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	23,414,111	26,907,691	30,777,516	29,442,014
Other Funds	177,117	196,988	196,988	202,969
Other Funds (NL)	88,205	86,789	86,789	86,789
Total Funds	**$23,679,433**	**$27,191,468**	**$31,061,293**	**$29,731,772**
Positions	445	444	444	443
FTE	216.54	216.95	216.95	216.2

Program Description

The Legislative Assembly budget includes salaries and per diem for legislative members and their staffs, the leadership and caucus offices, the Secretary of the Senate, the Chief Clerk of the House, session staff, and Senate Executive Appointments.

Revenue Sources and Relationships

The General Fund supports 99% of the Legislative Assembly's activities. Other Funds revenue subject to expenditure limitation comes from reimbursements for duplicating services. The Nonlimited Other Funds are from the Lounge Revolving Account, established in ORS 171.117, which receives payments from legislative members for food services, to be used to pay for the costs of food served in members' lounges.

Budget Environment

The primary responsibility of the Legislative Assembly is to produce a balanced budget that complies with state and federal laws, represents the priorities established by the Legislature, receives an affirmative vote by a majority of each chamber and is signed into law by the Governor. The Legislature also considers thousands of policy issues each biennium and, ultimately, enacts laws on behalf of the citizens they represent.

The Legislature meets in session every other year and enacts a biennial budget. During the interim, interim committees examine specific topics or program areas and a Joint Committee, the Emergency Board, is appointed to meet periodically to address certain fiscal issues that cannot be put off until the next regular session. The Emergency Board has limited authority so there are fiscal circumstances that can require the full Legislature to meet in a special session to ensure the budget remains balanced.

The Legislative Assembly budget is almost completely (except for Executive Appointments) divided to reflect session and interim activities as well as House and Senate costs. Although the legislative session covers approximately 25% of the budget period, in recent history it is has accounted for 40% of costs, primarily due to costs from longer regular sessions. Interim costs are driven by the number of interim committees and the number of times the committees meet.

Governor's Budget

The Governor's recommended budget is sufficient to fund the agency request budget of $29.7 million total funds and includes an adjustment of $22,901 General Fund to cover statewide adjustments made during the Governor's budget development process. The agency request budget is a 4.6% (-$1.4 million) decrease from the 2005-07 legislatively approved budget due to the phase out of funds that were appropriated for session costs only. These funds are carried forward into the next biennium and the budget does provide for continuation of existing agency operations, including increases for personal services adjustments, pension obligation bond debt service costs, and merit increases for eligible employees.

LEG – Legislative Administration Committee

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	18,631,399	21,554,179	22,275,910	25,862,654
Other Funds	1,718,177	4,357,110	5,374,587	3,150,341
Other Funds (NL)	410,777	597,615	597,615	597,778
Total Funds	**$20,760,353**	**$26,508,904**	**$28,248,112**	**$29,610,773**
Positions	152	151	151	154
FTE	107.39	103.39	103.39	106.45

Program Description

The Legislative Administration Committee (LAC) appoints an administrator to direct and manage the service and support systems for the Legislative Assembly and Legislative Branch agencies. Services include:
1) substantive committee staffing; 2) information systems and technology support; 3) building operations and maintenance for the State Capitol; 4) accounting, payroll, and personnel functions; and 5) public information.

Revenue Sources and Relationships

The General Fund 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. LAC adopts the same rental rate for occupants of the Capitol, except Legislative Administration and the Legislative Assembly, as the rate imposed by the Department of Administrative Services for occupants of other state buildings. 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 2007-09, $0.6 million is estimated to be available from these sales.

Budget Environment

Significant factors affecting LAC costs are the continued demand for improved information systems; maintenance and repair of the Capitol, including security needs; and meeting the needs of legislative committees. The length of legislative sessions and the number of bill introductions, amendments, and committee hearings also affect the agency's workload and costs.

The Legislative Branch has been engaged in a major technology transition program to replace existing mainframe application systems with new graphical systems based on current technology. As a result of this focus, the Information Systems unit has become the largest component of the LAC budget. Many technology plans for the 2003-05 biennium were postponed due to fiscal constraints, including the bill drafting system and the recording and archiving system. Funding to advance these projects was approved for the 2005-2007 biennium. The bill drafting system project is particularly important since this is the system that is relied upon to prepare all legislative measures, perform law searches, change bills into statutes, and publish adopted laws.

Another major cost driver for LAC is maintenance and repair of the Capitol. Several large projects were completed prior to the 2003-05 biennia, including re-roofing, replacing aging wiring and transformers, upgrading elevators to meet building code requirements, remodeling of hearing rooms, and planning for the upgrade of the wings. 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, remodel of the wings requires Other Funds revenue derived from the sale of certificates of participation.

Governor's Budget

The Governor's recommended budget is sufficient to fund the agency request budget of $28.7 million total funds. The Governor's budget also includes an additional $941,985 General Fund above the agency request level to cover statewide adjustments made during the Governor's budget development process and to allow for the same average amount of increase the Governor has recommended for Executive Branch agencies. The Branch adjustment is placed in the Legislative Administration budget as a placeholder. The agency request budget is 1.5% ($420,676) above the 2005-07 legislatively approved budget. The requested budget provides for continuation of agency operations, including increases for personal services adjustments, pension obligation bond debt service costs, and merit increases for eligible employees. The requested budget also includes policy packages for the next of the technology transition program, remodel and renovation of the Capitol wings, and other administrative and building needs.

LEG – Legislative Counsel Committee

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	6,324,050	6,836,661	7,299,165	8,098,683
Other Funds	956,017	1,235,303	1,261,417	1,386,032
Other Funds (NL)	923,562	887,712	923,586	888,494
Total Funds	**$8,203,629**	**$8,959,676**	**$9,484,168**	**$10,373,209**
Positions	62	63	64	64
FTE	45.77	46.27	46.81	47.27

Program Description

The Office of the Legislative Counsel (LC) drafts legislation for legislators, legislative committees, and state agencies. LC also provides research services and legal advice to legislators and legislative committees. LC prepares indexes and tables for all measures introduced during a legislative session and, every two years following each session creates, annotates, indexes, publishes, and sells the only official codification of the *Oregon Revised Statutes (ORS)* and session laws (*Oregon Laws*). LC also conducts a review of all new administrative rules adopted by state agencies to determine if they are consistent with the agencies' statutory authority.

LC 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. The 2007-09 agency request includes a policy package to support the work of the Commission.

Revenue Sources and Relationships

The General Fund at the agency request level supports 78% of LC's expenditures. Other Funds are derived from sales of the *Oregon Revised Statutes*, *Oregon Laws*, bill drafting services, and other LC publications. A small portion of the publication sales income is expended as limited Other Funds and used to defray that part of the agency's General Program expenses that are related to *ORS* publication editing. The balance of the publication sales income is expended as Nonlimited within the *ORS* Publications Program. LC has statutory authority to charge state agencies and other entities for drafting legislation, and has been doing so since 2001-03.

Budget Environment

The number of bills and amendments drafted fluctuates from session to session, but overall the trends are fairly flat. The primary driver of drafting increases in the recent past has been agency requests. When workload increases, it creates additional pressure on LC staff, which ripples throughout the institution as these bills are drafted, introduced, amended, and finalized.

During legislative sessions, the agency hires temporary employees that serve primarily as copy editors for staff attorneys and to assist with workload issues. However, the agency has worked to reduce its reliance on temporary staff over the last several biennia.

Publication sales of *Oregon Revised Statutes* and *Oregon Laws* have declined in recent biennia due, in part, to the availability from free or low-cost Internet sources. Overall, Other Funds receipts have remained stable because of increased efficiencies in operations and increased sales of specialty publications. Specialty publications include the criminal code; family law code; landlord-tenant laws; labor, employment, and workers' compensation laws; and construction and building trade laws. If Other Funds receipts were to decline, additional General Fund support may be needed for *ORS* publication.

Governor's Budget

The Governor's recommended budget is sufficient to fund the agency request budget of $10.4 million total funds. The Governor's budget also includes an additional $4,059 General Fund above the agency request level to cover statewide adjustments made during the Governor's budget development process. The agency request budget is a 9.3% ($884,982) increase above the 2005-07 legislatively approved budget. The requested budget provides for continuation of agency operations, including increases for personal services adjustments, pension obligation bond debt service costs, and merit increases for eligible employees. The requested budget also includes three policy packages for reclassification of positions, information technology needs, and to provide support for the Oregon Law Commission.

LEG – Legislative Fiscal Office

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	3,874,002	4,598,743	4,784,615	5,070,473
Total Funds	**$3,874,002**	**$4,598,743**	**$4,784,615**	**$5,070,473**
Positions	17	19	19	19
FTE	17.00	18.75	18.75	19.00

Program Description

The Legislative Fiscal Office (LFO) is a non-partisan, legislative service agency created by statute in 1959. The Office researches, analyzes, and makes recommendations concerning state expenditures, financial affairs, program administration, and agency organization. The Office reports to the Joint Committee on Ways and Means during legislative sessions and to the Emergency Board during the interim between sessions. LFO determines the fiscal impact of all legislative measures and, when applicable, publishes fiscal impact statements that accompany bills through the legislative process. The 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, LFO also conducts reviews and performance audits of selected programs for the Joint Legislative Audit Committee and provides staff support for special interim committees. LFO produces various publications to guide the Joint Committee on Ways and Means processes; address specific budgetary topics; provide legislative members, agencies, and the public with detailed and summary information as each budget is presented and after it is adopted; and annually reports on the status of all liquidated and delinquent accounts, as well as agency efforts to collect on such accounts.

Revenue Sources and Relationships

LFO is completely supported by General Fund.

Budget Environment

As with other committee staffs, the work of LFO changes between legislative sessions and the interim. During sessions, budget analysis and the number of bill introductions and amendments is the primary driver of workload for the agency. LFO reviews all measures to determine if they have a fiscal impact and prepares fiscal impact statements.

During the interim, workload is driven by the number, length, and complexity of special sessions necessary to rebalance the statewide budget; the number and complexity of Emergency Board requests; the number of meetings and issues before the JLCIMT and special interim budget review committees; the number and depth of performance audits or program evaluations required by the Joint Legislative Audit Committee; and the number of other program and fiscal issues that require analysis. The Office also spends a significant amount of time educating and providing information to members, legislative staff, and other stakeholders about the budget process and current budget issues.

Governor's Budget

The Governor's recommended budget is sufficient to fund the agency request budget of $5.1 million General Fund. The Governor's budget also includes an additional $1,646 General Fund above the agency request level to cover statewide adjustments made during the Governor's budget development process. The agency request budget is a 5.9% ($284,212) increase above the 2005-07 legislatively approved budget. The requested budget provides for continuation of agency operations, including increases for personal services adjustments, pension obligation bond debt service costs, and merit increases for eligible employees. The requested budget also provides for the full biennial costs of two positions that were approved in the 2005-07 budget, but for only a portion of the biennium.

LEG – Legislative Revenue Office

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	1,404,150	1,552,964	1,605,001	1,682,277
Total Funds	**$1,404,150**	**$1,552,964**	**$1,605,001**	**$1,682,277**
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.

Revenue Sources and Relationships

LRO is completely supported by General Fund.

Budget Environment

As with other committee staffs, the number of bill introductions and amendments create the workload for the agency during 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.

Governor's Budget

The Governor's recommended budget is sufficient to fund the agency request budget of $1.7 million General Fund. The Governor's budget also includes an additional $526 General Fund above the agency request level to cover statewide adjustments made during the Governor's budget development process. The agency request budget funds the Legislative Revenue Office at 4.8% ($76,750) above the 2005-07 legislatively approved budget. The requested budget funds existing activities of the Legislative Revenue Office and covers costs due to personal services adjustments, pension obligation bond debt service costs, and merit increases for eligible employees.

LEG – Commission on Indian Services

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	267,167	336,132	346,475	368,382
Other Funds	1,073	5,925	5,925	6,109
Total Funds	**$268,240**	**$342,057**	**$352,400**	**$374,491**
Positions	2	2	2	2
FTE	2.00	2.00	2.00	2.00

Program Description

The Commission on Indian Services compiles information on services available to Indians, assesses state programs and services, serves as a forum for considering Indian problems, and advises on matters relating to the preservation and protection of Indian historic and archaeological resources. The Commission, created in 1975, has 13 members appointed by the President of the Senate and Speaker of the House of Representatives for two-year terms. In addition to one senator and one state representative, each of Oregon's nine federally recognized tribal groups is entitled to one member. The remaining two members are from the Portland area and Willamette Valley Indian communities.

Various statutes require that the Commission be consulted on matters related to the preservation and protection of Indian fish, wildlife, historic, and archaeological resources. SB 770 (2001) requires state agencies to take Oregon's nine federally recognized tribal governments into account when developing policies and implementing programs that may affect tribal interests. The law also requires the Governor to annually convene a meeting of agency representatives and the tribes, the Department of Administrative Services to provide annual training to agency managers and employees that have regular contact with tribes, and state agencies to submit annual reports to the Governor and the Commission on their activities with tribes.

Revenue Sources and Relationships

Other Funds revenue is from registration and other fees derived from sponsorship of special meetings. The funds are used to cover costs associated with the events.

Budget Environment

Staff salaries and Commission member travel are the primary costs in this budget. The Commission holds regular quarterly meetings, as well as special meetings at the call of the Chair. It advises the legislative and executive branches on ways to improve communication and coordination with tribes in an effort to avoid unnecessary court disputes and highlight shared interests.

The Commission reports that governmental (federal, state, and local) and non-governmental entities are increasingly relying on the Commission for technical and coordination services and the volume of phone and mail transactions is increasing. It is also increasingly being asked to provide trainings for effective government-to-government relationships; conduct meetings with agencies and their tribal counterparts by program and issue area; answer questions from various state agencies on how to establish and maintain effective relationships with tribes; and discuss various points of law and strategies. Tribal initiated activities related to their various programs and significant events have also increased.

Governor's Budget

The Governor's recommended budget is sufficient to fund the agency request budget of $374,315 total funds. The Governor's budget also includes an additional $176 General Fund above the agency request level to cover statewide adjustments made during the Governor's budget development process. The agency request budget funds the Commission on Indian Services at 6.2% ($21,915) above the 2005-07 legislatively approved budget. The budget funds the existing activities of the Commission and covers costs due to personal services adjustments, pension obligation bond debt service costs, and merit increases for eligible employees.

JUDICIAL BRANCH

Council on Court Procedures – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Judicial Branch's Recommended
General Fund	0	10,000	10,000	115,646
Other Funds	7,127	8,000	8,000	8,000
Total Funds	**$7,127**	**$18,000**	**$18,000**	**$123,646**
Positions	0	0	0	2
FTE	0.00	0.00	0.00	0.71

Agency Overview

The Council on Court Procedures (CCP) is responsible for promulgating and maintaining rules governing trial pleading, practice, and procedure in civil proceedings, including instructions to the jury, pleading, subpoenas, summons, and jurisdiction. The rules are known as the Oregon Rules of Civil Procedure (ORCP), the purpose of which, according to the rules, is to "secure the just, speedy, and inexpensive determination of every [civil] action." The ORCP are procedural only and, according to statute, "shall not abridge, enlarge, or modify the substantive rights of any litigant." Of the 85 ORCP, ten numbers are reserved for future expansion. The rules apply only to the state's circuit courts. The Oregon Judicial Department (OJD) promulgates its own rules for appellate court civil procedure.

The Council submits its adopted ORCP rule changes to the Legislature at the beginning of each legislative session. The rules become effective on January 1 of the following even numbered year or earlier if an effective date is stipulated. Rule adoption occurs without legislative action. The Legislature can, however, amend, repeal, or supplement any ORCP rule through legislation. Legislative action has accounted for over 56% of rule changes over the last five biennia.

The Council is comprised of 23 members: one Supreme Court Justice and one Court of Appeals judge who are selected by their respective chambers, eight circuit court judges who are selected by the Circuit Court Judges' Association; 12 attorneys are selected by the Oregon State Bar (OSB); and one member of the public, chosen by the Supreme Court. Attorney member appointments attempt to retain a balance between civil practice defense lawyers and plaintiff lawyers.

Revenue Sources and Relationships

General Fund (93.5%) and Other Funds (6.5%) support the Council. Since 1993, the OSB has provided $8,000 biennially to support the reimbursement of Council member travel expense to attend Council meetings, typically held in either Lake Oswego, at the OSB Building, or Eugene, at the University of Oregon (UO) Law School. The Council has an $873 ending Other Funds balance.

The Council relies upon in-kind support from the OSB, the UO Law School, OJD, and Lewis and Clark Law School (LC) to support its operations.

Budget Environment

In order to promulgate rule changes, the Council meets three to four hours each quarter. Subgroups of the Council may be organized and meet more frequently, as the need arises. Over the last five biennia, there have been 34 unique rule amendments or revisions or approximately seven rules changes per biennium. This includes rule changes promulgated by the Council or enacted by the Legislature. The Council has a part-time executive director, who conducts legal research into rule changes, organizes meetings, and responds to inquiries from the legal community regarding the rules and proposed changes to the rules. A part-time administrative support person supports the executive director and the Council.

Since 2002, when General Fund support for the Council was eliminated due to statewide revenue issues, and with the exception of a $10,000 General Fund appropriation during the 2005-07 biennium, the Council has operated based on the financial support of the OSB and in-kind support. Initially, the majority of this support came from the UO Law School, which donated the services of an executive director, office support staff, office space, and office supplies. With the withdrawal of UO support in 2005, the Council entered into a (non-competitive) letter of agreement for these same services, again on an in-kind basis, with the privately funded LC Law School. The public records of the Council were transferred from the UO Law School to the LC Law School.

With uncertainty surrounding the Council and its purpose, and in anticipation of a future request for General Fund support, the 2005 Legislature directed that a workgroup be formed to evaluate the role, function, and composition of the Council. The Legislature provided $10,000 General Fund for services and supplies to be used to undertake the evaluation as well as provide for a nominal level of operating expense including the transition of the Council from the UO to LC. The workgroup met over the interim and reported its findings to a joint meeting of the House and Senate Interim Committees on Judiciary in September of 2006. The primary conclusions of the workgroup report were that the state needed to increase its level of funding for the Council and that in-kind support remained appropriate.

Governor's Budget

The Council's recommended budget is $123,646, which is 587% more than its 2005-07 legislatively approved budget of $18,000. This increase is due to a General Fund policy enhancement package of $102,812, which includes two state positions (0.71 FTE). Seventy-seven percent of the budget is for personal services, with 23% for services and supplies. The enhancement package, when combined with $12,834 General Fund in the essential budget, totals $115,646 and is 28% higher than the Council's pre-2002 General Fund budget of $90,340. The Council's budget continues $8,000 Other Funds support from the OSB.

There are three items of note regarding the Council's recommended budget:

1. The budget fails to phase-out a one-time General Fund appropriation of $10,000 from the 2005-07 biennium and which was predominately related to the accomplishment of its legislatively directed review and transition to LC Law School.

2. The budget includes a State Government Service Charge of $2,524 General Fund, which for the prior two biennia has been waived. Of note, is that $2,500 of this charge is for Department of Administrative Services, Budget and Management Division services.

3. With the level of requested funding provided in the budget, there is a presumption that the Council will need to continue to receive in-kind support from entities which have historically supported Council operations. Again, this includes the OSB, OJD, UO, and LC. The OSB and the UO will provide meeting space and associated telephonic services. OJD will continue to provide financial, budgetary, and website support. The level and duration of in-kind support provided by LC for such services as an executive director and a support staff, as well as office space and office supplies, remains unclear given the request for new state positions and the funding contained within the budget.

The Council, as an independent agency within the Judicial Branch of government, enjoys unusual autonomy in establishing and executing its budget. The Executive Branch makes no recommendation and exercises no budgetary control over the Council's budget since the Council resides in a separate branch of government. The Chief Justice also makes no recommendation and takes no formal budget control over the Council because the Judicial Branch does not have a unified budget similar to Executive Branch. In other words, neither the Chief Justice nor the Governor reviews or approves the Council's recommended budget or monitors its expenditures. This is even more unusual given the Council does not employ financial or budgetary staff.

Judicial Department (OJD) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended *
General Fund	235,682,100	271,530,503	280,404,310	328,691,998
Other Funds	26,880,094	23,641,495	26,673,669	160,075,510
Federal Funds	1,458,872	1,390,110	1,912,896	922,381
Other Funds (NL)	6,546,352	8,220,055	8,370,055	9,192,966
Total Funds	**$270,567,418**	**$304,782,163**	**$317,360,930**	**$498,882,855**
Positions	2,013	2,029	2,041	2,258
FTE	1,855.25	1,851.25	1,856.24	2,047.08

** Includes an unspecified reduction of $45.1 million. The Governor, while making no specific recommendation as to the budgets of Judicial Branch agencies, recommends a level of funding to ensure that statewide expenditures balance to projected revenues. The adjustment made by the Governor to Judicial Branch agencies brings expenditure growth in line with Executive Branch agencies. For the Judicial Department, the Governor's budget is a reduction of $45.1 million General Fund below the Chief Justice recommended budget.*

Agency Overview

The Oregon Judicial Department (OJD) includes:

- *Appellate Courts*, which are the Supreme Court, Court of Appeals, Tax Court, and legal support cost.
- *Administration and Central Support*, which 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

In the 2005-07 biennium, OJD is expected to generate $224 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 ($1 million); and various grants from other state agencies ($0.5 million). Federal Funds support $0.7 million for assessments of state foster care and adoption laws and judicial processes, $0.4 million for the drug court in Benton county, and $0.8 million for the DUII court in Multnomah County.

The Department projected an Other Funds ending balance of $11.9 million, which is used to ensure that cash is available to make payment obligations in a timely manner and will provide for investments in technology initiatives.

Budget Environment

Workload in the Judicial Department is driven by a number of factors, including: the number and complexity of cases filed; the impact of social issues, such as drug abuse and family dissolution, on workload; and the effect of new laws and regulations. The Judicial Department has addressed these issues through a number of initiatives, including implementation of family and drug courts; the use of improvements in technology; and initiatives such as the Juvenile Court Improvement Project and the Model Criminal Court Project, to streamline and improve service delivery.

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 2005 Legislature determined that without a restoration of the Governor's budget reductions, the Judicial Department would have had to implement 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 2005 Legislature also 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.

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 $722,200 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.

Governor's Budget

The table below illustrates the effect of the Governor's recommended 2007-09 budget on the budget request of the Chief Justice. The Governor's budget has an unspecified reduction of $45.1 million General Fund below the Chief Justice recommended budget. The total Chief Justice request included $61.9 million General Fund in policy packages. With the Governor's reduction, the budget has a net increase to the Chief Justice essential budget level (EBL) of $16.8 million.

Oregon Judicial Department Governor's Budget

	General Fund	Other Funds	Federal Funds	Nonlimited Other Funds	Total	FTE
Chief Justice EBL	311,938,308	27,149,625	253,612	9,192,966	348,534,511	1,936.75
Policy Packages	61,858,715	132,925,885	668,769	0	195,453,369	110.33
Request Budget	373,797,023	160,075,510	922,381	9,192,966	543,987,880	2,047.08
Governor's Budget	328,691,998	160,075,510	922,381	9,192,966	498,882,855	2,047.08
Governor's Unspecified Reduction	(45,105,025)	0	0	0	(45,105,025)	0.00
Net Increase to EBL	16,753,690	132,925,885	668,769	0	150,348,344	0.00
Mandated Caseload Adjust.to EBL (LFO)	(9,299,188)	(247,042)	0	0	(9,546,230)	(68.64)
Modified Chief Justice EBL	302,639,120	26,902,583	253,612	9,192,966	338,988,281	1,868.11
Governor's Budget	328,691,998	160,075,510	922,381	9,192,966	498,882,855	2,047.08
Net Increase to Modified EBL	26,052,878	133,172,927	668,769	0	159,894,574	178.97

The Chief Justice added a mandated caseload adjustment for workload growth in the trial and appellate courts. The Chief Justice also included a mandated caseload adjustment in the administration and central support program for appellate court workload increases for the office that handles court records, and workload increases for Citizen Review Board reviews of out-of-home placement of children. OJD currently has a mandated caseload adjustment for its juror, witness, and interpreter services program. Many other state agencies have mandated caseload adjustments for court-related workload, including the appellate workload in the Department of Justice, the trial court workload in the Public Defense Services Commission, and some juvenile-related matters in the Department of Human Services. The Judicial Department does not have a corresponding essential budget level adjustment. However, since this adjustment was made without review by the Legislature, the Legislative Fiscal Office analysis deletes this essential budget package. The Legislature will need to determine if a mandated caseload adjustment should be made for trial and appellate workload in OJD, and if so, what types of cases should be included.

Traditionally, caseload growth has been addressed through policy package requests, with mandated caseload status reserved for areas of the budget where no flexibility exists to manage growth. As the adjustments made during the 2001-03 and 2003-05 budget crisis illustrated, the Department does have case management flexibility for some case types.

As noted, the Legislative Fiscal Office has deleted the mandated caseload adjustment in the Chief Justice's budget for this analysis. With this adjustment, the Governor's budget is an increase of $26.1 million General Fund above the modified essential budget level.

The Chief Justice budget includes a total of $195.5 million in policy packages that will be discussed in detail in the program areas.

OJD – Appellate and Tax Courts

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Chief Justice's Recommended
General Fund	14,734,254	16,749,566	17,409,499	21,583,605
Other Funds	74,926	203,506	203,506	259,909
Total Funds	**$14,809,180**	**$16,953,072**	**$17,624,346**	**$21,843,514**
Positions	94	92	92	103
FTE	92.22	90.89	90.89	96.60

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 2005-07, the Tax Magistrate Division had four magistrates.

Revenue Sources and Relationship

Estimates of 2007-09 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 2005 increased by 124 cases over calendar year 2004. The 2004 case filings were 3,677 compared to 3,801 for 2005. The Tax Magistrate Division has had 13,338 cases filed since September 1, 1987. The number of direct review cases filed in the Supreme Court in 2005 was 223, down from 226 cases in 2004.

Governor's Budget

The Governor's recommended budget is an increase of $1.5 million General Fund and 11 positions (5.71 FTE) above the 2005-07 legislatively approved budget, and includes $1.6 million total funds in policy packages. The growth in positions and FTE is solely attributable to the Chief Justice's mandated caseload calculation that was added to the essential budget level. The policy packages include:

- $1.1 million General Fund to increase judicial compensation.
- $526,839 General Fund and $9,360 Other Funds to cover merit and fringe benefit costs.

OJD – Administration and Central Support

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Chief Justice's Recommended
General Fund	34,481,008	46,398,859	47,957,738	83,441,920
Other Funds	13,400,303	9,058,530	10,533,003	142,750,005
Federal Funds	302,523	404,013	710,256	922,381
Other Funds (NL)	6,392,332	7,040,677	7,190,677	7,413,588
Total Funds	**$54,576,166**	**$62,902,079**	**$66,391,674**	**$234,527,894**
Positions	200	198	200	281
FTE	191.23	191.16	191.91	264.49

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 and 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 2007-09 Other Funds revenue include grants from the Department of Human Services for the Citizen Review Board ($1.2 million), revenue from the sale and distribution of court publications ($0.8 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 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 ($8.2 million). Federal Funds from grants are used for assessments of state foster care and adoption laws and judicial processes, juvenile case data management, and training specific to juvenile case process improvements.

Budget Environment

The Administration and Central Support function was budgetarily 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. The Judicial Department is developing an automation strategy that would replace the aging Oregon Judicial Information Network (OJIN) system with a modern, flexible, web-based system. The budget includes a preliminary estimate of the cost of this plan.

Governor's Budget

The Governor's recommended budget is an increase of $27.8 million General Fund ($160.5 million total funds) and 81 positions (72.58 FTE) above the 2005-07 legislatively approved budget. This includes the Chief Justice's mandated caseload essential budget package of $512,722 total funds and 3 positions (2.96 FTE). The budget includes the following policy packages:

- $1.1 million General Fund and $299,519 Other Funds to cover merit and fringe benefit costs.
- $20 million General Fund, $25.5 million Other Funds and $183,194 Federal Funds and 23 positions (21.32 FTE) to begin implementation of the technology improvement plan. Total cost of the project through completion is estimated at $100 million.
- $5.4 million General Fund and $101.9 million Other Funds for renovation and replacement of aging courthouse facilities. The package is contingent on approval of legislation drafted by the Facilities Task Force. Participants on the task force are the Oregon State Bar, Oregon Judicial Department, county government officials, and private parties. This project will be funded through certificates of participation, with a General Fund appropriation for debt service.
- $2.4 million Other Funds and 1 position (0.50 FTE) to continue with implementation of HB 2792, that established a State Court Facilities Security Account to provide security in buildings that contain or are used

by the Department and to provide security training to court employees. The revenue is from increased circuit, municipal, and justice court (non-unitary) assessments.

- $4.5 million General Fund, $1.6 million Other Funds and $485,575 Federal Funds and 48 positions (39.30 FTE) to provide program improvements. The package provides positions for verification of all applications for court appointed counsel; staff for enhancement to the collection of debt owed to the Department; enhanced performance measurement management; and authority to spend additional federal dollars provided for the Juvenile Court Improvement Project.

OJD – Trial Court Operations

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Chief Justice's Recommended
General Fund	174,338,900	195,856,278	202,387,490	252,408,837
Other Funds	13,404,865	14,379,459	15,925,819	17,065,596
Federal Funds	1,156,349	986,097	1,202,640	0
Other Funds (NL)	0	779,378	779,378	779,378
Total Funds	**$188,900,114**	**$212,001,212**	**$220,295,327**	**$270,253,811**
Positions	1,700	1,719	1,729	1,854
FTE	1,554.15	1,549.60	1,553.86	1,666.49

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 January 1, 2007). These courts adjudicate matters and disputes in criminal, civil, domestic relations, traffic, juvenile, small claims, violations, abuse prevention act, probate, mental commitment, adoption, and guardianship cases.

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 ($2.4 million) and a portion of the 8% retained by the OJD for revenue administration and collection costs ($12.4 million). There was a 2006 sunset on the distribution of this surcharge. The 2005 Legislature shifted this funding back to the General Fund.

Budget Environment

Case filings in 2005 show an increase of 4,407 compared to 2004 and an increase of 20,073 compared to 1999. Overall, filings have increased from a low of 561,973 in 1995 to 611,946 in 2005, an increase of 8.9%. Although, 44% of current case filings are violations, primarily traffic violations, a reduction from 50% of all cases in 2003. These cases have the lowest workload impact on judicial and staff resources. More serious felony filings have increased from 33,457 in 1995 to 40,758 in 2005 (21.8%). Misdemeanor cases decreased from 64,323 in 1995 to 63,456 in 2005 (-1.3%). These criminal case types have the greatest workload impact on judicial and staff resources. Civil cases increased from 70,691 in 1995 to 80,345 in 2005 (13.7%). Domestic relations filings declined by 10,424 cases during that same period (-18.4%), 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 is developing a web-based technology project to address these needs. 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.

The 2005 Legislature added four new judgeships with support staff and added funding to retain drug courts whose grant funds would have expired during the 2005-07 biennium.

Governor's Budget

The Governor's budget is an increase of $17.5 million General Fund, $1.1 million Other Funds, and 125 additional positions (112.63 FTE) above the 2005-07 legislatively approved budget. This includes the Chief Justice's mandated caseload essential budget package of $7.1 million General Fund, $91,990 Other Funds, and 57 positions (56.64 FTE). The budget has a decrease of $1.2 million Federal Funds from the phase-out of grant funded programs. The budget includes the following policy packages:

- $9.6 million General Fund to increase judicial compensation.
- $7.2 million General Fund and $627,118 Other Funds to cover merit and fringe benefit costs.
- $3 million General Fund and 29 positions (19.29 FTE) for continuation of current grant funded positions in drug courts and a domestic violence court, and to expand drug courts in some counties.
- $594,645 General Fund and 6 positions (4.26 FTE) to enhance security levels in Marion, Josephine, Malheur, and Benton counties.
- $873,579 General Fund, $504,261 million Other Funds, and 16 positions (12.66 FTE) to increase staff that provide verification of indigence for those applying for court appointed attorneys.
- $6.4 million General Fund and 52 positions (13.00 FTE) to add 13 new judgeships with support staff to address workload. The package includes costs for 18 months of pro-tem judge services during the 2007-09 biennium to handle workload until the new judges are elected. If approved by the Legislature, the judges would be elected in the 2008 election cycle for judicial positions. The 2009-11 cost for these positions is estimated at $8.7 million.

OJD – Mandated Payments

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Chief Justice's Recommended
General Fund	12,127,938	12,525,800	12,649,583	16,362,661
Other Funds (NL)	154,020	400,000	400,000	1,000,000
Total Funds	**$12,281,958**	**$12,925,800**	**$13,049,583**	**$17,362,661**
Positions	19	20	20	20
FTE	17.65	19.60	19.60	19.50

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.

In December 2006, OJD requested $1.7 million from the Emergency Board to cover a shortfall in the 2005-07 resources necessary to provide interpreter services. The Emergency Board deferred action on the request pending a review of the factors that are driving this cost. The 2007 Legislature will be requested to provide a supplemental appropriation to cover this cost.

Governor's Budget

The Governor's recommended budget is an increase of $1.5 million General Fund and $600,000 Nonlimited Other Funds and a reduction of 0.10 FTE to the 2005-07 legislatively approved budget. The budget includes the following policy packages:

- $165,004 General Fund to cover merit and fringe benefit costs.
- $105,198 General Fund for a pilot project to provide real time reporting of aggravated murder cases during the 2007-09 biennium.

- $1.7 million General Fund to increase interpreter rates from $32.50 to $41.00 per hour, and to cover $500,000 for the cost of translating court forms.

OJD – Governor's Adjustment

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	0	0	0	-45,105,025
Total Funds	**$0**	**$0**	**$0**	**($45,105,025)**

The Governor, while making no specific recommendation as to the budgets of Judicial Branch agencies, recommends a level of funding to ensure that statewide expenditures balance to projected revenues. The adjustment made by the Governor to Judicial Branch agencies brings expenditure growth in line with Executive Branch agencies. For the Judicial Department, the Governor's budget is a reduction of $45.1 million General Fund below the Chief Justice's recommended budget. If the reduction is approved, the Legislature will need to determine how the budget will be distributed among the Judicial Department programs.

Commission on Judicial Fitness and Disability – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Judicial Branch's Recommended
General Fund	162,483	175,983	243,032	181,290
Total Funds	**$162,483**	**$175,983**	**$243,032**	**$181,290**
Positions	1	1	1	1
FTE	0.50	0.50	0.50	0.50

Note: While the Governor makes "no recommendation for this budget, as it is a separate branch of government," he did add $44 to the Commission's recommended budget for a technical adjustment to the State Government Service Charge line-item. This $44 change is accounted for in the Governor's recommended budget.

Agency Overview

The Commission on Judicial Fitness and Disability investigates and acts upon complaints of judicial misconduct or disability. The basis for a finding of misconduct is a violation of the Oregon Code of Judicial Conduct. The Commission does not have formally approved administrative rules, but has rules of procedure.

The Commission has jurisdiction over the following categories of judges: justices of the peace (30), circuit court judges (173), appellate court judges (18), temporary or pro-tem judges (approximately 100), senior or "Plan B" semi-retired judges (approximately 50), and judicial referees (24). In total, the Commission's jurisdiction extends to approximately 395 of Oregon's state judges. A 2003 Supreme Court decision determined that the Oregon Constitution does not give the Commission jurisdiction over local municipal court judges.

The nine-member Commission is comprised of three judges, three lawyers, and three members of the public. The executive director of the Commission is also an attorney in private (juvenile law) practice. The Commission is co-located within the executive director's private law office. Commission members, as well as the executive director recuse themselves when they have personal involvement or prejudice regarding a complaint or complainant. By statute, the Commission's initial complaint proceeding and records are confidential until such time as a public hearing is held on a formal charge. However, the Commission considers all its proceedings, including those pertaining to administrative matters, non-public.

The Commission receives approximately 250 written complaints each biennium. Few of these complaints pertain to judicial misconduct or disability. The majority are complaints involving the legal determination of a judge, and after initial review, are dismissed because they fall outside the Commission's statutory authority. Those complaints that are within its statutory authority are initially investigated. If there is sufficient evidence in support of a complaint, a formal investigation is conducted by outside counsel hired by the Commission. The outcome of the investigation could lead to the dismissal of a complaint, an informal disposition by the Commission, or a formal charge leading to prosecution. For a formal charge, a public hearing is held, the outcome of which is either the judge's exoneration or a recommendation by the Commission to the state's Supreme Court to censure, suspend, or remove the subject judge. The Supreme Court's determination on the Commission's recommendation is a final decision, but may be appealed to federal court. At any point in the process, a judge may resign, retire, or enter into a stipulated agreement with the Commission by agreeing to the recommended sanction. All stipulated agreements must be approved by the Supreme Court. A case determined by the Supreme Court typically takes two years to prosecute at an estimated cost to the state of over $50,000.

In a matter where a judge's conduct is determined to be the result of a physical or mental disability, the Commission refers the matter directly to the Chief Justice for disposition.

Revenue Sources and Relationships

General Fund supports the Commission. The Commission's statutory authority does not allow for the imposition of civil penalties or the recovery of Commission extraordinary costs from judges sanctioned by the Supreme Court.

Budget Environment

The Commission budgets for normal and extraordinary expenditures. The normal operating budget pays for the half-time executive director, office rental, office supplies, meeting accommodations, travel reimbursements, and initial investigations.

Investigations and prosecutions are classified as an extraordinary expense of the Commission since it has no control over the number of valid complaints or their cost. Extraordinary expenses may include: private attorney fees ($100/hour flat rate plus expenses) for investigations and trial, court reporter services, meeting space rental, executive director and board member travel expense, and miscellaneous expense. The Legislature historically has provided the Commission with an approved budget for extraordinary expense with the understanding that the Commission may return to the Emergency Board or the Legislature if extraordinary expenses exceed the available budget. The Commission's legislatively adopted extraordinary budget has been sufficient to cover investigation and prosecution expenses in only three of the last seven biennia. The Commission's prior four Emergency Board appearances for extraordinary expenses occurred in 1995, 1996, 1998, and 2006 with allocations of $20,000, $50,000, $43,000, and $61,944, respectively.

Governor's Budget

The Commission's recommended budget is $181,290 which is 25.4% less than the 2005-07 legislatively approved budget. The decrease is explained by the removal of a one-time Emergency Board allocation in the amount of $61,944 for extraordinary expenses. Excluding this allocation, the Commission's budget is 3.1% above the legislatively approved budget. The Commission's request does not include an enhancement request.

The normal operating budget is $152,440, or 84%, of the total budget. The budget includes one permanent part-time position (0.50 FTE) and is 71% personal services ($107,562) and 29% services and supplies ($44,878). The Commission saw over a 50% reduction ($4,350) in its State Government Service Charge. This reduction is primarily attributable to a reduction in risk management charges for general property and liability.

The extraordinary budget falls under the professional services line-item and is $28,850, or 16%, of the total budget. The extraordinary budget is typically increased each biennium by the Department of Administrative Services' established general rate of inflation, which for the 2007-09 biennium is 3.1%.

The Commission does not have budgeted resources for budget, accounting, and website services. These activities are undertaken for the Commission by the Oregon Judicial Department (OJD). OJD assists the Commission in the technical development of its budget, Emergency Board actions, and related accounting transactions. The services provided by OJD are done without financial remuneration. An alternative to this arrangement would be to have the Commission acquire independent service from the Department of Administrative Services for approximately $12,000 to $15,000 per biennium.

The Commission, as an independent agency within the Judicial Branch of government, enjoys unusual autonomy in establishing and executing its budget. The Executive Branch makes no recommendation and exercises no budgetary control over the Commission's budget since the Commission resides in a separate branch of government. The Chief Justice also makes no recommendation and takes no formal budget control over the Commission because the Judicial Branch does not have a unified budget similar to Executive Branch. In other words, neither the Chief Justice nor the Governor reviews or approves the Commission's recommended budget or monitors its expenditures. This is even more unusual given the Commission does not employ financial or budgetary staff.

Public Defense Services Commission (PDSC) – Agency Totals

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended *
General Fund	165,497,979	175,292,811	182,477,879	212,098,215
Other Funds	297,745	953,206	991,474	605,708
Total Funds	**$165,795,724**	**$176,246,017**	**$183,469,353**	**$212,703,923**
Positions	64	56	56	64
FTE	61.44	55.25	55.25	63.25

** The Governor, while making no recommendation on Judicial Branch agency budgets, included an unspecified reduction of $19.7 million to the recommended budget, to reflect the average increases allowed in agency budgets. The Governor's budget total is not adjusted for the recommended essential budget level mandated caseload adjustments described in the Budget Environment section below.*

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 2001 Legislature adopted the Commission's recommendations and transferred the State Public Defender's Office to the Public Defense Services Commission effective October 1, 2001. The Judicial Department's Indigent Defense Account and public defense support staff were transferred 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 at 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

Recent Funding Issues

The state has had recent experience with the effect of reduced funding on the delivery of public defense services. During the 2001-03 biennium, in the several special legislative sessions, the budget for the Public Defense Services Account was reduced by $27.5 million (17%) from the legislatively adopted budget. Although $5 million of that cut was subsequently restored, these cuts occurred so late in the biennium that public defense funding was virtually eliminated during the last quarter. At the time, this program was housed in the Judicial Department, and the Chief Justice had administrative authority over the delivery of these services. The Chief Justice was able to issue an order that allowed courts to suspend proceedings on non-person cases that were ranked at a lower priority. This resulted in two problems in the public safety system. First, District Attorneys were required to prioritize the cases that were filed, resulting in many offenders avoiding prosecution. Second, existing cases were postponed, resulting in a sharp increase in the number of offenders who failed to appear once the cases were rescheduled. The effect on community safety was noted by law enforcement, businesses and citizens, as offenders became aware that they could avoid swift prosecution.

Trial Level Caseload Issues

The Legislature has made a significant effort to fund public defense services at a level that would ensure these problems did not reoccur. The Public Defense Services Commission has also endeavored to control costs, particularly through contract negotiations and maintaining a $40 per hour rate for hourly attorney services. The Legislature has approved funding for mandated caseload costs through a formula based on projected caseload growth and the standard Department of Administrative Services inflationary adjustment, which is well below the personal services adjustment. These budget adjustments have not been sufficient to cover the increased cost for services, much of which is delivered through private non-profit public defender organizations. These organizations took reductions during the budget shortfall in the 2001-03 and never recovered. The agency requested funding of $10.6 million from the 2005 Legislature 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 had not been adjusted for over a decade. The request was not approved. As a result, public defenders are paid, on average, 30-40 percent below their district attorney counterparts. Further, public defense organizations have had only one option to increase funding levels: take more cases. These organizations are now in a situation where they cannot attract new attorneys or retain experienced attorneys, and their per-attorney caseload is 30% above national caseload standards. In addition, the agency is not able to continue to contract for services at the $40 per hour rate ($55 per hour for death penalty cases), and required additional funding from the Emergency Board for caseload costs above the budgeted level. The agency has been advised, during the current two-year contract negotiations, that many of its contractors will not be able to continue to provide services at the current level. If not addressed, then, the state will again have a crisis in delivering public defense services.

Appellate Issues

The Department of Justice has an essential budget level mandated caseload adjustment for its appellate caseload. The Public Defense Services Commission budget does not have a similar adjustment, and any staffing increases have been requested through policy option packages. The current caseload level for appellate attorneys is 48.5 cases per year, compared to 25 cases per year in states such as Arizona and Florida (note, however, that Louisiana has a caseload standard of 50 cases per attorney), and caseloads are anticipated to increase by 27% in the 2007-09 biennium. As a result, the agency's pending appellate caseload increased from 114 cases in June 2004 to 218 cases in June 2006. In addition, appellate attorneys are paid 21 to 34 percent less than their Department of Justice counterparts. The agency has submitted policy option packages to address this disparity since the 1999-2001 biennium, which have not been approved. This disparity affects attorney retention, and can affect timeliness and effectiveness of services.

2007-09 Budget Issues

The table below compares an adjusted agency request budget to the Governor's budget for the Public Defense Services Commission. The adjustments to the agency request budget include:

- The effect of the September and December 2006 Emergency Board actions. This included adjustments for increases in hourly rates and other expenses. The base mandated caseload adjustment in the agency request is reduced, since the original calculation included the Emergency Board action.

	Adjusted Agency Request	Positions	Governor's Budget	Positions	GF Difference	Position Difference
2007-09 Base General Fund Budget	176,315,393	56	176,315,393	56	-	-
Emergency Board Actions	6,871,375				(6,871,375)	-
Standard adjustments	79,049		79,049		-	-
Base Mandated Caseload	18,015,821		24,887,196		6,871,375	-
Mandated Contractor Compensation Adjustment	7,064,094		-		(7,064,094)	-
Appellate Mandated Caseload Adjustment	1,917,852	8	-	8	(1,917,852)	-
Essential Budget Level	210,263,584	64	201,281,638	64	(8,981,946)	-
Policy Packages	30,538,978	8	30,538,978		-	(8)
Governor's Adjustment	-		(19,722,401)		(19,722,401)	-
Budget Totals	240,802,562	72	212,098,215	64	(28,704,347)	(8)

- A mandated caseload adjustment for compensation that would provide contractors with an adjustment comparable to the average personal services adjustment provided to agency employees (9.08%). This adjustment would enable the contractors to maintain the status-quo caseload, and could partially address the differential between contractor salaries and the comparable district attorney staff.
- A mandated caseload adjustment comparable to the adjustment calculated for Department of Justice appellate cases. This addresses workload, but does not address the differential in pay between agency attorneys and their Department of Justice counterparts.

With these essential budget level adjustments, the Governor's budget is almost $10 million below what is needed to maintain essential services.

The table also includes the General Fund policy packages requested by the agency. Package 103, Public Defense Provider Compensation, requests $29.4 million to bring contractor salaries in line with their district attorney counterparts. The full amount of this package may not be required, depending on the effect of the contractor compensation adjustment in mandated caseload. Other packages include $350,695 to bring appellate attorney compensation in line with Department of Justice counterparts, $526,546 and 4 positions (4.00 FTE) for juvenile dependency caseload, and $303,453 and 4 positions (4.00 FTE) for post conviction release caseload.

As the table illustrates, the unspecified reduction in the Governor's budget, combined with the revised essential budget level calculation, results in a shortfall that could be as great as $28.7 million, depending on the level of funding needed to address the workload and compensation issues discussed above.

PDSC – Legal Services Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Judicial Branch's Recommended *
General Fund	5,323,745	6,054,463	6,267,576	8,930,679
Total Funds	**$5,323,745**	**$6,054,463**	**$6,267,576**	**$8,930,679**
Positions	38	36	36	44
FTE	37.20	36.00	36.00	44.00

** The Governor's budget does not include a recommended essential budget level adjustment of $1.9 million General Fund and 8 positions (8.00 FTE) for appellate caseload.*

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.

Budget Environment

The workload is driven by the number of criminal and parole appeals, and the legal complexity of the appealed cases. Statutory changes, ballot initiatives, and United States and Oregon appellate court decisions also affect the number of appeals that are filed. The 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 and created a new procedure for appeals from guilty plea-type cases. While reducing appellate workload for the Department of Justice and the appellate courts, 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 to the entire system if the Federal courts find that Oregon is not providing adequate and timely 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. However, in June, 2004 the United States Supreme Court issued its opinion in 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 dramatically. As of August 2005, the backlog was 229 cases, which was an all-time high for the agency. In June 2006, the pending caseload was 218 cases.

Essential budget issues include high attorney caseloads, a backlog of 218 cases as of June 2006, and disparate compensation between Department of Justice and Public Defense Services Commission attorneys.

Governor's Budget

This analysis does not include the effect of the Governor's unspecified reduction of $19.7 million General Fund on the budget of this Division.

The Governor's recommended budget is $2.1 million General Fund above the essential budget level and $2.4 million General Fund above the 2005-07 legislatively approved budget. This includes some portion of the $2.1 million General Fund and 4 positions (4.00 FTE) in policy packages that could be funded depending on how the Governor's unspecified budget reduction is distributed among PDSC programs. This includes a policy package of $350,659 General Fund to provide salary parity with Department of Justice counterparts, as requested in prior biennia.

The Legislative Fiscal Office recommends that the essential budget level be adjusted by $1.9 million General Fund and 8 positions to add a mandated caseload adjustment to meet 2007-09 appeals caseload. If that adjustment were to occur, the Governor's budget potentially has $227,026 General Fund available to partially fund policy packages.

PDSC – Public Defense Services Account

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Judicial Branch's Recommended *
General Fund	157,782,856	166,543,539	173,414,914	219,825,835
Total Funds	**$157,782,856**	**$157,782,856**	**$173,414,914**	**$219,824,835**

** The Governor's budget does not include $6.8 million allocated by the Emergency Board at its September and December 2006 meeting and does not include a recommended essential budget level adjustment of $7.1 million for contractor compensation.*

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 2003-05 caseload 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 $7 million to fund this gap. The 2005 Legislature approved a budget of $166.5 million General Fund that was $7.7 million (4.9%) above the 2003-05 legislatively approved budget, to fund anticipated caseload. The Emergency Board, at its September and December 2006 meetings, allocated an additional $6.9 million to fund caseload costs. The 2007 Legislature will be requested to approve a supplemental appropriation of just under $1 million to close the 2005-07 funding gap.

The biennial average cost per case increased from $393,84 in 1995-97 to $470.70 in 2005-07, an increase of 20%, compared to a consumer price index increase of 32% for the same period.

Governor's Budget

This analysis does not include the effect of the Governor's unspecified reduction of $19.7 million General Fund on the budget of this Division.

The Governor's recommended budget is an increase of $46.4 million above the 2003-05 legislatively adopted budget, adjusted for 2006 Emergency Board actions of $6.9 million. This increase is attributable to an essential budget level adjustment for caseload growth and costs. The budget includes $28.4 million General Fund in policy packages for caseload costs and contractor compensation parity with local district attorney counterparts.

The Legislative Fiscal Office recommends that the essential budget level be adjusted by $7.1 million General Fund based on a revised mandated caseload calculation and the potential cost to provide contractor compensation parity. The Judicial Branch's recommended policy packages also include adjustments for caseload costs and contractor compensation parity. The total amount available to fund the policy packages depends on how the Governor's unspecified budget reduction is distributed among PDSC divisions, and legislative direction on the mandated caseload adjustment. Since most of the Governor's unspecified reduction would have to come from the Public Defense Services Account, the budget is potentially $28.4 million General Fund below what would be required to meet 2007-09 caseload growth, but the effect of that shortfall could be partially mitigated by essential budget level mandated caseload adjustments.

PDSC – Contract and Business Services Division

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Judicial Branch's Recommended
General Fund	2,391,378	2,694,809	2,795,389	3,065,102
Other Funds	297,745	953,206	991,474	605,708
Total Funds	**$2,689,123**	**$3,648,015**	**$3,786,863**	**$3,670,810**
Positions	22	20	20	20
FTE	21.25	19.25	19.25	19.25

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 received 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. The 2005 Legislature approved the transfer of the Application Contribution Program staffing of 1 position (1.45 FTE) and $201,542 Other Funds to the Judicial Department.

Budget Environment

This program administers 98 contracts, receives and verifies invoices for payment on contractual services, and issues over 20,000 payments per year.

Governor's Budget

This analysis does not include the effect of the Governor's unspecified reduction of $19.7 million General Fund on the budget of this Division.

The Governor's recommended budget funds the program at the essential budget level, with standard adjustments for inflation, state government service charges, and employee compensation.

PDSC – Governor's Adjustment

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	0	0	0	-19,722,401
Total Funds	**$0**	**$0**	**$0**	**($19,722,401)**

The Governor, while making no specific recommendation as to the budgets of Judicial Branch agencies, recommends a level of funding to ensure that statewide expenditures balance to projected revenues. The adjustment made by the Governor to Judicial Branch agencies brings expenditure growth in line with Executive Branch agencies. For the Public Defense Services Commission, the Governor's budget is a reduction of $19.7 million General Fund below the Judicial Branch recommended budget. If the reduction is approved, the Legislature will need to determine how the budget will be distributed among the PDSC divisions.

EMERGENCY FUND

Emergency Fund – Totals *

	2003-05 Actual	2005-07 Legislatively Adopted	2005-07 Legislatively Approved	2007-09 Governor's Recommended
General Fund	9,639,980	193,800,764	11,518,390	162,000,000
Total Funds	**$9,639,980**	**$193,800,764**	**$11,518,390**	**$162,000,000**

** The 2003-05 actual 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). The 2005-07 legislatively approved total reflects April 2006 special session actions which increased the total Emergency Fund to $268.1 million and Emergency Board actions through December 2006 which left a balance in the Emergency Fund of $11.5 million. Allocations from the Emergency Fund are 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:

	2001-03 Adopted	2003-05 Adopted	2005-07 Adopted	2005-07 Approved
General Purpose Emergency Fund	40,000,000	40,000,000	30,000,000	30,000,000
Salary & Benefit Adjustment	100,000,000	9,000,000	140,000,000	131,000,000
Special Purpose Appropriations	85,860,033	47,442,994	23,800,764	107,100,764
Total	225,860,033	96,442,994	193,800,764	268,100,764

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.

The 2005 Legislature approved a general purpose Emergency Fund of $30 million, the smallest amount for general uses since 1993-95. In addition, the Legislature approved $130 million for state employee salary and benefit adjustments and $10 million for home care worker salary and benefit adjustments. Other special purpose appropriations totaled $23.8 million. In the April 2006 special session, held primarily as a result of increased caseload costs in the Department of Human Services, the Legislature disappropriated $9 million from the state employee salary and benefit special purpose appropriation due to refined information on projected costs of the salary and benefit package and established a special purpose appropriation for the Department of Human Services in the amount of $83.3 million for caseload costs, cost-per-case increases, and other departmental needs. Through the December 2006 meeting of the Emergency Board, the last scheduled meeting of the interim, the remaining balance in the general purpose Emergency Fund was $1.7 million with an additional $9.9 million remaining in the special purpose appropriation made to the Emergency Board for the Department of Human Services; this amount is expected to be available to the Department for any April 2007 rebalance needs or other purposes.

Budget Environment

The size of the general purpose Emergency Fund has not expanded in the past several biennia proportionately with the growth in the General Fund budget. Unused special purpose appropriations have augmented the general purpose Emergency Fund.

The actual cost of implemented salary and benefit increases had significantly exceeded the amounts appropriated to the Emergency Board in each of the five biennia prior to 2005-07. Appropriations in 1995-97 and 1997-99 financed approximately 70% of the actual increases. The $40 million appropriated in 1999-2001 financed less than 50% of the actual increases. The $100 million appropriated for 2001-03 was anticipated to fully fund salary and benefit increases, but was reduced by the Legislature during the 2002 special sessions to $77.3 million. The Legislature adopted a general salary freeze for the 2003-05 biennium and reduced agency budgets to reflect no employee merit increases and no cost-of-living adjustments. The $9 million special purpose appropriation for salary and benefit adjustments in the 2003-05 adopted budget reflected approximately 35% of the estimated General Fund cost to state agencies of negotiated health benefits (in addition to the $9 million General Fund, $15 million Other Funds from the Public Employees Benefit Board was distributed, leaving approximately $1.9 million of the higher costs unfunded). Actual costs above the amounts appropriated were absorbed within agency budgets, primarily through forced position vacancies and under-realized caseload growth. The amount appropriated for the 2005-07 salary and benefit package fully funded agency General Fund costs.

Governor's Budget

The 2007-09 Governor's recommended budget for the Emergency Board totals $162 million, which includes a $30 million general purpose Emergency Fund, $130 million for state employee salary and benefit adjustments, and $2 million for the Defense of Criminal Convictions program in the Department of Justice.

The $30 million general purpose Emergency Fund in the recommended budget is at the same level as adopted by the Legislature for the 2005-07 biennium. Between the 1995-97 and 2003-05 biennia, the average amount appropriated to the Emergency Board was in excess of $39 million. During the 2005-07 biennium, the Emergency Board was often placed in a situation of having to defer requests for Emergency Fund allocations because of the low cash balance in the Fund. At the December 2006 meeting of the Board, transfers of $12.1 million of unused special purpose appropriations to the general purpose account were required in order to address requests for allocations. Even with this transfer, the Board was forced to defer nearly $5 million in requests to the 2007 legislative session due to inadequate Emergency Fund resources.

The $130 million for state employee salary and benefit adjustments again represents projected full coverage of the estimated General Fund cost to state agencies for the salary and health benefit adjustments that will be determined by 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 2007-09 biennium and request an allocation of the funds from the Emergency Board or Legislature. 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. A portion of the $130 million is also designated in the Governor's recommended budget for specific management compensation issues.

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